



PUBLIC DISCLOSURE

APRIL 16, 2018

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**THE FIDELITY STATE BANK AND TRUST COMPANY
RSSD# 638850**

**510 NORTH 2nd AVENUE
DODGE CITY, KANSAS 67801**

**Federal Reserve Bank of Kansas City
1 Memorial Drive
Kansas City, Missouri 64198**

NOTE: 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'S CRA RATING: *This institution is rated **Satisfactory***

The Fidelity State Bank and Trust Company (the bank) has a satisfactory record of helping to meet the credit needs of its delineated assessment area (AA) in a manner consistent with its resources and operating philosophy.

The bank's average net loan-to-deposit (NLTD) ratio indicated a less than reasonable effort to extend credit considering the characteristics of the bank, performance of local competitors, and credit needs of the community. In contrast, a majority of loans reviewed were originated inside the bank's AA. Further, the bank's distribution of loans by income level of geographies reflected a reasonable dispersion throughout its AA. Finally, the bank's lending to businesses and farms of different revenue sizes was considered reasonable considering the AA's demographic characteristics and relevant performance context.

SCOPE OF EXAMINATION

The bank's Community Reinvestment Act (CRA) performance was evaluated using the Federal Financial Institutions Examination Council's (FFIEC's) *Interagency Examination Procedures for Small Institutions*. The evaluation was performed with consideration given to the contextual information about the bank and its AA, such as asset size, financial condition, economic and demographic characteristics, and competition. Four out of the five criteria used to evaluate a small bank's lending performance under the CRA were relevant to this review, including the following:

- NLTD Ratio
- Lending Inside the AA
- Distribution of Loans by Income Level of Geographies
- Distribution of Loans to Businesses and Farms of Different Revenue Sizes

The fifth criterion, the bank's responsiveness to CRA-related complaints, was not evaluated as neither the bank nor the Federal Reserve Bank of Kansas City (Reserve Bank) has received any CRA-related complaints since the previous evaluation.

The evaluation included a full-scope review of the bank's lending performance in its single AA, which consists of Ford County, Kansas, in its entirety. The bank's major products were reviewed, which included agricultural and commercial loans. Major product lines were determined through discussions with bank management, a review of the June 30, 2017 Reports of Condition and Income (Call Report), and a review of the number of outstanding loan originations since the previous CRA evaluation conducted on February 24, 2014.

Conclusions were based on statistically derived samples including 70 small farm loans from a universe of 108 loans and 53 small business loans from a universe of 72 loans. All originations were within the time period of January 1, 2016 to December 31, 2016. As defined under the CRA, small business loans included those with loan amounts of \$1 million (MM) or less, while

small farm loans are those with loan amounts of \$500,000 or less. Greater weight was placed on the bank's small farm loan performance as this represents the bank's largest product by dollar volume of originations.

The bank's average NLTD ratio was calculated based on a 15-quarter average since the previous evaluation and compared to similarly situated financial institutions that operate within the bank's surrounding area. The geographic distribution analysis was based on the bank's lending amongst the various census tracts of different income levels in the AA, in which geographies were classified based on the 2016 FFIEC census tract definitions. Emphasis was placed on lending in low- and moderate-income (LMI) census tracts. The borrower distribution analysis assessed the bank's lending to businesses and farms of different revenue sizes, with emphasis on lending to small farms and small businesses with gross annual revenues of \$1MM or less. Both the number and dollar volume of loans were evaluated for each lending test performance criterion. For evaluative purposes, the bank's lending was compared with area demographic data including the 2010 American Community Survey (ACS) five-year estimate data and 2016 Dun & Bradstreet (D&B) data. Only loans made inside the bank's AA were analyzed with respect to the geographic and borrower distribution analyses.

To further augment the evaluation, two interviews with members of the communities within the bank's AA were conducted to ascertain the credit needs of the AA, the responsiveness of area banks in meeting those credit needs, and the local economic conditions. Specifically, these contacts represented local organizations that promote the growth and development of new and existing businesses and provide assistance to farms and help support the agricultural economy in the area.

DESCRIPTION OF INSTITUTION

The bank is a wholly owned subsidiary of Fidelity Banc Corporation, a one-bank holding company headquartered in Dodge City, Kansas. The bank has three locations including the main office and two branches; all located in Dodge City, Kansas, near the center of Ford County. The main office is a full-service branch. The other two branches are limited-service and only provide deposit services. Both branches offer drive-through service, and the Gunsmoke Branch also maintains a cash-only automated teller machine.

