

PUBLIC DISCLOSURE

June 24, 2024

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The State Exchange Bank
Certificate Number: 17375

107 South Commercial Street
Mankato, Kansas 66956

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 ratio is reasonable given the institution's size, financial condition, and the assessment area's credit needs.
- A substantial majority of small farm, home mortgage, and small business 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 farms and businesses of different revenues, and individuals of different income levels.
- The bank did not receive any Community Reinvestment Act (CRA)-related complaints since the prior evaluation; therefore, this factor did not affect the rating.

DESCRIPTION OF INSTITUTION

The State Exchange Bank is a full-service community bank headquartered in Mankato, Kansas. The bank does not operate any branch offices, and does not have a holding company. The State Exchange Bank operates in a largely rural area from one full-service office in Jewell County. The bank has not opened or closed any offices, and there has been no merger or acquisition activity since the prior evaluation. The State Exchange Bank received a Satisfactory rating under the Interagency Small Institution Examination Procedures at its prior FDIC performance evaluation, dated June 12, 2018.

The bank offers traditional loan products for agricultural, home mortgage, commercial, and consumer loan purposes. Agricultural loans continue to be the primary business focus of the bank. The State Exchange Bank offers special financing alternatives through programs offered by the Farm Service Agency. The bank also originated 114 loans totaling \$2.6 million under the Small Business Administration's Paycheck Protection Program, which was established to provide relief to small businesses during the Coronavirus Disease 2019 (COVID-19) pandemic. In addition, the bank offers a variety of deposit products, including checking and savings accounts, as well as certificates of deposit. Alternative banking services include internet banking, mobile banking, and one cash dispensing ATM located at the sole office location.

According to the March 31, 2024 Reports of Condition and Income, the institution reported total assets of \$45.4 million, total loans of \$14.2 million, and total deposits of \$42.1 million. The following table shows the distribution for each loan category by dollar volume.

Loan Portfolio Distribution as of 3/31/2024		
Loan Category	\$(000s)	%
Construction, Land Development, and Other Land Loans	-	-
Secured by Farmland	4,526	31.9
Secured by 1-4 Family Residential Properties	2,344	16.5
Secured by Multi-family (5 or more) Residential Properties	-	-
Secured by Non-farm Non-Residential Properties	813	5.7
Total Real Estate Loans	7,683	54.1
Commercial and Industrial Loans	1,476	10.4
Agricultural Production and Other Loans to Farmers	3,510	24.7
Consumer	1,235	8.7
Obligations of State and Political Subdivisions in the U.S.	-	-
Other Loans	-	-
Lease Financing Receivables (net of unearned income)	286	2.0
Less: Unearned Income	-	-
Total Loans	14,190	100.0
<i>Source: Reports of Condition and Income. Due to rounding, totals may not equal 100.0%</i>		

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

DESCRIPTION OF ASSESSMENT AREA

The State Exchange Bank continues to designate all of Jewell County as its sole assessment area, which is located in the nonmetropolitan area of Kansas. The following section shows demographic and economic information from the 2020 U.S. Census data and 2023 D&B data for the assessment area.

Economic and Demographic Data

The assessment area consists of one census tract, which is a moderate-income geography. The demographics of the assessment area have changed since the previous evaluation when Jewell County was comprised of two middle-income census tracts based on the 2015 American Community Survey data. The following table illustrates select demographic characteristics of the entire assessment area.

Demographic Information of the Assessment Area					
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #
Geographies (Census Tracts)	1	-	100.0	-	-
Population by Geography	2,932	-	100.0	-	-
Housing Units by Geography	2,015	-	100.0	-	-
Owner-Occupied Units by Geography	1,147	-	100.0	-	-
Occupied Rental Units by Geography	239	-	100.0	-	-
Vacant Units by Geography	629	-	100.0	-	-
Businesses by Geography	319	-	100.0	-	-
Farms by Geography	121	-	100.0	-	-
Family Distribution by Income Level	861	30.1	20.6	19.4	30.0
Household Distribution by Income Level	1,386	34.2	18.8	14.8	32.3
Median Family Income for Jewell County, Kansas – 2023	\$65,467	Median Housing Value			\$56,300
		Median Gross Rent			\$516
		Families Below Poverty Level			11.0%

Source: 2020 U.S. Census Data, 2023 D&B Data; Due to rounding, totals may not equal 100.0%

The 2023 D&B data indicates farming and agricultural operations represents the largest portion of businesses at 27.5 percent, followed by the services industry at 22.3 percent, and non-classifiable establishments at 16.8 percent. The data also indicates a notable number of area businesses are relatively small, with 93.9 percent having 9 or fewer employees, and 88.9 percent operating from a single location.

