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KC's five strongest small banks of 2019

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Entrepreneurs typically form their first banking relationship with a small community bank that can relate to their struggles and provide personalized service and assistance. But which of those small banks in Kansas City are the strongest?

With the coronavirus pandemic creating havoc throughout the economy and our everyday lives, the need for strong banks that can provide clients with sound financial options is greater than ever. The financial institutions selected for our "Strongest Banks" series, which begins Friday, should be set up best to weather the storm.

To help our readers find the strongest banks, we took a look at the 2019 year-end numbers for every bank with a presence in the Kansas City area. Because different size banks typically service different types of clients, giving them different loan portfolios, we divided the institutions into three groups to allow for better comparisons:

- Small: less than $250 million in assets
- Midsize: $250 million to $1 billion in assets
- Large: more than $1 billion in assets

This article ranks the strongest of the 34 banks in the small category. Future articles will look at the strongest large and midsize banks.

Honorable mentions

At the end of the year, 15 banks in the Kansas City area with less than $250 million in assets had absolutely no problem loans on their books. Having so many institutions to choose from makes it difficult to select the strongest of the bunch, so it's important to name two honorable mentions:

- Lenexa-based Small Business Bank was founded in 1984 and focuses entirely on meeting the banking needs of small and microsize businesses. According to the latest FDIC data, it's doing it in a wise manner. The bank had no problem loans in a $44.7 million portfolio. It had a 15.42% core capital ratio, which is very strong, and $10 million in equity capital. *(Previous: Unranked in 2018)*
- Founded in 1894, De Soto-based TriCentury Bank has proven its strength and resilience. As of Dec. 31, the bank had no problem loans in its $78.1 million loan portfolio. It also had a core-capital ratio of 11.87%, equity capital of $12.3 million and income of $1.3 million. The bank is led by De Soto native Travis Hicks. *(Previous: Honorable mention in 2018)*

The strongest banks

No. 5: Bank of Prairie Village has all the attributes of a successful small community bank: low staff turnover, accessibility to decision-makers, and employees who live in the community and forge strong relationships with clients. That's why the bank has no problem loans in a $70 million portfolio. The bank is led by CEO Dan Bolen, a tax attorney who founded the current bank brand in 2003, after acquiring the charter for Hartford State Bank, which dates all the way back to 1931.

(Previous: 4th in 2018)

No. 4: Started from scratch in 2006, Freedom Bank has always danced to its own tune as a bank, discarding the old approach to customer service and unveiling the area's first nontraditional bank branch design. But behind all that is a strong bank with solid fundamentals. Led by founder and CEO Kurt Knutson, the bank has no problem loans in a $132 million portfolio. It bolsters that with a 12.85% core-capital ratio to cover any potential downturn. Plus, the bank's $21.1 million in equity capital gives it plenty of dry powder for continued growth.

(Previous: Unranked in 2018)

No. 3: First National Bank of Louisburg has an extremely experienced management team led by President Robert Nauman. The bank's strong team built a $60.1 million loan portfolio with zero problem loans. It has $17.4 million in equity capital, giving it lots of room for continued growth.

(Previous: 3rd in 2018)

No. 2: Central Bank of Kansas City has two branches in Kansas City. Led by CEO Bill Dana Jr., the bank has built a strong niche serving the low- to moderate-income population that dominates its geographic footprint. It also has become a trusted resource for the local Hispanic population. It's doing a lot of things right in these unique areas, allowing it to build a flawless $195.4 million loan portfolio and stockpile $34.2 million in equity capital. The bank has an exceptionally strong core-capital ratio of 14.35%.

(Previous: 2nd in 2018)

No. 1: Founded in 1905 and led by CEO William Lefko, Bank of Grain Valley once again earns bragging rights as the area's strongest small bank. The bank posted an incredibly strong 22.08% core-capital ratio and a flawless $55.6 million loan portfolio, giving it the ability to weather virtually any economic storm. The bank's secret: Work closely with clients, and stay in constant communication, creating strong relationships. Its $20.5 million in equity capital ensures that the bank has plenty of room to grow along with its clients and keep them in the fold for many years to come.

(Previous: 1st in 2018)

Addendum

Aside from our top five and the honorable mentions, here are the eight other small banks with zero problem loans at year end:

- America's Community Bank
- Clay County Savings Bank
- Great American Bank
- Community First Bank
- Patriots Bank
- Cornerstone Bank
- Community Bank of Pleasant Hill
- The State Bank of Spring Hill

Judging criteria

The rankings were determined using six categories, in the following order of significance:

Problem-loan ratio shows the percentage of loans in a bank's portfolio that are 90 days past due or no longer are accruing interest at the stated rate. The more problem loans a bank accrues, the weaker it becomes. This is the category first used to sort all the banks in each size group for comparison.

Texas ratio measures the credit problems of a bank. It is determined by adding up the problem loans and dividing them by a bank's equity capital and loan-loss reserves. The smaller the number, the better. If a bank has a Texas ratio that exceeds 100%, it's in serious jeopardy of being shut down by regulators. We use the Texas ratio to separate banks with similar problem-loan ratios.

Core-capital ratio measures the amount of reserves a bank sets aside. Banks are required to hold a minimum of 6.5% core capital in reserve to be considered well capitalized by regulators. The more core capital a bank has, the better it can handle problems, so this is a category that carries hefty weight in the rankings.

Equity capital is capital set aside that is free of debt and available to be used in the interest of the business. Equity capital gives a bank versatility to continue making loans and seeking growth, so the more a bank has, the stronger it becomes.

Income is used to gauge a bank's prospects for a strong future. A bank might have few problem loans and large capital reserves, yet still be losing money. So it isn't going to be as strong in the long run as a bank that is profitable.

Total loans and leases were used to help separate banks with similar numbers, giving more emphasis to the banks with larger portfolios. The more loans a bank has, the more impressive a low problem-loan ratio becomes.