



PUBLIC DISCLOSURE

May 27, 2014

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Lyons Federal Bank
Charter Number 700179

200 East Ave S
Lyons, KS 67554-2722

Office of the Comptroller of the Currency

2959 N. Rock Road, Suite 510
Wichita, KS 67226

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.

INSTITUTION'S CRA RATING: This institution is rated Outstanding

- Lyons Federal Bank's (Lyons Federal) average loan-to-deposit ratio (LTD) of 76 percent reflects more than reasonable responsiveness to the credit needs of its assessment area (AA).
- A substantial majority of the bank's primary loan products were granted inside the AA. The sample indicated that 90 percent of the number and 93 percent of the dollar volume of loans were granted within the AA.
- Lyons Federal's lending performance reflects reasonable distribution to farms of different sizes. Seventy-five percent of the number of sampled agricultural loans were to farms with gross revenues less than or equal to one million dollars.
- Community development lending, investments, and services had a positive impact on the bank's overall CRA rating.

SCOPE OF EXAMINATION

The examination included a full-scope review of Lyons Federal assessment area. The bank's primary loan product is agricultural loans. Agricultural loans represented 57 percent of the dollar amount and 40 percent of the number of all loans originated during the evaluation period. The bank makes one-to-four family residential real estate loans; however, there is not a large demand for those loans within the bank's assessment area. Residential loans originated during the evaluation period represented 18 percent of the dollar amount and 12 percent of the number.

The evaluation of the primary lending product included a review of 20 agricultural loans originated in Rice and Ellsworth counties during 2012, 2013 and year-to-date April 30, 2014. The evaluation period for community development activities is from May 11, 2009 to May 27, 2014.

DESCRIPTION OF INSTITUTION

Lyons Federal is a federally chartered mutual thrift with total assets of \$88 million as of March 31, 2014. Lyons Federal has its main location in Lyons, Kansas and operates two branch locations in Bushton and Ellsworth, Kansas. Services include an automated teller machine that accepts deposits (adjacent to the main bank in Lyons), mobile banking, and internet banking.

Lyons Federal is a full-service banking institution offering a full range of agriculture, commercial, real estate, and consumer credit products. As of March 31, 2014, net loans represent 66 percent of the bank's total assets. The \$58 million loan portfolio had the following composition: agricultural loans 42 percent; residential real estate loans 32

percent; commercial loans 20 percent; and consumer loans at six percent.

There are no legal, financial, or other factors impeding the bank's ability to help meet the needs of its AA. The Office of Thrift Supervision last evaluated Lyons Federal's Community Reinvestment Act (CRA) performance on May 11, 2009. The institution received an overall rating of "Satisfactory" under the Small Institution Performance Standards.

DESCRIPTION OF ASSESSMENT AREA

Lyons Federal has defined its assessment area as Rice and Ellsworth Counties. These counties are located in central Kansas. All of the census tracts are middle-income tracts. There are no low- or moderate-income census tracts. The AA is not in a Metropolitan Statistical Area and there are no distressed or underserved middle-income geographies. The AA complies with the regulation and does not arbitrarily exclude any low- or moderate-income areas. During the evaluation period, the census tract numbers changed from 9671, 9672, 9673, 866, and 867 to 9871, 9872, 9873, 9866, and 9867.

The 2010 U.S. Census reflects a population of 16,580. The Weighted Average of HUD Updated MSA Median Family Income for 2014 is \$52,419. The AA has the following distribution for families: 16 percent low-income; 21 percent moderate-income; 26 percent middle-income; and 37 percent upper-income. Of the 6,575 households in the AA, 36 percent receive social security and 12 percent are below the poverty level. Eighteen percent of the population is over the age of 65, and 37 percent of the population consists of civilians not in the workforce. The median housing value is \$63,749 and 64 percent of the housing units are owner-occupied.

The economic condition of the AA is stable. Agriculture is the primary industry in the bank's trade area. Major employers in the area include the Cities of Lyons and Sterling, Rice County, Sterling College, KMW Manufacturing, United Industries, North American Salt, Lyons Salt, Lyons Manufacturing, Cal-Main Foods, JACAM Chemicals, and Kansas Ethanol. The Bureau of Labor Statistics reflects an April 30, 2014 unemployment rate (unadjusted) for Rice County of 3.0 percent and 2.9 percent for Ellsworth County. The unadjusted rate in Kansas for the same period is 4.4 percent.