The bank reported total loans of \$38.5MM and total deposits of \$146.3MM on its June 30, 2017 Call Report. Based on the June 30, 2017 Federal Deposit Insurance Corporation Market Share Report, the bank ranks first out of ten institutions operating in its AA, with a 23.7 percent deposit market share. The bank offers traditional banking products and services to meet the credit needs of its AA; however, it is primarily an agricultural and commercial lender. Table 1 illustrates the distribution of the bank's loan portfolio by product type as of June 30, 2017.

TABLE 1 FIDELITY STATE BANK AND TRUST COMPANY LOAN PORTFOLIO AS OF JUNE 30, 2017		
Loan Type	Amount \$(000)	Percent of Total
Agricultural	23,362	60.7
Commercial	10,714	27.8
Residential Real Estate	3,835	10.0
Consumer	554	1.4
Other	53	0.1
Gross Loans	38,518	100.0

There are no known legal, financial, or other factors impeding the bank's ability to meet the credit needs of the communities it serves. The bank received a Satisfactory rating at its previous CRA evaluation conducted by the Reserve Bank on February 24, 2014.

DESCRIPTION OF THE BANK'S ASSESSMENT AREA

The bank's delineated AA is rural in nature and includes Ford County in its entirety, which is located in southwest Kansas. The delineation has not changed since the previous CRA evaluation; however, the income level of census tracts that comprise the AA changed in 2017 due to updated census information.

Based on the 2017 FFIEC census tract definitions, the AA consists of one moderate-, five middle-, and one upper-income census tracts. However, because this evaluation was based on the bank's 2016 lending performance and the 2016 census tract definitions during that time, the AA consisted of two moderate- and five middle-income census tracts. The bank's main office and Gunsmoke Branch are located in a moderate-income census tract, while the third office is located in a middle-income census tract.

Table 2 reflects demographic data for the AA based on the 2010 ACS five-year estimate data, 2016 FFIEC census tract definitions, and 2016 D&B data. However, the following discussion of population, income, economic, and housing characteristics is based on updated demographic data, when available.

Population Trends and Characteristics

According to 2012-2016 ACS (2016 ACS) data, the AA had a population of 34,492. The population in Dodge City, Kansas, where all three of the bank's offices are located, was 27,875 which accounted for 80.8 percent of Ford County's total population. Since 2010, the AA population has remained fairly stable, increasing by only 1.9 percent. Based on 2016 ACS data, the median age in the AA was 31.1 years; however, the population in Dodge City, Kansas, was slightly younger with a median age of 29.6 years.

Income Characteristics

Based on 2010 ACS data, the median household income was \$46,621, which was above the statewide median household income of rural Kansas, at \$42,214. Of the total households in the AA, the percentage of households that were considered LMI was 35.3 percent, which was below the percentage of LMI households in statewide rural Kansas, at 39.6 percent. However, the AA contained 16.2 percent of households below the poverty line, which was higher than the statewide rural Kansas figure of 13.2 percent. According to 2016 ACS data, the median household income of the AA increased to \$49,688, which represented a 6.6 percent increase from 2010.

Housing Characteristics

The median housing value for the AA was \$82,740, which was comparable to the statewide rural Kansas figure of \$81,447; however, these figures were below the median housing value for the state of Kansas at \$122,600. The AA also had a higher affordability ratio¹ of 55.9 percent as compared to statewide rural Kansas, at 51.0 percent, which indicates that housing is generally more affordable in the AA than other rural areas of Kansas.

Of the total housing units in the AA, 62.5 percent were owner-occupied, which was similar to the percent of owner-occupied units in statewide rural Kansas, at 62.3 percent. Rental units accounted for 29.1 percent of the total housing units in the AA, which was above the statewide rural Kansas figure of 24.4 percent. Additionally, the percent of vacant units in the AA, at 8.4 percent, was below the Kansas statewide rural figure of 13.3 percent.

The median age of housing stock in the AA was 39 years, reflecting slightly newer housing when compared to the statewide rural Kansas age of 46 years. In addition, the percentage of mobile homes in the AA was higher, at 13.4 percent, as compared to the statewide rural Kansas figure of 8.1 percent.

