

PUBLIC DISCLOSURE

July 13, 2021

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The Lyon County State Bank
Certificate Number: 14952

902 Merchant Street
Emporia, Kansas 66801

Federal Deposit Insurance Corporation
Division of Depositor and Consumer Protection
Kansas City Regional Office

1100 Walnut Street, Suite 2100
Kansas City, Missouri 64106

This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

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INSTITUTION RATING

INSTITUTION'S CRA RATING: This institution is rated **Satisfactory**.

An institution in this group has a satisfactory record of helping to meet the credit needs of its assessment area, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

- The loan-to-deposit (LTD) ratio is reasonable given the institution's size, financial condition, and the assessment area's credit needs.
- A majority of home mortgage, small business, and small farm loans reviewed were located in the assessment area.
- The geographic distribution of loans reflects reasonable dispersion throughout the assessment area.
- The distribution of borrowers reflects reasonable penetration among individuals of different income levels, and businesses and farms of different revenue sizes.
- The bank did not receive any Community Reinvestment Act (CRA)-related complaints since the prior evaluation; therefore, this factor did not affect the Lending Test rating.

DESCRIPTION OF INSTITUTION

Background

The Lyon County State Bank is a full-service community bank that now operates two offices in Emporia in southeastern Kansas. On June 30, 2021, the bank closed a branch office in Madison, Kansas. The bank continues to be wholly owned by Ottawa Bancshares, Inc., Salina, Kansas, a multi-bank holding company. The bank received a Satisfactory rating at its previous FDIC Performance Evaluation, dated June 15, 2015, based on Interagency Small Institution Examination Procedures.

Operations

The Lyon County State Bank now operates two full-service offices in the largely rural areas of Greenwood and Lyon counties in Kansas. The bank has not opened any offices nor had any merger or acquisition activity since the prior evaluation.

The institution offers traditional loan products for home mortgage, commercial, agricultural, and consumer loan purposes. Home mortgage lending continues to be the primary business focus. The bank continues to offer in-house conventional home loans and now originates some secondary market loans. However, most secondary market loans are obtained through referral arrangements with other lenders that offer Veterans Administration, United States Department of Agriculture, First Time Home Buyer, and Federal Housing Administration loans. The bank also offers a variety of deposit services including checking, savings, money market accounts, certificates of deposit, and individual retirement accounts. Alternative banking services include internet and mobile banking,

electronic bill pay, remote deposit capture, and five cash dispensing ATMs located in Emporia. One ATM is located at the main office in a moderate-income census tract, and the remaining ATMs are located in middle-income census tracts.

Ability and Capacity

The bank’s total assets were \$184.6 million as of March 31, 2021, and included total loans of \$70.9 million and total securities of \$83.3 million. Total deposits on this same date were \$166.6 million. The following table illustrates the loan portfolio.

Loan Portfolio Distribution as of 3/31/2021		
Loan Category	\$(000s)	%
Construction, Land Development, and Other Land Loans	2,590	3.7
Secured by Farmland	3,301	4.7
Secured by 1-4 Family Residential Properties	36,889	52.0
Secured by Multi-family (5 or more) Residential Properties	711	1.0
Secured by Non-farm Non-Residential Properties	10,533	14.9
Total Real Estate Loans	54,024	76.2
Commercial and Industrial Loans	11,935	16.8
Agricultural Production and Other Loans to Farmers	901	1.3
Consumer	3,441	4.9
Obligations of State and Political Subdivisions in the U.S.	997	1.4
Other Loans	24	-
Lease Financing Receivables (net of unearned income)	-	-
Less: Unearned Income	435	0.6
Total Loans	70,887	100.0
<i>Source: Reports of Condition and Income</i>		

Examiners did not identify any financial, legal, or other impediments that affect the bank’s ability to meet assessment area credit needs.

DESCRIPTION OF ASSESSMENT AREA

The Lyon County State Bank continues to designate the northern portion of Greenwood County and all of Lyon County as its sole assessment area. This area is categorized as nonmetropolitan and consists largely of rural countryside and farmland. The following section shows demographic and economic information from the 2015 American Community Survey (ACS) and 2020 D&B data for this assessment area.

Economic and Demographic Data

The assessment area consists of nine census tracts. While the income designations of some of these tracts changed since the prior evaluation, the assessment area continues to consist solely of moderate-, middle-, and upper-income census tracts.

According to the 2015 ACS, the northern census tract in Greenwood County is middle-income, and Lyon County has one upper-income census tract, and five middle- and two moderate-income census tracts. The following table shows select demographic characteristics for the entire assessment area.

