

PUBLIC DISCLOSURE

July 26, 2022

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Solutions North Bank
Certificate Number: 16971

123 North Cedar Street
Stockton, Kansas 67669

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 following points summarize the bank's Community Reinvestment Act (CRA) performance.

- The loan-to-deposit ratio is reasonable given the institution's size, financial condition, and the assessment area's credit needs.
- A majority of small farm, small business, and home mortgage 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 revenue sizes and individuals of different income levels.
- The bank did not receive any CRA-related complaints since the previous evaluation; therefore, this factor did not affect the rating.

DESCRIPTION OF INSTITUTION

Solutions North Bank is a full-service community bank headquartered in Stockton, Kansas. The bank is wholly owned by Stockton Bancshares, Inc., a one-bank holding company also located in Stockton, Kansas. In addition to its main office in Stockton, Solutions North Bank continues to operate five full-service branches in Bogue, Hill City, Lenora, Norton, and WaKeeney in north central Kansas. On April 2, 2020, the bank temporarily closed the branches operating in Bogue and Lenora, Kansas, due to the coronavirus pandemic. However, these branches re-opened on May 15, 2020. There have been no branch openings since the previous evaluation, and no merger or acquisition activities. Solutions North Bank received a Satisfactory rating under the Interagency Small Institution Examination Procedures at the previous FDIC evaluation dated August 19, 2019.

The bank offers agricultural, commercial, home mortgage, and consumer loans. Agricultural loans are the bank's primary credit focus. The bank also has a significant volume of commercial loans, and continues to offer in-house conventional home loans and secondary market loans. Solutions North Bank provides a variety of deposit products, including checking, savings, money market deposit accounts, as well as certificates of deposits. Alternative banking services include internet and mobile banking, and electronic bill pay. Bank customers also have access to four cash-dispensing ATMs located in Hill City, Norton, Stockton, and WaKeeney, Kansas.

According to the March 31, 2022, Reports of Condition and Income, the bank reported total assets of \$330.1 million, total deposits of \$276.1 million, and total loans of \$190.2 million. The following table illustrates the noted loan portfolio.

Loan Portfolio Distribution as of 3/31/2022		
Loan Category	\$(000s)	%
Construction, Land Development, and Other Land Loans	5,008	2.6
Secured by Farmland	89,810	47.2
Secured by 1-4 Family Residential Properties	20,890	11.0
Secured by Multifamily (5 or more) Residential Properties	2,365	1.3
Secured by Nonfarm Nonresidential Properties	20,591	10.8
Total Real Estate Loans	138,664	72.9
Commercial and Industrial Loans	16,653	8.8
Agricultural Production and Other Loans to Farmers	19,794	10.4
Consumer Loans	8,076	4.2
Obligations of State and Political Subdivisions in the U.S.	0	0.0
Other Loans	6,994	3.7
Lease Financing Receivable (net of unearned income)	0	0.0
Less: Unearned Income	(0)	(0.0)
Total Loans	190,181	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

Solutions North Bank continues to designate all of Ellis, Graham, Norton, Osborne, Phillips, Rooks, Russell, Smith, and Trego counties as its sole assessment area. This area is categorized as nonmetropolitan and consists largely of rural countryside and farmland. The following shows demographic and economic information from the 2015 American Community Survey (ACS) and 2021 D&B data for the assessment area.

Economic and Demographic Data

The assessment area is comprised of 20 census tracts. The income designation of one of these census tracts changed to moderate income since the previous evaluation, with the remainder continuing to consist of middle- and upper-income census tracts.

According to the 2015 ACS data, Ellis County consists of two upper-income and three middle-income census tracts, and one moderate-income census tract concentrated in the southwestern portion of Hays, Kansas. Graham, Rooks, Russell, and Smith counties each includes two middle-income census tracts. Norton, Osborne, and Trego counties each consist of one whole middle-income census tract, and Phillips County includes three middle-income census tracts. The following table illustrates 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)	20	0.0	5.0	85.0	10.0
Population by Geography	65,324	0.0	10.2	73.5	16.3
Housing Units by Geography	32,806	0.0	8.8	76.3	14.9
Owner-Occupied Units by Geography	19,681	0.0	4.6	79.8	15.6
Occupied Rental Units by Geography	8,013	0.0	21.1	62.2	16.7
Vacant Units by Geography	5,112	0.0	5.5	85.2	9.4
Businesses by Geography	6,186	0.0	9.3	76.4	14.3
Farms by Geography	954	0.0	1.0	91.0	8.0
Family Distribution by Income Level	16,764	17.5	17.3	22.2	43.0
Household Distribution by Income Level	27,694	23.8	17.5	17.4	41.2
Median Family Income – Nonmetropolitan Kansas	\$57,229	Median Housing Value			\$102,039
		Median Gross Rent			\$590
		Families Below Poverty Level			7.3%

