



SMALL BANK

Comptroller of the Currency
Administrator of National Banks
Washington, DC 20219

PUBLIC DISCLOSURE

February 13, 2006

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The First National Bank of Cunningham
Charter Number 12791**

**101 E. First
Cunningham, KS 67035**

**Comptroller of the Currency
Wichita
3450 North Rock Road Suite 505
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 Satisfactory.

- The First National Bank of Cunningham's average loan-to-deposit ratio of 61.60% is satisfactory compared to the five other banks in the assessment area.
- A majority of First National's primary loan products have been granted in the assessment area. The sample indicated that 93% of the number and 85% of the dollar volume were in the assessment area.
- Lending to borrowers of different incomes and businesses of different sizes is good. The agricultural loan sample indicated adequate performance with 80% of the bank's loans to farming operations with annual gross revenues under one million dollars. The bank demonstrated excellent lending levels to low- and moderate-income borrowers for its residential real estate loans. The bank's performance exceeded demographics.

DESCRIPTION OF INSTITUTION

The First National Bank of Cunningham (First National) is a \$20 million bank in Cunningham, Kansas. The bank does not have any affiliates, branches, or ATMs.

First National is a full service bank offering a variety of loans. Net loans represent 59% of the bank's total assets. As of December 31, 2005, the bank's \$11 million loan portfolio had the following composition: 51% real estate, 31% agricultural, 9% commercial, 8% consumer, and 1% other loans.

Management indicated the bank's primary lending products, both by number and dollar amount of loans granted since the last examination, are agricultural loans and residential real estate loans.

The bank's financial condition, size, local economic conditions, and other factors allowed it to meet the needs of its assessment area. We assigned a "Satisfactory" rating at the November 8, 2001 examination.

DESCRIPTION OF ASSESSMENT AREA

First National's assessment area (AA) consists of Kingman and Pratt counties. These counties are located in south central Kansas and are not in a Metropolitan Statistical Area (MSA). The AA contains six census tracts, with five middle income tracts and one upper income tract. The 2000 US Census population of the AA was 18,320. The Kansas non-MSA median family income for 2005 was \$47,550. The AA has the following income distribution for families: 16% low income, 19% moderate income, 25% middle income, and 40% upper income. Ten percent of the households in the AA have income below the poverty level. Of the 7,328 households, 35% receive social security and 3% receive public assistance. Just over 28% of the population is not in the work force and almost 20% are over the age of 65.

The median housing value is \$59,979 and 65% of the housing units are owner-occupied. The trade area is dependent on agriculture. The economy is fairly stable and the Kansas unemployment rate for December 2005 is 4.9%. Besides farming, other employment in the AA includes the school districts, the counties, and local industries.

Competition in the area is moderate. Of the five banks considered local competition, four are headquartered in the AA and one has a single branch in the AA. First National is the smallest of the banks and had 4.68% of the AA's deposits as of June 30, 2005.

The bank's assessment area complies with the regulation and does not arbitrarily exclude any low- or moderate-income areas.

Examiners contacted one community professional. The contact indicated First National is very involved in the community. The contact was not aware of any credit needs in the AA that were not being met.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

The loan sample included loans originated or purchased in 2004, 2005 and year-to-date 2006. The sample included 20 agricultural loans and all residential real estate loans made by the bank during the evaluation period. Agricultural and residential real estate loans are the primary lending products identified by bank management.

Loan-to-Deposit Ratio

First National's lending level is reasonable given the competition in the area. The bank's average loan-to-deposit ratio since the last Community Reinvestment Act (CRA) examination is 62% and has remained relatively stable. The average quarterly loan-to-deposit ratio over the same period for the other banks in the AA is 75%, with ratios ranging from 55% to 84%. Of the four banks in the AA with higher loan-to-deposit ratios than First National, one has two branches outside the market area and the other two currently have branches located in the Wichita area. Branching into the Wichita MSA market offers more opportunities for lending.

Lending in Assessment Area

First National's level of lending in the AA is good as the bank has extended a majority of its primary loan products in the AA. Specifically, we found the bank made 93% of the number, and 85% of the dollar amount, of loans in its assessment areas.

Lending to Borrowers of Different Incomes and to Businesses of Different Sizes

First National's lending to borrowers of different incomes and businesses of different sizes is good. Lending levels to businesses of different sizes is adequate. Examiners selected a sample of twenty agricultural loans granted in the AA within the last three years. The borrower distribution table shows that 80% of the loans in the sample and 88% of the dollar amount of those loans were granted to small agricultural operations with annual gross revenues of less than one million dollars. Although this is below demographics data of 96% of operations with less than one million in gross revenue in Kingman and Pratt counties, it is attributed to the fact that 20% of the bank loan files did not contain revenue documentation.

Borrower Distribution of Loans to Farms in AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of Bank Loans in AA by #	80%	0%	20%	100%
% of Bank Loans in AA by \$	88%	0%	11%	100%

Source: Loan sample and demographics data

The volume of lending to borrowers with different income levels is excellent. Examiners selected all seventeen of the residential real estate loans granted in the AA.

The following table indicates that the bank’s lending to low- and moderate-income borrowers exceeds the demographics for the area.

Borrower Distribution of Residential Real Estate Loans in AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Residential	16.26%	24%	18.72%	24%	25.06%	24%	39.96%	28%

Source: Loan sample, 2000 US Census data

Geographic Distribution of Loans

First National’s AA does not consist of any low- or moderate-income areas. An analysis of the geographic distribution of loans would not be meaningful.

Responses to Complaints

First National has not received any CRA related complaints since the previous Performance Evaluation.

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of illegal discrimination or other illegal credit practices.