Demographic Information of the Assessment Area					
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #
Geographies (Census Tracts)	9	-	22.2	66.7	11.1
Population by Geography	35,590	-	22.5	70.5	6.9
Housing Units by Geography	16,557	-	20.7	71.7	7.6
Owner-Occupied Units by Geography	8,631	-	17.5	72.7	9.8
Occupied Rental Units by Geography	5,563	-	27.2	70.1	2.7
Vacant Units by Geography	2,363	-	17.2	71.9	11.0
Businesses by Geography	1,788	-	21.1	73.2	5.7
Farms by Geography	184	-	3.3	79.3	17.4
Family Distribution by Income Level	8,709	25.2	19.5	20.9	34.4
Household Distribution by Income Level	14,194	26.7	17.8	20.0	35.4
Median Family Income Nonmetropolitan KS	\$57,229	Median Housing Value			\$96,071
FFIEC-Estimated Median Family Income for 2020	\$64,200	Median Gross Rent			\$609
		Families Below Poverty Level			15.7%

Source: 2015 ACS Census; 2020 D&B Data; FFIEC Estimated Median Family Income

D&B data for 2020 indicates the primary industries of this assessment area include the services industry, which comprises 38.2 percent of all area businesses (farm and non-farm); followed by retail trade at 15.3 percent. This data also indicates that a notable number of these operations are relatively small, with 84.6 percent having nine or fewer employees, and 83.1 percent operating from a single location.

The following table presents the FFIEC-estimated median family income levels for nonmetropolitan Kansas for 2020.

Median Family Income Ranges				
Median Family Incomes	Low <50%	Moderate 50% to <80%	Middle 80% to <120%	Upper ≥120%
2020 (\$64,200)	<\$32,100	\$32,100 to <\$51,360	\$51,360 to <\$77,040	≥\$77,040

Source: FFIEC

Competition

Competition for financial services is notable. According to FDIC Deposit Market Share data as of June 30, 2020, there are 12 banks operating 22 offices in the assessment area. Of these institutions, The Lyon County State Bank ranked second in deposit market share, at 17.5 percent.

There is also competition for home mortgage loans among banks, credit unions, and non-depository mortgage lenders in the assessment area.

In 2019, aggregate data indicates 98 lenders reported 642 home mortgage loan originations and purchases in the assessment area. Although the bank does not report home mortgage data, this information provides insight regarding competition in the assessment area.

There is competition for small farm and small business loans among banks, credit unions, and non-depository mortgage lenders in the assessment area. In 2019, aggregate data indicates 34 lenders reported 317 small business loans in the assessment area, and 11 lenders reported 59 small farm loans. Although the bank does not report small business or small farm data, this information provides insight regarding competition in the assessment area.

Community Contacts

Examiners contact third parties active in the assessment area to help gain insight into the area's economy, demographic trends, and business environment. This information not only helps in identifying credit and community development needs and opportunities, but also assists in determining whether local financial institutions are responsive to those needs.

The community member contacted during this evaluation indicated the area economy has remained fairly strong. The contact stated that there had been very little impact to the economy due to the coronavirus pandemic, and area businesses and farms have generally been able to effectively maintain operations. The contact indicated that the primary credit need is home mortgage loans. The contact stated home financing activity has increased in the past year, with the low interest rate environment, and housing prices in general have increased.

Credit Needs

Examiners identified the credit needs of the assessment area based on information from a community contact, bank management, and demographic and economic data. Accordingly, examiners determined that home mortgage, small business, and small farm loans are all notable credit needs in the assessment area.

SCOPE OF EVALUATION

General Information

This evaluation covers the period from the prior evaluation dated June 15, 2015, to the current evaluation dated July 13, 2021. Examiners used the Interagency Small Institution Examination Procedures to evaluate the bank's CRA performance

Activities Reviewed

For the Interagency Small Institution Examination Procedures, examiners generally review home mortgage, small business, and small farm loans if each of these categories are a major product line of the institution. As previously stated, home mortgage lending continues to be a primary focus, followed by commercial and agricultural lending. Based on this information, along with the previously detailed loan portfolio composition, examiners reviewed home mortgage, small business, and small farm loans, with home mortgage loans receiving the greatest weight in determining the overall conclusions.

For the three loan categories reviewed, examiners focused on loans originated or extended in 2020. The number and volume of loans increased in 2020, with the addition of Paycheck Protection Program (PPP) loans. However, management stated the bank’s 2020 lending patterns for location and size/income of its borrowers would generally be representative of its overall lending patterns since the prior evaluation.

