

PUBLIC DISCLOSURE

January 27, 2020

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Union State Bank
Certificate Number: 16788

204 Sherman Street
Uniontown, Kansas 66779

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.

TABLE OF CONTENTS

INSTITUTION RATING	1
DESCRIPTION OF INSTITUTION	2
DESCRIPTION OF ASSESSMENT AREA	3
SCOPE OF EVALUATION	5
CONCLUSIONS ON PERFORMANCE CRITERIA.....	6
DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES REVIEW.....	10
APPENDICES	11
SMALL BANK PERFORMANCE CRITERIA	11
GLOSSARY.....	12

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.

Union State Bank's satisfactory Community Reinvestment Act (CRA) performance under the Lending Test supports the overall rating. Examiners did not identify any evidence of discriminatory or other illegal credit practices. Therefore, these considerations did not affect the overall rating. The following discussion summarizes the bank's performance:

- The loan-to-deposit ratio is more than reasonable given the institution's size, financial condition, and assessment area credit needs.
- A majority of loans reviewed were made within the institution's assessment area.
- The geographic distribution of loans reflects a reasonable dispersion throughout the assessment area, considering pertinent demographic data, performance context information, and other relevant factors.
- The distribution of borrowers reflects overall excellent borrower profile performance considering pertinent performance context information and other relevant factors. The penetration among businesses of different sizes and individuals of different income levels in the assessment area is excellent, while the penetration among farms of different sizes is reasonable.
- The institution has not received any CRA-related complaints since the previous CRA evaluation performed as of January 13, 2014; therefore, this factor did not affect the rating.

DESCRIPTION OF INSTITUTION

Union State Bank is a full-service commercial bank headquartered in Uniontown, Kansas, with \$49.4 million in total assets as of September 30, 2019. The bank is wholly owned by Union State Bancshares, Inc., Uniontown, Kansas. Union State Bank has no lending affiliates. A “Satisfactory” rating was assigned at the January 13, 2014, FDIC Performance Evaluation, which utilized Small Bank Evaluation Procedures.

In addition to the main office in Uniontown, Kansas, Union State Bank operates a full-service facility in Fort Scott, Kansas. No branches have opened or closed since the previous CRA evaluation. The bank maintains two deposit-taking automated teller machines; one at the Fort Scott location and one at the Union Station convenience store in Uniontown.

Examiners used 2015 American Community Survey (ACS) data to determine the income designations for each census tract where the bank has office locations. The main office is located in a middle-income census tract (CT) and the Fort Scott branch is located in a moderate-income CT.

The bank offers lending products that tie to its business focus of agricultural, home mortgage, and commercial lending. The bank also offers consumer loans. Home loan products include adjustable rate mortgages, mobile home loans, construction loans, and long-term fixed rate loans that are sold on the secondary market. Deposit products include checking accounts, savings accounts, certificates of deposit, and health savings accounts. The bank offers alternative banking products and services such as debit cards, online banking, mobile banking, mobile check deposit, and bill pay service. Banking hours are convenient for the communities served and are virtually the same at both locations, with the Fort Scott branch having extended drive-thru hours.

As of September 30, 2019, the Call Report shows total loans of \$38.1 million and total deposits of \$41.1 million. The following table details the loan portfolio.

Loan Portfolio Distribution as of 09/30/2019		
Loan Category	\$(000s)	%
Construction and Land Development	123	0.3
Secured by Farmland	4,619	12.1
Secured by 1-4 Family Residential Properties	13,415	35.2
Secured by Multifamily (5 or more) Residential Properties	197	0.5
Secured by Nonfarm Nonresidential Properties	3,855	10.1
Total Real Estate Loans	22,209	58.2
Commercial and Industrial Loans	3,728	9.8
Agricultural Loans	10,188	26.7
Consumer Loans	2,006	5.3
Other Loans	0	0.0
Less: Unearned Income	0	0.0
Total Loans	38,131	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 affecting the bank’s ability to meet the assessment area credit needs.

DESCRIPTION OF ASSESSMENT AREA

The CRA requires each financial institution to define one or more assessment areas within which its CRA performance will be evaluated. Union State Bank’s assessment area consists of the entirety of Bourbon County, Kansas.