Examiners used Federal Financial Institutions Examination Council (FFIEC) median family income data to analyze home mortgage loans under the Borrower Profile criterion. The following table details the FFEIC’s estimated median family income and respective income categories for the nonmetropolitan area of Kansas.

Median Family Income Ranges				
Median Family Incomes	Low <50%	Moderate 50% to <80%	Middle 80% to <120%	Upper ≥120%
2023 (\$79,900)	<\$39,950	\$39,950 to <\$63,920	\$63,920 to <\$95,880	≥\$95,880

Source: FFIEC

Competition

There is notable competition for financial services in the assessment area. According to June 30, 2023 FDIC Deposit Market Share data, there are three banks operating five offices in the assessment area. The State Exchange Bank has the largest market share holding 37.8 percent of the market’s deposits.

Community Contact

As part of the evaluation process, examiners contact third parties in the assessment area to help gain insight into the area's economy, demographic trends, and business environment. This information helps determine whether local financial institutions are responsive to these needs. It also identifies what credit opportunities are available.

The community contacted indicated the economic conditions in the area are stable; however, there were a few business closures and services adversely impacted due to the COVID-19 pandemic. The economy is driven primarily by agriculture, followed by other industries including education, and healthcare. The contact believed the primary credit needs of the area are agriculture loans, while home mortgage, commercial, and consumer loans are also credit needs of the community. The contact indicated that area financial institutions are actively involved and responsive to the community, and do a good job overall in attempting to meet the area's credit needs.

Credit Needs

Considering information from the community contact and economic and demographic information, examiners determined that small farm, home mortgage, and small business loans are the primary credit needs in the assessment area.

SCOPE OF EVALUATION

General Information

This evaluation covers the period from the prior evaluation dated June 12, 2018, to the current evaluation dated June 24, 2024. Examiners used the Interagency Small Institution Examination Procedures to evaluate the bank's CRA performance.

Activities Reviewed

Examiners determined that the institution's major product lines are agricultural, home mortgage, and commercial credits. This conclusion considered the bank's business focus, loan portfolio distribution, and the number and dollar volume of loans originated or renewed during the evaluation period. When considering loan portfolio percentages, lending activity during the evaluation period, and management's stated business focus, examiners gave the greatest weight to the bank's small farm lending performance, followed by equal but lesser weight to home mortgage and small business lending.

The universe of loans reviewed included all small farm, home mortgage, and small business loans originated, renewed, or extended from January 1, 2023, through December 31, 2023. Management agreed that the loan activity reviewed is representative of the institution's performance throughout the evaluation period. The 2023 bank data showed a total of 38 small farm loans totaling \$3.4 million, 15 home mortgage loans totaling \$832 thousand, and 22 small business loans totaling \$1.6 million.

For the Lending Test, examiners reviewed all of the above loans to evaluate the Assessment Area Concentration criterion. Additionally, all loans inside the assessment area were further reviewed to evaluate the Geographic Distribution and Borrower Profile criteria.

The D&B data for 2023 provided a standard of comparison for the bank’s small farm and small business lending performance, and the 2020 U.S. Census data provided a standard of comparison for the bank’s home mortgage lending performance. 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 farms, individuals, and businesses served.

CONCLUSIONS ON PERFORMANCE CRITERIA

LENDING TEST

The State Exchange Bank demonstrates satisfactory performance under the Lending Test. This conclusion is supported by the bank’s overall performance in all evaluated criteria.

Loan-to-Deposit Ratio

The loan-to-deposit ratio is reasonable given the institution’s size, financial condition, and assessment area credit needs. The bank’s performance was evaluated based on the average quarterly net loan-to-deposit ratios since the prior evaluation (24 quarters) in relation to its capacity and lending opportunities available within the assessment area. The bank’s average net loan-to-deposit ratio is reasonable when compared to the other similarly situated bank, which was selected based on its asset size, geographic location, and lending focus. The State Exchange Bank has notable competition in the assessment area from larger financial institutions, and is the only institution operating exclusively within the assessment area. In addition, the two other financial institutions in the assessment area obtain a significant portion of their deposits from outside of the assessment area and have multiple branches, including branches in metropolitan areas and multi-state operations. Bank officials indicate a desire to increase the loan-to-deposit ratio; however, opportunities are limited. See the following table for details.