The 2020 bank data showed a total of 147 home mortgage loans totaling \$17.3 million, 281 small business loans totaling \$17.1 million, and 26 small farm loans totaling \$3.7 million. Examiners reviewed the universe of loans for the Assessment Area Concentration and Geographic Distribution analyses. For the Borrower Profile analysis, examiners reviewed a random sample of home mortgage and small business loans, and all small farm loans made in the assessment area. The sample included 47 home mortgage loans totaling \$3.8 million, and 51 small business loans totaling \$3.3 million.

The 2015 ACS data provided a standard of comparison for the home mortgage loans reviewed, and the D&B data for 2020 provided a standard of comparison for the small business and small farm loans reviewed. Additionally, although both the number and dollar volume of loans were analyzed, examiners emphasized performance by number of loans, because it is a better indicator of the number of individuals, businesses, and farms served.

CONCLUSIONS ON PERFORMANCE CRITERIA

LENDING TEST

The Lyon County State Bank demonstrates satisfactory performance under the Lending Test. This conclusion is supported by reasonable performance in all evaluated rating criteria.

Loan-to-Deposit Ratio

The LTD ratio is reasonable. The bank’s performance was evaluated based on the average net LTD ratio since the prior evaluation (24 quarters). The bank’s average net LTD ratio is comparable to the other similarly-situated banks, which were selected based on asset size, geographic location, and lending focus. See the following table for details.

Loan-to-Deposit (LTD) Ratio Comparison		
Bank	Total Assets as of 3/31/2021 (\$000s)	Average Net LTD Ratio (%)
The Lyon County State Bank, Emporia, Kansas	184,582	40.4
First National Bank of Kansas, Burlington, Kansas	96,238	32.4
Home Bank and Trust Company, Eureka, Kansas	146,130	89.5
The Lyndon State Bank, Lyndon, Kansas	88,743	78.8
<i>Source: Reports of Condition and Income 6/30/2015 - 3/31/2021</i>		

Assessment Area Concentration

A majority of the home mortgage, small business, and small farm loans are within the assessment area. Refer to the following table for details.

Lending Inside and Outside of the Assessment Area										
Loan Category	Number of Loans				Total #	Dollars Amount of Loans \$(000s)				Total \$(000s)
	Inside		Outside			Inside		Outside		
	#	%	#	%		\$	%	\$	%	
Home Mortgage	116	78.9	31	21.1	147	10,442	60.4	6,847	39.6	17,289
Small Business	185	65.8	96	34.2	281	11,903	69.4	5,237	30.6	17,140
Small Farm	24	92.3	2	7.7	26	3,672	98.4	61	1.6	3,733

Source: 2020 Bank Data

Geographic Distribution

The geographic distribution of loans reflects a reasonable dispersion throughout the assessment area. Examiners focused on the percentage by number of loans in the moderate-income census tracts. Reasonable performance in all loan categories reviewed supports this conclusion.

Home Mortgage Loans

The geographic distribution of home mortgage loans reflects reasonable dispersion throughout the assessment area. The following table indicates that the bank’s 2020 performance is comparable with the 2015 ACS data in the moderate-income census tracts.

Geographic Distribution of Home Mortgage Loans					
Tract Income Level	% of Owner-Occupied Housing Units	#	%	\$(000s)	%
Moderate	17.5	21	18.1	1,305	12.5
Middle	72.7	84	72.4	7,249	69.4
Upper	9.8	11	9.5	1,888	18.1
Total	100.0	116	100.0	10,442	100.0

Source: 2015 ACS Data; 2020 Bank Data

Small Business Loans

The geographic distribution of small business loans reflects reasonable dispersion. The bank’s performance in the moderate-income census tracts is comparable to demographic data.

Geographic Distribution of Small Business Loans					
Tract Income Level	% of Businesses	#	%	\$(000s)	%
Moderate	21.1	48	25.9	1,880	15.8
Middle	73.2	128	69.2	9,701	81.5
Upper	5.7	9	4.9	322	2.7
Total	100.0	185	100.0	11,903	100.0

Source: 2020 D&B Data; 2020 Bank Data

Small Farm Loans

The geographic distribution of small farm lending reflects reasonable dispersion. The bank did not originate any small farm loans in the moderate-income census tracts. However, demographic data indicates only 3.3 percent of farming operations, which equates to three farms, are located in each of the two moderate-income census tracts. Therefore, the bank has limited opportunities to lend to small farms in these census tracts.