Economic and Demographic Data

Based on 2015 ACS data, the assessment area consists of one moderate-income CT and four middle-income CTs. This assessment area has not changed since the previous evaluation; however, the income designations for two CTs have changed. Specifically, CT 9559 changed from moderate-income to middle-income; while, CT 9560 changed from middle-income to moderate-income. The following table illustrates select demographic characteristics of the assessment area.

Demographic Information of the Assessment Area						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	5	0.0	20.0	80.0	0.0	0.0
Population by Geography	14,812	0.0	18.8	81.2	0.0	0.0
Housing Units by Geography	7,114	0.0	21.3	78.7	0.0	0.0
Owner-Occupied Units by Geography	3,901	0.0	18.0	82.0	0.0	0.0
Occupied Rental Units by Geography	1,759	0.0	26.3	73.7	0.0	0.0
Vacant Units by Geography	1,454	0.0	23.9	76.1	0.0	0.0
Businesses by Geography	752	0.0	33.0	67.0	0.0	0.0
Farms by Geography	85	0.0	4.7	95.3	0.0	0.0
Family Distribution by Income Level	3,827	25.5	20.6	18.3	35.6	0.0
Household Distribution by Income Level	5,660	30.8	17.7	16.4	35.1	0.0
Median Family Income - Nonmetropolitan KS		\$56,877	Median Housing Value			\$83,906
			Median Gross Rent			\$595
			Families Below Poverty Level			13.4%

Source: 2015 ACS Census and 2018 D&B Data

Due to rounding, totals may not equal 100.0

() The NA category consists of geographies that have not been assigned an income classification.*

Services Industries represent the largest portion of businesses in the assessment area at 38.2 percent; followed by Retail Trade at 10.9 percent; Agriculture, Forestry, and Fishing at 10.2 percent; and Finance, Insurance, and Real Estate at 9.1 percent. In addition, 68.8 percent of area businesses have four or fewer employees and 83.5 percent operate from a single location. Management indicated the largest employers in the assessment area are Peerless Products, Inc., Ward-Kraft, Inc., Walmart, and the Fort Scott School District.

The 2018 FFIEC-updated median family income figure for the nonmetropolitan portion of Kansas was used to analyze home mortgage loans under the Borrower Profile criterion. The following table presents the low-, moderate-, middle-, and upper-income categories. These categories are based on the 2018 FFIEC-updated median family income figure of \$61,100.

Nonmetropolitan KS Median Family Income Ranges				
Median Family Incomes	Low <50%	Moderate 50% to <80%	Middle 80% to <120%	Upper ≥120%
2018 (\$61,100)	<\$30,550	\$30,550 to <\$48,880	\$48,880 to <\$73,320	≥\$73,320
<i>Source: FFIEC</i>				

According to the U.S. Bureau of Labor Statistics, the unemployment rate as of November 2019 for Kansas was 2.8 percent and Bourbon County was 3.6 percent.

Competition

The assessment area is a relatively competitive market for financial services. According to 2018 FDIC Deposit Market Share data, there were six financial institutions operating nine offices within Bourbon County. Of these institutions, Union State Bank ranked 3rd with 16.6 percent of the deposit market share.

Union State Bank is not required to collect and report information regarding its home mortgage, small business, or small farm loans, and it has not elected to do so. However, this data provides an indicator of loan demand and is considered in the performance context. The 2018 home mortgage aggregate lending data shows 81 institutions reported 330 home mortgage loans in the assessment area, which indicates modest demand for this product. Additionally, the 2017 small business aggregate lending data shows 175 institutions reported 8,356 small business loans in the assessment area, which indicates a high demand for this product. Lastly, the 2017 small farm aggregate lending data shows 9 institutions reported 52 small farm loans in the assessment area, which indicates modest demand for this product.

Community Contact

Examiners conducted one community contact with a representative from an entity that promotes economic development in the assessment area. Community contact interviews are used to obtain a profile of the local communities, identify community development opportunities and general credit needs, and assess opportunities for participation by local financial institutions.

The community contact focused on Fort Scott, Kansas, and the greater Bourbon County area. The individual indicated the local economy has been steadily growing in the past five years primarily due to small business expansion in Fort Scott. The contact stated affordable housing in the area is not a problem; but the February 2019 closure of the Fort Scott Mercy Hospital and its outpatient clinic resulted in 75 to 100 lost jobs, many of which were skilled workers. The contact continued by stating that Community Health Center of Southeast Kansas took over these facilities as a healthcare clinic and hired many of the former Mercy employees. The contact stated that financial institutions are meeting area banking and credit needs.