Employment and Economic Characteristics

The local economy of the bank’s AA is largely driven by the agriculture industry, with farming and meat packing activities providing significant contributions in Ford County. The Dodge City area is home to two large meat processing plants, National Beef and Cargill Meat Solutions, with approximately 2,950 and 2,350 employees, respectively. Other major employers include the Unified School District #443, Walmart, and Western Plains Medical Complex. Additionally, Dodge City has seen continued growth and development as a regional trade center with many commercial and retail establishments in the area.

EXHIBIT 1 ANNUAL UNEMPLOYMENT RATES (Not seasonally adjusted)	
Area	2016
Ford County	3.3
Kansas	4.2
United States	4.9

¹ The housing and affordability ratio is calculated by dividing the median household income by the median housing value. A lower ratio reflects less affordable housing.

As shown in Exhibit 1, unemployment rates in Ford County were below the national and state averages in 2016.

According to the Kansas Department of Agriculture, animal slaughtering operations were the largest agricultural enterprise in the AA with annual output of \$2.8 billion in 2016. Beef cattle ranching and farming (including feedlots and dual farming and ranching operations) was the largest sector of the agriculture economy after meat packing, with \$309MM in output in 2016. Grain farming (excluding oilseeds) was the next largest production category with \$81MM in output. Winter wheat is the area's primary crop, and farms in the area are large, with an average size of 1,068 acres.

Interviews with Members of the Community

Based on discussions with a member of the community, the current economic conditions in Ford County remain stable. Low unemployment and recent expansions of both meat packing plants have added more jobs to the area. Workforce development and affordable housing continue to be needs in Dodge City as the demographic has shifted to a younger, immigrant population. There is also a growing need in the community for education and resources directed to financial literacy, business planning, entrepreneurship, and first-time homebuyer programs.

Another community member indicated that there has been an increased demand for operating loans due to recent wild fires, droughts, and lower cattle and crop prices, although the sales of farmland have continued to be strong.

**TABLE 2
2016 FORD COUNTY AA DEMOGRAPHICS**

Income Categories	Tract Distribution		Families by Tract Income		Families < Poverty Level as % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low	0	0.0	0	0.0	0	0.0	1,584	20.2
Moderate	2	28.6	1,543	19.6	400	25.9	1,385	17.6
Middle	5	71.4	6,316	80.4	713	11.3	1,941	24.7
Upper	0	0.0	0	0.0	0	0.0	2,949	37.5
Unknown	0	0.0	0	0.0	0	0.0	0	0.0
Total AA	7	100.0	7,859	100.0	1,113	14.2	7,859	100.0
	Housing Units by Tract	Housing Type by Tract						
		Owner-occupied			Rental		Vacant	
		#	% by tract	% by unit	#	% by unit	#	% by unit
Low	0	0	0.0	0.0	0	0.0	0	0.0
Moderate	2,376	1,332	17.7	56.1	865	36.4	179	7.5
Middle	9,646	6,184	82.3	64.1	2,629	27.3	833	8.6
Upper	0	0	0.0	0.0	0	0.0	0	0.0
Unknown	0	0	0.0	0.0	0	0.0	0	0.0
Total AA	12,022	7,516	100.0	62.5	3,494	29.1	1,012	8.4
	Total Businesses by Tract	Businesses by Tract & Revenue Size						
		Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported		
		#	%	#	%	#	%	
Low	0	0.0	0	0.0	0	0.0	0	0.0
Moderate	299	29.3	245	27.8	50	41.3	4	22.2
Middle	722	70.7	637	72.2	71	58.7	14	77.8
Upper	0	0.0	0	0.0	0	0.0	0	0.0
Unknown	0	0.0	0	0.0	0	0.0	0	0.0
Total AA	1,021	100.0	882	100.0	121	100.0	18	100.0
Percentage of Total Businesses:				86.4	11.9	1.8		
	Total Farms by Tract	Farms by Tract & Revenue Size						
		Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported		
		#	%	#	%	#	%	
Low	0	0.0	0	0.0	0	0.0	0	0.0
Moderate	7	3.9	5	3.0	2	20.0	0	0.0
Middle	172	96.1	164	97.0	8	80.0	0	0.0
Upper	0	0.0	0	0.0	0	0.0	0	0.0
Unknown	0	0.0	0	0.0	0	0.0	0	0.0
Total AA	179	100.0	169	100.0	10	100.0	0	0.0
Percentage of Total Farms:				94.4	5.6	0.0		

Based on 2010 ACS five-year estimate data, 2016 FFIEC census tract definitions, and 2016 D&B data.
(NOTE: Total percentages shown may vary by 0.1 percent due to automated rounding differences.)