Borrower Profile

The distribution of borrowers reflects reasonable penetration among individuals of different income levels and businesses and farms of different sizes. Reasonable performance for home mortgage and small businesses loans and excellent performance for small farm loans supports this conclusion.

Home Mortgage Loans

The distribution of borrowers reflects reasonable penetration among individuals of different income levels, including low- and moderate-income borrowers. The following table indicates the bank's level of lending to low- and moderate-income borrowers is below 2015 ACS data. However, the percentage of families in the assessment area living below the poverty level is 15.7 percent. When considering the average median housing value within the assessment area, the demand and opportunity for lending to families below the poverty level is relatively limited. In addition, management stated that home mortgage loans for low- and moderate-income borrowers are often extended through other lending channels (such as secondary market loan programs or referral arrangements). Loans extended through these lending channels general have more flexible qualifying criteria, making them more attractive to low- and moderate-income borrowers. These loans are not directly originated by the bank and are not reflected in the bank's performance..

Distribution of Home Mortgage Loans by Borrower Income Level					
Borrower Income Level	% of Families	#	%	\$(000s)	%
Low	25.2	2	4.3	91	2.4
Moderate	19.5	4	8.5	198	5.2
Middle	20.9	12	25.5	716	18.6
Upper	34.4	10	21.3	1,713	44.6
Income Not Available	-	19	40.4	1,123	29.2
Total	100.0	47	100.0	3,841	100.0

Source: 2015 ACS Data; 2020 Bank Data

Small Business Loans

The borrower distribution of small business loans reflects reasonable penetration among businesses with gross annual revenues of \$1 million or less. The following table indicates the bank's performance is comparable to demographic data.

Distribution of Small Business Loans by Gross Annual Revenue Category					
Gross Revenue Level	% of Businesses	#	%	\$(000s)	%
≤ \$1,000,000	75.8	39	76.5	1,522	46.3
> \$1,000,000	6.5	8	15.7	1,676	51.0
Revenue Not Available	17.7	4	7.8	87	2.6
Total	100.0	51	100.0	3,285	100.0
<i>Source: 2020 D&B Data, 2020 Bank Data</i>					

Small Farm Loans

The borrower distribution of small farm loans reflects excellent penetration among farms with gross annual revenues of \$1 million or less. All of the bank’s small farm loans were to farms with gross annual revenues of \$1 million or less. This favorably compares to demographic data that shows that 97.3 percent of the farms in the assessment area have gross annual revenues of \$1 million or less.

Response to Complaints

The bank did not receive any CRA-related complaints since the previous evaluation; therefore, this criterion did not affect the Lending Test rating.

DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

Examiners did not identify any evidence of discriminatory or other illegal credit practices; therefore, this consideration did not affect the institution’s overall CRA rating.

APPENDICES

SMALL BANK PERFORMANCE CRITERIA

Lending Test

The Lending Test evaluates the bank's record of helping to meet the credit needs of its assessment area(s) by considering the following criteria:

- 1) The bank's loan-to-deposit ratio, adjusted for seasonal variation, and, as appropriate, other lending-related activities, such as loan originations for sale to the secondary markets, community development loans, or qualified investments;
- 2) The percentage of loans, and as appropriate, other lending-related activities located in the bank's assessment area(s);
- 3) The geographic distribution of the bank's loans;
- 4) The bank's record of lending to and, as appropriate, engaging in other lending-related activities for borrowers of different income levels and businesses and farms of different sizes; and
- 5) The bank's record of taking action, if warranted, in response to written complaints about its performance in helping to meet credit needs in its assessment area(s).

GLOSSARY

Aggregate Lending: The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

American Community Survey (ACS): A nationwide United States Census survey that produces demographic, social, housing, and economic estimates in the form of five year estimates based on population thresholds.

Area Median Income: The median family income for the MSA, if a person or geography is located in an MSA; or the statewide nonmetropolitan median family income, if a person or geography is located outside an MSA.

Assessment Area: A geographic area delineated by the bank under the requirements of the Community Reinvestment Act.

Census Tract: A small, relatively permanent statistical subdivision of a county or equivalent entity. The primary purpose of census tracts is to provide a stable set of geographic units for the presentation of statistical data. Census tracts generally have a population size between 1,200 and 8,000 people, with an optimum size of 4,000 people. Census tract boundaries generally follow visible and identifiable features, but they may follow nonvisible legal boundaries in some instances. State and county boundaries always are census tract boundaries.