Credit Needs

According to management, the overall economic conditions in the assessment area are stable and strengthening. Economic development opportunities exist in small business expansion and new business startups. Bank management specifically mentioned that Bourbon County was selected for the new Entrepreneurship E-Community Loan program that includes “loan matching” programs that local banks participate in. This program was created through a Kansas Center for Entrepreneurship Tax Credit Program to encourage entrepreneurial activity in communities like Fort Scott and Bourbon County. Regarding home mortgage credit needs, the residential market has seen a slight increase in new-builds, primarily in the \$110,000 to \$180,000 price range. Management stated that agriculture loan demand has always stayed steady, with Farm Credit Services of America being the main competitor for all financial instructions in the area. Lastly, the assessment area includes a competitive banking environment of regional and national banks.

Considering economic and demographic data along with information from bank management and the community contact, the primary credit needs in the assessment area are home mortgage, small business, and agricultural lending.

SCOPE OF EVALUATION

General Information

This evaluation covers the period from the previous evaluation dated January 13, 2014, to the current evaluation dated January 27, 2020. Examiners used the Interagency Small Institution Examination Procedures to evaluate Union State Bank’s CRA performance. Please refer to the *Small Bank Performance Criteria* section in the Appendices for a summary of the Lending Test.

Activities Reviewed

Based on the September 30, 2019, Call Report, the bank’s primary loan products by dollar volume are agricultural loans, home mortgage, and commercial, which represent 38.8 percent, 35.2 percent, and 19.9 percent of the portfolio, respectively. These are the loan products emphasized by the bank’s business strategy. As a result, examiners reviewed small farm, home mortgage, and small business loans to evaluate the bank’s CRA performance. Construction and land development and consumer lending do not constitute a significant portion of the overall lending efforts, so these loan products were not reviewed.

Examiners reviewed small farm, home mortgage, and small business loans originated or renewed from January 1, 2018, to December 31, 2018. Management indicated that a review of lending activity from this time frame should be representative of the bank’s performance since the previous evaluation. For the Assessment Area Concentration analysis, examiners reviewed all 2018 small farm, and home mortgage, and small business loan originations and renewals. Specifically, 116 small farm loans totaling \$4,452,350; 86 home mortgage loans totaling \$7,142,843; and 88 small business loans totaling \$3,145,589 were reviewed. For the Geographic Distribution analysis, examiners reviewed all 2018 small farm, home mortgage, and small business loan originations and renewals within the assessment area. For the Borrower Profile analysis, examiners selected a sample of 41 small farm loans totaling \$1,190,882; 36 home mortgage loans totaling \$2,134,038; and 41 small business loans totaling \$2,145,206 from those originated within the assessment area.

Examiners utilized 2015 ACS data to evaluate home mortgage lending performance and 2018 D&B data to evaluate small farm and small business lending performance.

Examiners analyzed lending performance by both the number and dollar volume of loans. However, the performance by number of loans is emphasized in the Geographic Distribution and Borrower Profile analyses, as it is generally a better indicator of the efforts to serve small farms, lower-income individuals, and small businesses throughout the assessment area. Small farm, home mortgage, and small business lending were weighted evenly in drawing conclusions as each type of lending represents a similar proportion of the loan portfolio.

CONCLUSIONS ON PERFORMANCE CRITERIA

LENDING TEST

Loan-to-Deposit Ratio

Overall, the loan-to-deposit ratio is more than reasonable given the bank’s size, financial condition, and assessment area credit needs. The bank’s net loan-to-deposit ratio, calculated from Call Report data, averaged 82.4 percent over the past 23 calendar quarters from March 31, 2014, to September 30, 2019. The ratio ranged from a low of 67.8 percent, as of March 31, 2014, to a high of 91.7 percent, as of September 30, 2019. For the period reviewed, the net loan-to-deposit ratio increased 23.9 percentage points, representing a 35.2 percent increase since the prior evaluation.