Lyons Federal faces strong competition in the AA. Based on the Federal Deposit Insurance Corporation's most recent deposit market share report dated June 30, 2013, eight other financial institutions maintain offices in the AA. The asset sizes for these institutions range from \$21 million to \$264 million. Lyons Federal ranks fourth in deposit market share with 14 percent of the deposits in the AA. The top three institutions retain 53 percent of all deposits.

Examiners reviewed a recent contact with a community professional operating in the bank's AA. The contact was a nonprofit economic development organization serving in 14 Kansas counties including Rice County. The community professional indicated that

financial institutions are meeting the credit needs of small farms and small businesses. The contact also noted that most of the institutions are very involved in their communities.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The Lyons Federal average quarterly LTD ratio of 76 percent is more than reasonable. The average quarterly LTD ratio over the same period for the bank's competitors was 66 percent, with ratios ranging from 49 percent to 89 percent.

Lending in Assessment Area

Lyons Federal extended a substantial majority of its agricultural loan products to borrowers in the AA. Specifically, the bank granted 90 percent of the number and 93 percent of the dollar amount of loans in the AA.

Lending to Farms of Different Sizes

The bank's lending performance reflects reasonable distribution to farms of different sizes.

The loan sample reflected 75 percent of the number of agricultural loans were granted to farms with gross revenues less than or equal to one million dollars. When compared with the 2012 Peer Small Farm Data, this level of lending reflects excellent distribution to farms of different sizes. Peer data reflects that only 23 percent of the number of loans originated by institutions required to report small farm loans were made to farms with gross revenues less than or equal to one million dollars. With the exception of John Deere retail locations, none of these four peer institutions has branches within the AA.

A second comparator is more appropriate in determining the overall conclusion for lending to farms of different sizes. The 2013 Business Demographic Summary is derived from the 2010 U.S. Census. Comparing the bank's distribution ratio to the census demographic ratio reveals that the bank's distribution to small farms is reasonable. The bank's performance ratio is below the census demographic ratio of 98 percent. The bank's farm loans where gross revenues were unavailable were loans extended to independent family farms in amounts less than \$10 thousand. Further supporting the bank's lending to small farms, 85 percent of loans in the agricultural loan sample were for amounts of \$250 thousand or less. Please refer to the table below.

Borrower Distribution of Loans to Farms in the Rice/Ellsworth AA				
Farm Revenues (or Sales)	<= \$1,000,000	> \$1,000,000	Unavailable	Total
% of AA Farms	98%	1%	1%	100%
% of Bank Loans in AA by #	75%	20%	5%	100%

Source: Farm Loan Sample and 2010 U. S. Census Data

Geographic Distribution of Loans

An analysis of the geographic distribution of loans originated in the AA during the evaluation period would not be meaningful. The AA does not contain low- or moderate-income tracts.

Community Development Activities

The bank’s level of loans, investments, and services that qualify for community development (CD) had a positive impact on the bank’s overall CRA rating.

Below are examples of the bank’s community development investments and services that enhance credit availability in the AA:

- Equity investment of \$191 thousand in an affordable housing project qualifying for low-income housing tax credits (LIHTC);
- A bank officer serves with the Rice County Economic Development Board, an organization providing loans to small businesses denied by local banks;
- A bank officer is a certified trainer for homebuyer education and is included on the Kansas Homebuyer Education Provider list;
- An employee serves on the Housing Selection Committee for Habitat for Humanity, an organization providing affordable housing in the AA;
- Escrow services are provided at no cost to the local chapter of Habitat for Humanity;
- The bank participates in first time homebuyer programs that target low- and moderate-income persons and sponsored by the Federal Home Loan Bank, Freddie Mac, and the Kansas Housing Resource Corporation.

Lyons Federal demonstrates a strong commitment to affordable housing. While CD loan and investment opportunities are minimal in the bank’s AA, management has extended the bank’s community development involvement into adjacent counties and the regional area. The bank has current loan balances of \$3.9 million on LIHTC projects that are outside the bank’s AA. This level of CD lending represents 45 percent of March 31, 2014 Tier One Capital. Lyons Federal bank also has a partially funded construction commitment for \$1 million for an LIHTC project in adjacent Reno County. The bank anticipates providing permanent financing. Additionally, Lyons Federal has an equity investment of \$62 thousand in an LIHTC project in a nearby county.

Responses to Complaints

Lyons Federal has not received any CRA-related complaints since the last CRA examination.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. 25.28(c), or 12 C.F.R. 195.28(c), in determining a national bank's (bank) or Federal savings association's (FSA) CRA rating, respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or FSA, or in any AA by an affiliate whose loans have been considered as part of the bank's or FSA's lending performance.

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.