*Source: 2015 ACS and 2021 D&B Data.
Due to rounding, totals may not equal 100.0%*

The 2021 D&B data reveals that service industries represent the largest portion of businesses in the assessment area at 32.3 percent, followed by agriculture, forestry and fishing at 13.4 percent, and retail trades at 12.2 percent. The data also indicates 69.0 percent of businesses in the assessment area have four or fewer employees, and 86.0 percent operate from a single location.

The following table presents the 2021 FFIEC-estimated median family income levels for nonmetropolitan Kansas. These income levels are used to analyze home mortgage loans under the Borrower Profile criterion.

Median Family Income Ranges				
Median Family Incomes	Low <50%	Moderate 50% to <80%	Middle 80% to <120%	Upper ≥120%
2021 (\$64,800)	<\$32,400	\$32,400 to <\$51,840	\$51,840 to <\$77,760	≥\$77,760
<i>Source: FFIEC</i>				

Competition

Competition for financial services is notable. According to FDIC Deposit Market Share data as of June 30, 2021, there are 25 banks operating 56 offices in the assessment area. Solutions North Bank’s market share of these deposits is 9.3 percent. There is also competition for farm, business, and home mortgage loans among banks, credit unions, and non-depository mortgage lenders in the assessment area.

Although the bank does not report home mortgage, small business, or small farm data, this information provides insight regarding competition in the assessment area. In 2020, aggregate data indicates 19 lenders reported 463 small farm loans, 57 lenders reported 1,029 small business loans, and 106 lenders reported 1,103 home mortgage loan originations and purchases in the assessment area.

Community Contacts

Examiners may contact community members or other third parties 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 in determining whether local financial institutions are responsive to those needs.

Examiners reviewed information from a recent contact with an economic development organization in the assessment area. The community contact stated the area’s unemployment has been very low due to growth in the agricultural sector. However, small businesses in the area have struggled, during the post-coronavirus pandemic. The contact also indicated there is a lack of housing in the area, especially affordable housing for low- and moderate income individuals. The contact felt there is still more opportunity for banks in the assessment area to extend credit to businesses and individuals for home purchases.

Credit Needs

Examiners identify the credit needs of an assessment area based on information from the community contact, bank management, and demographic and economic data. Considering information from the community contact and the noted demographic data, examiners determined small farm, small business, and home mortgage loans are all primary credit needs of this assessment area.

SCOPE OF EVALUATION

General Information

The evaluation covers the period from the previous evaluation dated August 19, 2019, to the current evaluation dated July 26, 2022. Examiners conducted this CRA evaluation using the Interagency Small Institution Examination Procedures. Small institutions are evaluated under the Lending Test, which is further described in the Appendices.

Activities Reviewed

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

For the three loan categories reviewed, examiners focused on loans originated in 2021. Bank management confirmed that lending activity during 2021 was generally representative of the bank's overall lending patterns since the previous evaluation and prior to the coronavirus pandemic. The 2021 bank records showed 347 small farm loans totaling \$30.5 million, 120 small business loans totaling \$13.1 million, and 78 residential loans totaling \$8.1 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 small farm, small business, and home mortgage loans made in the assessment area. The sample included 70 small farm loans totaling \$6.8 million, 50 small business loans totaling \$3.5 million, and 36 home mortgage loans totaling \$2.7 million.

The D&B data for 2021 provided a standard of comparison for the small farm and small business loans reviewed, and the 2015 ACS data provided a standard of comparison for the home mortgage 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 farms, businesses, and individuals served.

CONCLUSIONS ON PERFORMANCE CRITERIA

LENDING TEST

Solutions North Bank demonstrates satisfactory performance under the Lending Test. This conclusion is supported by reasonable performance in all evaluated criteria.

Loan-to-Deposit Ratio

The loan-to-deposit ratio is reasonable given the bank's size, financial condition, and assessment area credit needs. The bank's performance was based on the average net loan-to-deposit ratio since the previous evaluation (11 quarters). The bank's average net loan-to-deposit ratio is comparable to the

similarly-situated banks, which were selected based on their asset size, geographic location, and lending focus. See the following table for details.