When available and relevant, the performance of similarly situated lenders serves as an additional method of assessing the adequacy of an institution’s average net loan-to-deposit ratio. Similarly situated lenders are defined as financial institutions located in or near the bank’s assessment area(s) that are comparable to the subject institution based on asset size, branching structure, markets served, product offerings, and/or loan portfolio composition. As shown in the table below, Union State Bank’s average net loan-to-deposit ratio compares favorably to the one identified similarly situated institution. Considering these factors, the bank’s ratio of 82.4 percent is more than reasonable.

Loan-to-Deposit Ratio Comparison		
Bank	Total Assets as of 9/30/19 \$(000s)	Average NLTD Ratio (%)
Union State Bank, Uniontown, Kansas	49,435	82.4
The City State Bank, Fort Scott, Kansas	39,988	65.6

Source: Reports of Condition and Income March 31, 2014 through September 30, 2019

Assessment Area Concentration

Union State Bank extended a majority of its loans in the assessment area. The following table summarizes the record of lending inside and outside of the assessment area by number and dollar volume of loans for the home mortgage, small farm, and small business loans reviewed during this evaluation.

Lending Inside and Outside of the Assessment Area										
Loan Category	Number of Loans				Total #	Dollar Amount of Loans \$(000s)				Total \$(000s)
	Inside		Outside			Inside		Outside		
	#	%	#	%		\$	%	\$	%	
Small Farm	90	77.6	26	22.4	116	3,165	71.1	1,287	28.9	4,452
Home Mortgage	70	81.4	16	18.6	86	5,290	74.1	1,853	25.9	7,143
Small Business	85	96.6	3	3.4	88	3,023	96.1	123	3.9	3,146
Total	245	84.5	45	15.5	290	11,478	77.9	3,263	22.1	14,741

Source: Bank records

Geographic Distribution

Overall, the geographic distribution of loans reflects a reasonable dispersion throughout the assessment area. Consideration was given to local competition and other relevant factors, and particular focus was given to the dispersion of these loans in the moderate-income CT in the assessment area. There are no low-income CTs in the assessment area. The performance of the bank relative to small farm, home mortgage, and small business lending is reasonable. As a result, the bank's overall performance under this criterion is reasonable.

Small Farm Loans

Considering available demographic data, the geographic distribution of small farm lending reflects a reasonable dispersion of lending throughout the assessment area, even though no loans were originated within the moderate-income CT. Demographic data shows only 4 of the 85 total small farms within the assessment area (4.7 percent) are located in the sole moderate-income CT. After discussions with bank management, it is believed that a majority of the four small farms, if not all, belong to individuals who live within this area of Fort Scott, but have small farms outside of this CT. In addition, further review of this CT reveals that it encompasses the inner city portion of the city of Fort Scott and almost entirely consists of city streets, residential neighborhoods, vacant buildings, and a railroad switching station. Considering this information, examiners concluded that the absence of small farm lending in the moderate-income CT is reasonable. The following table shows the geographic distribution of the small farm loans reviewed by tract income level.

Geographic Distribution of Small Farm Loans					
Tract Income Level	% of Farms	#	%	\$(000s)	%
Low	0.0	0	0.0	0	0.0
Moderate	4.7	0	0.0	0	0.0
Middle	95.3	90	100.0	3,165	100.0
Upper	0.0	0	0.0	0	0.0
NA	0.0	0	0.0	0	0.0
Totals	100.0	90	100.0	3,165	100.0

Source: 2018 D&B Data; 1/1/2018 - 12/31/2018 Bank Data

Home Mortgage Loans

Overall, the geographic distribution of home mortgage lending reflects a reasonable dispersion of lending throughout the assessment area, including the moderate-income CT. Union State Bank’s lending percentage in the moderate-income CT, based on the number of loans, compares reasonably to demographic data. The following table reflects the geographic distribution of the home mortgage loans reviewed by tract income level.

Geographic Distribution of Home Mortgage Loans					
Tract Income Level	% of Owner-Occupied Housing Units	#	%	\$(000s)	%
Low	0.0	0	0.0	0	0.0
Moderate	21.3	13	18.6	815	15.4
Middle	78.7	62	88.6	4,475	85.6
Upper	0.0	0	0.0	0	0.0
NA	0.0	0	0.0	0	0.0
Totals	100.0	70	100.0	5,290	100.0

Source: 2015 ACS Census; 1/1/2017 – 12/31/2018 Bank Data

Small Business Loans

Overall, the geographic distribution of home mortgage lending reflects a reasonable dispersion of lending throughout the assessment area, including the moderate-income CT. Union State Bank’s lending percentage in the moderate-income CT, based on the number of loans, compares reasonably to demographic data. The table on the following page reflects the geographic distribution of the home mortgage loans reviewed by tract income level.

