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Comptroller of the Currency  
Administrator of National Banks

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## **PUBLIC DISCLOSURE**

November 1, 1996

# **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**Community National Bank  
Charter Number 18394**

**210 Main Street, P.O. Box 210  
Seneca, Kansas 66538**

**Office of the Comptroller of the Currency  
Kansas City Duty Station  
6700 Antioch Road, Suite 450  
Merriam, Kansas 66204-1200**

**NOTE: 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.**

## GENERAL INFORMATION

*The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the 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. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.*

*This document is an evaluation of the Community Reinvestment Act (CRA) performance of **Community National Bank, Seneca, Kansas** prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **November 1, 1996**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.*

**INSTITUTION'S CRA RATING:** This institution is rated "**Outstanding**".

Community National Bank, Seneca, Kansas is actively meeting the agricultural credit needs of farms of different sizes, with an emphasis of loans to smaller-sized farms within its community. The substantial majority of loans being made to customers are within the bank's assessment area and their loan-to-deposit ratio compares favorably with other banks in the area.

The following table indicates the performance level of Community National Bank with respect to each of the five performance criteria.

<b>SMALL INSTITUTION ASSESSMENT CRITERIA</b>	<b>COMMUNITY NATIONAL BANK PERFORMANCE LEVELS</b>		
	<b>Exceeds Standards for Satisfactory Performance</b>	<b>Meets Standards for Satisfactory Performance</b>	<b>Does not meet Standards for Satisfactory Performance</b>
Loan to Deposit Ratio	X		
Lending in Assessment Area	X		
Lending to Borrowers of Different Incomes and to businesses of Different sizes	X		
Geographic Distribution of Loans	Not meaningful.		
Response to Complaints	No complaints were received since the prior examination.		

## DESCRIPTION OF INSTITUTION

Community National Bank (CNB) is a \$31 million bank located in Seneca in the rural northeast portion of Kansas. This location is dominated by agricultural production and related industries. Seneca is the Nemaha County seat. CNB has no branches or automated teller machines. The bank is owned by a one-bank holding company, Community Bancshares, Inc..

Consistent with the bank's lending philosophy, CNB specializes in loans geared to farms with gross farm incomes less than the average Nemaha County farm income of \$187,823. The bank also provides real estate, commercial, and other lending services. As of September 30, 1996, the composition of the bank's loan portfolio was as follows:

TYPE OF LOANS	DOLLAR AMOUNT	% OF TOTAL
AGRICULTURAL PRODUCTION	\$ 4,628,329	32%
FARMLAND REAL ESTATE	\$ 3,255,708	22%
1-4 FAMILY REAL ESTATE	\$ 2,582,219	18%
COMMERCIAL REAL ESTATE	\$ 1,483,961	10%
COMMERCIAL	\$ 1,379,480	9%
OTHER	\$ 1,379,282	9%
TOTAL	\$ 14,708,979	100.00%

There are no legal impediments or other factors, including the financial condition of the bank, which hinder the bank's ability to fulfill its CRA obligation. The last CRA examination dated March 15, 1994 rated the bank's performance as "Outstanding."

## DESCRIPTION OF ASSESSMENT AREA

CNB's assessment area meets the requirements of the CRA regulation and does not arbitrarily exclude low- or moderate-income areas. The bank's assessment area consists of Nemaha county. This county includes three Block Numbering Areas (BNA's). All three BNA's are designated as middle income. According to 1990 statistics, the total population of the bank's assessment area is 10,446.

The average 1995 gross farm income for Nemaha County is \$187,823, based on data from the Farm Management Association. This is relevant for this community as farming and agricultural-related services make up the majority of the employment base, according to 1993 U.S. Department of Commerce data. Besides farming, numerous employers offer diverse employment opportunities with other services and small industries. The 1995 state-wide, non-metropolitan statistical area income is \$34,300. Within the assessment area, 20% of families are low income, 19% moderate income, 27% middle income, and 34% upper income.

We reviewed information on file obtained through community contacts indicating the most pressing credit need for the assessment area is for single-family homes. We obtained this information through interviews conducted by various regulatory agencies with community representatives over the past two years. Contacts stated local financial institutions are all actively providing the necessary credit.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

### LOAN-TO-DEPOSIT RATIO

The bank's loan-to-deposit ratio is high compared to banks similarly situated in the assessment area and national peer banks. CNB offers self-directed Individual Retirement Accounts (IRA's), that actually inflate the amount of deposits by an average \$10 million a day. Thus, exaggerating the deposit base and lowering the overall loan-to-deposit ratio if taken into account. These deposits for the IRA's are not counted on the bank's books, except as an in-transit (overnight) account awaiting distribution. The in-transit account also consists of deposits from individuals from across the United States. Therefore, in analyzing the bank's actual local deposits that would be used to fund local loan demand, their average eight quarter loan-to-deposit ratio is 78%. As of June 30, 1996 the ratio was 84%. This compares with the June 30, 1996 average ratio for the other eight similarly-situated banks operating within the bank's assessment area at 65.6% and with the national peer average ratio of 61%. Ratios for the competitor banks within the assessment area as of June 30, 1996 ranged from 41% to 91%. CNB's loan-to-deposit ratio increased by the same percentage as the national peers since the last CRA examination.