Loan-to-Deposit Ratio Comparison		
Bank	Total Assets as of 3/31/2022 (\$000s)	Average Net Loan-to-Deposit Ratio (%)
Solutions North Bank, Stockton, Kansas	330,092	74.9
First National Bank, Phillipsburg, Kansas	270,851	71.8
Guaranty State Bank and Trust, Beloit, Kansas	359,924	82.9

Source: Reports of Condition and Income 9/30/2019 -3/31/2022

Assessment Area Concentration

A majority of the small farm, small business, and home mortgage loans are within the assessment area. The following table details this analysis.

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	320	92.2	27	7.8	347	28,630	94.0	1,837	6.0	30,467
Small Business	98	81.7	22	18.3	120	6,600	50.2	6,540	49.8	13,140
Home Mortgage	62	79.5	16	20.5	78	4,724	58.4	3,364	41.6	8,088

Source: 2021 Bank Data

Geographic Distribution

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

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 tract. However, demographic data indicates only 1.0 percent of farming operations, which equates to ten farms, are located in the moderate-income census tract. Therefore, the bank has limited opportunities to lend to small farms in this census tract.

Small Business Loans

The geographic distribution of small business loans reflects reasonable dispersion. Although the bank only made one loan in the moderate-income census tract, this is still reasonable considering there are nine local banks and two credit unions in Hays, Kansas, and one of the local banks is located in the moderate-income census tract. Refer to the following table for details.

Geographic Distribution of Small Business Loans					
Tract Income Level	% of Businesses	#	%	\$(000s)	%
Moderate	9.3	1	1.0	60	0.9
Middle	76.4	97	99.0	6,540	99.1
Upper	14.3	0	0.0	0	0.0
Totals	100.0	98	100.0	6,600	100.0

Source: 2021 D&B Data; 2021 Bank Data.

Home Mortgage Loans

The geographic distribution of home mortgage loans reflects reasonable dispersion throughout the assessment area. Although the bank did not originate any home mortgage loans in the moderate-income census tract, this is still reasonable considering the competition noted in Hays, Kansas.

Borrower Profile

The distribution of borrowers reflects reasonable penetration among farms and businesses of different sizes and individuals of different income levels. Examiners focused on the percentage of loans, by number, to farms and businesses generating gross annual revenues of \$1 million or less, and on the percentage of home mortgage loans, by number, to low- and moderate-income borrowers. Reasonable performance for small farm, small business, and home mortgage loans supports this conclusion.

Small Farm Loans

The borrower distribution for small farm loans reflects reasonable penetration among farms of different revenue sizes. The below table shows bank performance lags comparable data for farms with gross annual revenues of \$1 million or less. However, the 2017 Agricultural Census revealed 56.1 percent of farms had no interest expenses, and 28.1 percent of farms had a revenue of less than \$2,500. This information indicates a sizeable percentage of farms in the assessment area had little or no need for credit. Refer to the following table for details.

Distribution of Small Farm Loans by Gross Annual Revenue Category					
Gross Revenue Level	% of Farms	#	%	\$(000s)	%
<=\$1,000,000	98.6	57	81.4	4,808	71.1
>\$1,000,000	0.9	13	18.6	1,959	28.9
Revenue Not Available	0.4	0	0.0	0	0.0
Total	100.0	70	100.0	6,767	100.0

*Source: 2021 D&B Data; 2021 Bank Data.
Due to rounding, totals may not equal 100.0%*

Small Business Loans

The borrower distribution of small business loans reflects reasonable penetration among businesses of different revenue sizes. 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	78.4	45	90.0	1,581	44.7
>\$1,000,000	5.1	5	10.0	1,953	55.3
Revenue Not Available	16.5	0	0.0	0	0.0
Total	100.0	50	100.0	3,534	100.0

Source: 2021 D&B Data; 2021 Bank Data.

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 performance is comparable to demographic data.

Distribution of Home Mortgage Loans by Borrower Income Level					
Borrower Income Level	% of Families	#	%	\$(000s)	%
Low	17.5	6	16.7	453	16.9
Moderate	17.3	9	25.0	358	13.4
Middle	22.2	10	27.8	787	29.4
Upper	43.0	11	30.6	1,076	40.2
Total	100.0	36	100.0	2,674	100.0

*Source: 2015 ACS Data; 2021 Bank Data.
Due to rounding, totals may not equal 100.0%*

Response to Complaints

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

DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

Examiners did not identify any discriminatory or other illegal credit practices inconsistent with helping meet community credit needs; 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.