Loan-to-Deposit Ratio Comparison		
Bank	Total Assets as of 3/31/2024 (\$000s)	Average Net LTD Ratio (%)
The State Exchange Bank, Mankato, Kansas	45,446	46.2
Ninnescah Valley Bank, Cunningham, Kansas	39,757	39.7
<i>Source: Reports of Condition and Income 6/30/2018 - 3/31/2024</i>		

Assessment Area Concentration

A substantial majority of the small farm, home mortgage, and small business 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		
	#	%	#	%		\$	%	\$	%	
Small Farm	35	92.1	3	7.9	38	3,328	97.1	100	2.9	3,428
Home Mortgage	13	86.7	2	13.3	15	690	82.9	142	17.1	832
Small Business	18	81.8	4	18.2	22	1,288	82.6	272	17.4	1,560
Total	66	88.0	9	12.0	75	5,306	91.2	514	8.8	5,820
<i>Source: 2023 Bank Data</i>										

Geographic Distribution

The geographic distribution of loans is reasonable. As previously stated, the assessment area consists of one census tract, which is a moderate-income geography. Therefore, all small farm, home mortgage, and small business loans made in the assessment area were in a moderate-income geography, which is in-line with demographic data.

Borrower Profile

The distribution of borrowers reflects reasonable penetration among farms and businesses of different sizes and individuals of different income levels. This conclusion is supported by the bank's reasonable performance in all three loan products reviewed. For this criterion, examiners focused on the percentage of small farm and small business loans to operations with gross annual revenues of \$1 million or less, and the percentage of home mortgage loans to low- and moderate-income borrowers.

Small Farm Loans

The borrower distribution of small farm loans reflects reasonable penetration among farms with revenues of \$1 million or less. The following table indicates the bank's performance is comparable to demographic data in this revenue category.

Distribution of Small Farm Loans by Gross Annual Revenue Category					
Gross Revenue Level	% of Farms	#	%	\$(000s)	%
≤ \$1,000,000	99.2	34	97.1	2,878	86.5
> \$1,000,000	0.8	1	2.9	450	13.5
Total	100.0	35	100.0	3,328	100.0
<i>Source: 2023 D&B Data, 2023 Bank Data</i>					

Home Mortgage Loans

Overall, the distribution of borrowers reflects reasonable penetration among individuals of different income levels. The bank did not originate any home mortgage loans to moderate-income borrowers in 2023. However, the bank's level of lending to low-income borrowers significantly exceeds the 2020 U.S. Census data, despite the 11.0 percent of low-income families that generate incomes below the poverty level. These families likely face significant difficulties qualifying for traditional home mortgage loans. Collectively, the bank's distribution of home mortgage loans to low- and moderate-income borrowers reflects reasonable penetration.

Distribution of Home Mortgage Loans by Borrower Income Level					
Borrower Income Level	% of Families	#	%	\$(000s)	%
Low	30.1	6	46.2	157	22.8
Moderate	20.6	-	-	-	-
Middle	19.4	3	23.1	143	20.7
Upper	30.0	4	30.8	390	56.5
Total	100.0	13	100.0	690	100.0
<i>Source: 2020 U.S. Census Data, 2023 Bank Data Due to rounding, totals may not equal 100.0%</i>					

Small Business Loans

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

Distribution of Small Business Loans by Gross Annual Revenue Category					
Gross Revenue Level	% of Businesses	#	%	\$(000s)	%
≤ \$1,000,000	79.0	15	83.3	529	41.1
> \$1,000,000	2.5	1	5.6	700	54.3
Revenue Not Available	18.5	2	11.1	59	4.6
Total	100.0	18	100.0	1,288	100.0
<i>Source: 2023 D&B Data, 2023 Bank Data</i>					

Response to Complaints

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

DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

The bank's compliance with the laws relating to discrimination and other illegal credit practices was reviewed, including the Fair Housing Act and the Equal Credit Opportunity Act. Examiners did not identify any discriminatory or other illegal credit practices.

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.