Combined Statistical Area (CSA): A combination of several adjacent metropolitan statistical areas or micropolitan statistical areas or a mix of the two, which are linked by economic ties.

Consumer Loan(s): A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

Core Based Statistical Area (CBSA): The county or counties or equivalent entities associated with at least one core (urbanized area or urban cluster) of at least 10,000 population, plus adjacent counties having a high degree of social and economic integration with the core as measured through commuting ties with the counties associated with the core. Metropolitan and Micropolitan Statistical Areas are the two categories of CBSAs.

Family: Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family. Other family is further classified into “male householder” (a family with a male householder and no wife present) or “female householder” (a family with a female householder and no husband present).

FFIEC-Estimated Income Data: The Federal Financial Institutions Examination Council (FFIEC) issues annual estimates which update median family income from the metropolitan and nonmetropolitan areas. The FFIEC uses American Community Survey data and factors in information from other sources to arrive at an annual estimate that more closely reflects current economic conditions.

Full-Scope Review: A full-scope review is accomplished when examiners complete all applicable interagency examination procedures for an assessment area. Performance under applicable tests is analyzed considering performance context, quantitative factors (e.g., geographic distribution, borrower profile, and total number and dollar amount of investments), and qualitative factors (e.g., innovativeness, complexity, and responsiveness).

Geography: A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

Home Mortgage Disclosure Act (HMDA): The statute that requires certain mortgage lenders that do business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applicants; the amount of loan requested; and the disposition of the application (approved, denied, and withdrawn).

Home Mortgage Loans: Includes closed-end mortgage loans or open-end line of credits as defined in the HMDA regulation that are not an excluded transaction per the HMDA regulation.

Housing Unit: Includes a house, an apartment, a mobile home, a group of rooms, or a single room that is occupied as separate living quarters.

Limited-Scope Review: A limited scope review is accomplished when examiners do not complete all applicable interagency examination procedures for an assessment area. Performance under applicable tests is often analyzed using only quantitative factors (e.g., geographic distribution, borrower profile, total number and dollar amount of investments, and branch distribution).

Low-Income: Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent in the case of a geography.

Market Share: The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

Median Income: The median income divides the income distribution into two equal parts, one having incomes above the median and other having incomes below the median.

Metropolitan Division (MD): A county or group of counties within a CBSA that contain(s) an urbanized area with a population of at least 2.5 million. A MD is one or more main/secondary

counties representing an employment center or centers, plus adjacent counties associated with the main/secondary county or counties through commuting ties.

Metropolitan Statistical Area (MSA): CBSA associated with at least one urbanized area having a population of at least 50,000. The MSA comprises the central county or counties or equivalent entities containing the core, plus adjacent outlying counties having a high degree of social and economic integration with the central county or counties as measured through commuting.

Middle-Income: Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 and less than 120 percent in the case of a geography.

Moderate-Income: Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 and less than 80 percent in the case of a geography.

Multi-family: Refers to a residential structure that contains five or more units.

Nonmetropolitan Area (also known as non-MSA): All areas outside of metropolitan areas. The definition of nonmetropolitan area is not consistent with the definition of rural areas. Urban and rural classifications cut across the other hierarchies. For example, there is generally urban and rural territory within metropolitan and nonmetropolitan areas.

Owner-Occupied Units: Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

Rated Area: A rated area is a state or multistate metropolitan area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multistate metropolitan area, the institution will receive a rating for the multistate metropolitan area.

Rural Area: Territories, populations, and housing units that are not classified as urban.

Small Business Loan: A loan included in "loans to small businesses" as defined in the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$1 million or less and are either secured by nonfarm nonresidential properties or are classified as commercial and industrial loans.

Small Farm Loan: A loan included in "loans to small farms" as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, including farm residential and other improvements, or are classified as loans to finance agricultural production and other loans to farmers.

Upper-Income: Individual income that is 120 percent or more of the area median income, or a median family income that is 120 percent or more in the case of a geography.

Urban Area: All territories, populations, and housing units in urbanized areas and in places of 2,500 or more persons outside urbanized areas. More specifically, “urban” consists of territory, persons, and housing units in places of 2,500 or more persons incorporated as cities, villages, boroughs (except in Alaska and New York), and towns (except in the New England states, New York, and Wisconsin).

“Urban” excludes the rural portions of “extended cities”; census designated place of 2,500 or more persons; and other territory, incorporated or unincorporated, including in urbanized areas.