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Net Loan-to-Deposit Ratio

This performance criterion evaluates the bank’s average NLTD ratio to determine the reasonableness of lending in light of performance context, such as the bank’s capacity to lend, the availability of lending opportunities, and the demographic and economic factors present in the AA.

The bank’s NLTD ratio was averaged over a 15-quarter period since the previous CRA evaluation and compared to the NLTD ratios of five similarly situated financial institutions operating in the bank’s trade area based on asset size and loan portfolio composition. As of June 30, 2017, the bank’s NLTD ratio averaged 27.7 percent, which was significantly lower when compared to all five similarly situated banks, whose ratios ranged from 53.0 percent to 75.2 percent over the same time period. The bank’s NLTD ratio is considered less than reasonable given the bank’s size, financial condition, and performance of other financial institutions in the area.

Bank management attributed this to a decrease in demand for agricultural loans, increased competition in the area, and increased deposit balances from their long-standing customer base. Additionally, a community member indicated that there are many people in the area that do not utilize traditional banking resources to obtain capital; and instead, obtain financing through credit cards or borrowing from family members. While this performance context was considered in the overall conclusion, there has been a decreasing trend in the bank’s NLTD ratio over the prior two CRA evaluations in 2010 and 2014, at 45.7 percent and 34.2 percent, respectively.

Assessment Area Concentration

This performance criterion evaluates the concentration of lending extended inside and outside of the AA. The evaluation analyzes both the number and dollar volume of the bank’s loan originations.

As illustrated in Table 3, a majority of the bank’s loans for both products reviewed were originated inside the AA by number and dollar amount, which indicates a reasonable effort by the bank to serve the credit needs of the communities in which it operates.

Bank Loans	Inside				Outside			
	#	\$(000)	#%	\$%	#	\$(000)	#%	\$%
Small Business Loans	43	2,143	81.1	72.8	10	801	18.9	27.2
Small Farm Loans	51	3,012	72.9	68.5	19	1,387	27.1	31.5
Total Loans	94	5,155	76.4	70.2	29	2,188	23.6	29.8

The remaining conclusions of the bank’s lending performance were based only on those loans originated inside the bank’s AA.

Distribution by Income Level of Geographies

This performance criterion evaluates the bank’s distribution of lending within its AA by income level of census tracts, with emphasis placed on lending in LMI census tracts.

For evaluative purposes, the bank’s small business and small farm lending was compared to the percentage of businesses and farms operating in each census tract income category. Since the bank’s AA does not include any low-income census tracts, the bank’s lending performance in this census tract income category was not considered in the evaluation.

Overall, the bank’s geographic distribution of small farm loans and small business loans was considered reasonable considering AA demographics and competition.

TABLE 4 DISTRIBUTION BY INCOME LEVELS OF GEOGRAPHIES FORD COUNTY AA					
Census Tract Income Level	Small Business Loans				% of Businesses²
	#	\$(000)	#%	\$%	
Low	0	0	0.0	0.0	0.0
Moderate	4	156	9.3	7.3	29.3
Middle	39	1,987	90.7	92.7	70.7
Upper	0	0	0.0	0.0	0.0
Unknown³	0	0	0.0	0.0	0.0
Census Tract Income Level	Small Farm Loans				% of Farms²
	#	\$(000)	#%	\$%	
Low	0	0	0.0	0.0	0.0
Moderate	0	0	0.0	0.0	3.9
Middle	51	3,012	100.0	100.0	96.1
Upper	0	0	0.0	0.0	0.0
Unknown³	0	0	0.0	0.0	0.0

¹ Based on 2016 FFIEC census tract definitions.
² Based on 2016 D&B data.
³ Does not include tracts where the income level is unknown. Only includes tract locations not known.
(NOTE: Total percentages shown may vary by 0.1 percent due to automated rounding differences.)

Small Business Loans

The bank’s geographic distribution of small business loans is reasonable. Small business loans originated within the AA’s moderate-income census tracts accounted for 9.3 percent by number (7.3 percent by dollar); however, the demographic data shows that 29.3 percent of businesses in the bank’s AA are located in that area. A community member indicated that there is aggressive lending competition in the area including increased involvement from larger regional banks and local credit unions.

As noted above, there has been aggressive competition from several lenders located in Ford County. Increased competition is reflected in the bank's low overall volume of small business loan originations. Additionally, bank management noted that they conduct minimal marketing and advertising, and rather, rely on word of mouth and relationships with existing customers.