Geographic Distribution of Small Business Loans					
Tract Income Level	% of Businesses	#	%	\$(000s)	%
Low	0.0	0	0.0	0	0.0
Moderate	33.0	24	28.2	1,201	39.7
Middle	67.0	61	71.8	1,822	60.3
Upper	0.0	0	0.0	0	0.0
Totals	100.0	85	100.0	3,023	100.0

Source: 2018 D&B Data; 1/1/2018 - 12/31/2018 Bank Data

Borrower Profile

Overall, the distribution of borrowers reflects excellent borrower profile performance, considering pertinent performance context information and other relevant factors. The penetration among businesses of different sizes and individuals of different income levels in the assessment area is excellent, while the penetration among farms of different sizes is reasonable. Particular focus was given to the dispersion of loans to small farms and small businesses with gross annual revenues (GARs) of \$1 million or less and home mortgage loans to low- and moderate-income borrowers.

Small Farm Loans

Overall, the distribution of borrowers reflects a reasonable penetration among farms of different sizes. This performance is expected and reasonable since all 41 loans sampled were made to farms with GARs of \$1 million or less and D&B data shows that 100 percent of all farm operations in the assessment area reported GARs of \$1 million or less.

Home Mortgage Loans

Overall, the distribution of home mortgage loans reflects excellent penetration to individuals of different income levels, including low- and moderate-income individuals.

The bank's home mortgage lending to low-income borrowers of 11.1 percent compares lower than the percentage of low-income families in the assessment area (25.5 percent). However, considering the demographics of the assessment area, this percentage of lending is considered reasonable. In reaching this conclusion, examiners considered certain limitations. For example, according to FFIEC data, the maximum income of a "low-income" family in the bank's assessment area for 2018 was \$30,550. A family in this income level would likely not qualify for a home mortgage under conventional underwriting standards, especially considering the assessment area's median housing value of \$84,375. Examiners also considered the 2015 ACS data, which reveals 13.4 percent of families in the assessment are living below the poverty level. Considering these factors, along with management and community contact comments regarding the lower level of housing supply in the assessment area, Union State Bank's lending percentage to low-income borrowers of 11.1 percent reflects a reasonable penetration.

The lending percentage to moderate-income borrowers of 36.1 compares higher than the percentage of moderate-income families in the assessment area (20.6 percent). This level of lending is considered excellent. Overall, the bank's home mortgage lending distribution of borrowers, given the demographics of the assessment area, and mitigating factors presented above reflects excellent penetration among low- and moderate-income borrowers.

Distribution of Home Mortgage Loans by Borrower Income Level					
Borrower Income Level	% of Families	#	%	\$(000s)	%
Low	25.5	4	11.1	133	6.2
Moderate	20.6	13	36.1	594	27.8
Middle	18.3	8	22.2	458	21.5
Upper	35.6	11	30.6	949	44.5
Totals	100.0	36	100.0	2,134	100.0

Source: 2015 ACS Census; 1/1/2017 – 12/31/2018 Bank Data

Small Business Loans

Overall, the distribution of borrowers reflects excellent penetration among businesses of different sizes. Union State Bank’s lending percentage to businesses with GARs of \$1 million or less, based on the number of loans, substantially exceeds demographic data, reflecting excellent performance. The following table reflects the distribution of the small business loans reviewed based on the GAR level of the business.

Distribution of Small Business Loans by Gross Annual Revenue Category					
Gross Revenue Level	% of Businesses	#	%	\$(000s)	%
<=\$1,000,000	75.9	37	90.2	1,374	64.1
>1,000,000	6.5	4	9.8	771	35.9
Revenue Not Available	17.6	0	0.0	0	0.0
Total	100.0	41	100.0	2,145	100.0

Source: 2018 D&B Data, 1/1/2018 – 12/31/2018 Bank Data.

Response to Complaints

Union State Bank has not received any CRA-related complaints since the previous CRA evaluation dated January 13, 2014; therefore, this criterion did not affect the institution’s overall CRA 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.