### LENDING IN ASSESSMENT AREA

CNB originates a substantial majority of its loans within its assessment area. Our analysis is based on a sample of loans originated within the evaluation period from the four major loan categories of the bank.

Sample of Loan Originations by Borrower							
	Sample Size by # / % Total		Sample Size by \$	In Assessment Area		Out of Assessment Area	
	#	%		#	\$	#	\$
AGRICULTURAL PRODUCTION	50	37%	\$2,471,321	94%	95%	6%	5%
FARMLAND REAL ESTATE	12	32%	\$1,110,382	83%	86%	17%	14%
1-4 FAMILY REAL ESTATE	9	21%	\$ 663,432	89%	91%	11%	9%
COMMERCIAL REAL ESTATE	5	29%	\$ 887,040	80%	65%	20%	35%
<b>TOTALS</b>	<b>76</b>		<b>\$5,132,175</b>				

**LENDING TO BORROWERS OF DIFFERENT INCOMES AND TO BUSINESSES OF DIFFERENT SIZES**

Examiners focused the analysis of the bank’s lending practices to borrowers of different income levels by centering on the four major loan categories of the bank. These four major loan categories cover 82% of the bank’s total loan portfolio and are as follows: agriculture production, farmland real estate, 1 - 4 family real estate and commercial real estate. We reviewed at least 30% of the borrower originations since the March 1994 CRA examination for each loan category.

**Agricultural Production Borrowers:**

The bank’s lending reflects good distribution among farms of different sizes, with an emphasis of loans to smaller-sized farms. We analyzed the distribution of agricultural production loans originated during our evaluation period based on a sample of farm loans with current income information. Farm size is based on gross farm income. While management shows distribution of lending to different income levels, the vast majority of lending is at or below the average farm income of \$187,823. The following chart illustrates the results of this analysis:

Distribution of Agricultural Production Loans by Revenue of the Farm		
Gross Farm Income	# of Farms Reviewed	% of Farms Reviewed
< \$50,000	4	10%
\$50,001 - \$100,000	12	30%
\$100,001 - \$200,000	17	43%
\$200,001 - \$300,000	5	12%
> \$300,001	2	5%

**Farmland Real Estate Borrowers:**

Based upon our sample, the bank’s lending efforts for agricultural real estate loans reflects good distribution among farms of different sizes, with an emphasis of loans ranging from smaller- to average-sized farms. As seen in the agricultural production lending, management shows the vast majority of distribution of lending to farm borrowers at or below the average farm income. The following chart illustrates the results of this analysis:

Distribution of Farmland Real Estate Loans by Revenue of the Farm		
Gross Farm Income	# of Farms Reviewed	% of Farms Reviewed
< \$50,000	5	45%
\$50,001 - \$100,000	0	0%
\$100,001 - \$200,000	5	45%
\$200,001 - \$300,000	1	9%
> \$300,001	0	0%

**One to Four Family Real Estate Borrowers:**

The results from our sample of real estate loans to individuals showed the distribution of real estate lending reflects reasonable penetration among different income levels. The statewide non metropolitan statistical income used in the analysis is \$34,300. Nemaha County is made up of middle income tracts only. Within those middle income tracts, 20% of the families are low income and 19% are moderate income families. Of the 30% of originations since the last CRA examination, 38% were made to low or middle income borrowers. This information is reasonable and favorable considering the income makeup of the county. The results of the review are summarized in the following table:

Distribution of 1 - 4 Family Real Estate by Income of the Borrower		
Gross Annual Income	# of Loans Reviewed	% of Loans Reviewed
Low income, < \$16,807	2	15%
Middle income, \$17,150 to \$27,097	3	23%
Moderate income, \$27,440 to \$40,817	2	15%
Upper income, >\$41,160	6	46%

**Commercial Real Estate:**

We reviewed 30% of commercial real estate originations by borrower since the last CRA examination. Of the five loans reviewed, 2 were to small business with under \$10M in annual revenue and one to a business with under \$150M in annual revenue, representing 60% of the sample. The remaining loans were both to businesses under \$500M in annual revenue.

**GEOGRAPHIC DISTRIBUTION OF LOANS**

All BNA's in the assessment area are middle income. Therefore, specific analysis of geographic distribution is not meaningful.

**RESPONSE TO COMPLAINTS**

The bank did not receive any CRA-related complaints since the last examination in 1994.

**COMPLIANCE WITH ANTI-DISCRIMINATION LAWS**

Examiners did not identify any violations of anti-discrimination laws or regulations, or disparate treatment of loan applicants.