In middle-income tracts, the bank originated 90.7 percent of loans by number (92.7 percent by dollar), which was significantly above the 70.7 percent of businesses in those areas.

Small Farm Loans

The bank's geographic distribution of small farm loans is considered reasonable. While the bank did not originate any small farm loans in the moderate-income census tracts, the percentage of farms in these tracts is relatively small, at 3.9 percent. This indicates fewer opportunities for financial institutions to extend small farm credit in the AA's moderate-income census tracts. While the bank did not originate any small farm loans in the AA's moderate-income census tracts, these tracts are located in Dodge City, Kansas, which is more populous and contains a small percentage of farms according to demographic data. Bank management noted that only a small percentage of their agricultural customers live near Dodge City, Kansas, where all of the bank's branches are located.

All of the bank's small farm loans were originated within middle-income census tracts, which was comparable to the demographic data indicating 96.1 percent of farms in the bank's AA are located in these tracts.

Distribution by Revenue Size of Businesses and Farms

This performance criterion evaluates the bank's lending to businesses and farms of different revenue sizes, with emphasis placed on lending to those with gross annual revenues of \$1MM or less.

For evaluative purposes, the bank's small business and small farm lending was compared to the percentage of businesses and farms within the AA by revenue size. While the bank is not required to report small farm or small business data as a small institution, 2016 aggregate data reported by all large bank CRA-filers in the AA was also utilized for additional insight into the credit demand of the area.

Overall, the borrower distribution of small farm and small business loans was reasonable considering relevant performance context, demographic figures, and aggregate lending performance. While the bank's small farm and small business lending was below the respective demographic figures for each product, the bank's lending compared more favorably to the lending performance of aggregate lenders in the AA.

**TABLE 5
DISTRIBUTION BY REVENUE SIZE OF BUSINESSES AND FARMS
FORD COUNTY AA**

Business Revenue	Small Business Loans				% of Businesses by Revenue ¹
	#	\$(000)	#%	\$%	
\$1MM or Less	34	1,409	79.1	65.7	86.4
Over \$1MM	9	735	20.9	34.3	11.9
Income Not Known	0	0	0.0	0.0	1.8
Farm Revenue	Small Farm Loans				% of Farms by Revenue ¹
	#	\$(000)	#%	\$%	
\$1MM or Less	20	1,337	39.2	44.4	94.4
Over \$1MM	31	1,675	60.8	55.6	5.6
Income Not Known	0	0	0.0	0.0	0.0

¹ Based on 2016 D&B data.
(Note: Total percentages shown may vary by 0.1 percent due to automated rounding differences.)

Small Business Loans

The borrower distribution of small business lending was considered reasonable. As shown in Table 5, the bank originated 79.1 percent by number (65.7 percent by dollar) to businesses with gross annual revenues of \$1MM or less. Although the bank's performance was below the demographic figure of 86.4 percent (percentage of small businesses in the AA by revenue size), the bank's small business lending significantly exceeded the aggregate CRA lending in the AA, at 29.8 percent by number (19.8 percent by dollar).

Additionally, approximately 95.4 percent of small business loans were originated in loan amounts of \$250,000 or less, indicating the bank's willingness to meet the credit needs of small businesses. Typically, smaller businesses do not have the need or the capacity to borrow large amounts; as such, smaller loan amounts are used as a proxy to estimate the bank's support of small entities.

Small Farm Loans

The bank's distribution of lending to farms of different revenue sizes was considered reasonable. The bank's lending to farms with gross annual revenues of \$1MM or less, at 39.2 percent by number (44.4 percent by dollar), was below the percentage of farms in the AA in this revenue category, at 94.4 percent. However, the bank's small farm lending performed more favorably by number in comparison to the aggregate CRA data, at 21.7 percent by number (66.8 percent by dollar).

Additionally, approximately 88.2 percent of small farm loans were originated in loan amounts of \$100,000 or less, indicating the bank's willingness to meet the credit needs of small farms. Typically, smaller farms do not have the need or the capacity to borrow large amounts; as such, smaller loan amounts are used as a proxy to estimate the support of small entities.

FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

An evaluation of the bank's fair lending activities was conducted during the examination to determine compliance with the substantive provisions of antidiscrimination laws and regulations, including the Equal Credit Opportunity Act and the Fair Housing Act. No evidence of discriminatory or illegal credit practices inconsistent with helping to meet community credit needs was identified.