



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

November 8, 2001

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 Field Office
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.

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INSTITUTION'S CRA RATING

This institution is rated Satisfactory.

- The First National Bank's average loan to deposit ratio of 63% is satisfactory compared to the six other banks in the assessment area.
- A majority of the bank's primary loan products have been granted in the assessment area. The examiner's loan sample indicated 88% of the number and 77% of the dollar volume were in the assessment area.
- Lending to businesses of different sizes was satisfactory. The agricultural loan sample indicated 50% were to borrowers with annual gross revenues under \$100 thousand. The bank demonstrated good lending levels to low- and moderate-income consumers. The examiner's residential real estate loan sample indicated the bank's level of lending exceeded the demographics of the area for both low- and moderate-income consumers.

DESCRIPTION OF INSTITUTION

The First National Bank of Cunningham (First National) is an \$18 million bank in Cunningham, Kansas. The bank does not have any branches, ATMs, or affiliates.

First National is a full-service bank offering a variety of loans. Net loans represent 55% of the bank's total assets. As of June 30, 2001, the bank's \$10 million loan portfolio had the following composition: 59% agricultural, 16% residential real estate, 13% consumer, and 12% commercial loans.

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

The bank's financial condition, size, local economic conditions, and other factors allow it to help meet the needs of its assessment area. We assigned a "Satisfactory" rating at the June 27, 1997, examination.

BANK'S ASSESSMENT AREA

The bank'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. The AA contains six Block Numbering Areas, which are all middle-income tracts. The 1990 population of the AA was 17,994. The Kansas statewide non-metropolitan median family income for 2001 is \$43,200. The AA has the following income distribution for families:

| Distribution of Family Income in Assessment Area | |
|---|-------------------|
| Income Level | Percentage |
| Low-income Families | 18% |
| Moderate-income Families | 18% |
| Middle-income Families | 22% |
| Upper-income Families | 42% |

Twelve percent of the households have incomes below the poverty level, 35% receive social security, and 5% receive public assistance. Twenty-nine percent of the population is not in the work force and 19% is over the age of 65.

The median housing value is \$34,354 and 64% of the housing units are owner occupied. The trade area is dependent on agriculture. The economy is stable and the Kansas unemployment rate for September 2001 is 3.8%. Other employment, besides farming, in the area includes the county, school district and other local industries.

Competition in the area is moderate. There are five banks headquartered in the AA. There are two branches of banks located in the AA that have headquarters outside of the AA. First National is the smallest of the banks and had 4% of the AA's deposits on June 30, 2000.

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 the financial institutions are very involved in the AA and the contact was not aware of any credit needs that were not being met.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

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 for the last twelve quarters was 63%. The bank's loan-to-deposit ratio remained relatively stable over this time period. The average quarterly loan-to-deposit ratio over the same period for the other banks in the AA was 76%. These ratios ranged from 60% to 93%. Three of the banks in the AA with higher loan-to-deposit ratios than First National currently have branches located in the Wichita area, which offers more opportunities for lending.

Lending in Assessment Area

First National's lending in its AA is satisfactory as it extended a majority of its primary loan products in the AA. To determine the loan distribution examiners selected a sample of 52 loans granted since the last examination. The sample consisted of 28 agricultural loans and 24 loans granted to consumers for residential real estate purchases or refinances. The following table depicts the distribution of these loans by number and by dollar amount.

| Percentage of Sample Loans Granted Within the Assessment Area | |
|---|----------------------|
| Percentage By Number | Percentage by Dollar |
| 88% | 77% |

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

Lending to borrowers of different incomes and businesses of different sizes is satisfactory. Examiners analyzed samples of loans to agricultural borrowers and loans to consumers for the purchase or refinance of residential real estate, as those loan products represent the majority of loans originated since the last examination.

Lending levels to businesses of different sizes is reasonable. Examiners selected a sample of 26 agricultural loans granted in the AA since the last examination. The agricultural loan table indicates 50% of the loans in the sample and 26% of the dollar amount of those loans were granted to small agricultural operations with annual gross revenues less than \$100,000. This percentage is below the 1997 Agricultural Census for Kingman and Pratt Counties, which depicts that 73% of the operations are in this range. Management considers operations less than \$250,000 to be small operations for the area.

| Sample of Agricultural Loans Granted Between July 1, 1997 and November 8, 2001 | | |
|---|----------------------------------|---|
| Annual Gross Revenues | Percentage of Number of Loans | Percentage of Dollar Amount of Loans |
| | | |

| | | |
|------------------------|-----|-----|
| Less than \$50,000 | 15% | 6% |
| \$50,000 to \$100,000 | 35% | 20% |
| \$100,000 to \$250,000 | 46% | 63% |
| Over \$250,000 | 4% | 11% |

The volume of lending to borrowers of different income levels is good. Examiners selected a sample of 20 residential real estate loans granted in the AA since the last examination. The following table indicates the bank's lending to low- and moderate-income borrowers exceeds the demographics for the area.

| Sample of Residential Real Estate Loans Granted Between July 1, 1997 and November 8, 2001 | | | |
|--|--------------------------|----------------|------------------------------------|
| | Residential Loans | | Families in Income Category |
| Income Level | % of # | % of \$ | % |
| Low-income | 20 | 11 | 18 |
| Moderate-income | 25 | 20 | 18 |
| Middle-income | 15 | 23 | 22 |
| Upper-income | 40 | 46 | 42 |
| Total | 100 | 100 | 100 |

Geographic Distribution of Loans

An analysis of the geographic distribution of credit would not be meaningful. The bank's AA consists only of middle-income areas.

Responses to Complaints

The bank has not received any CRA related complaints since the previous CRA examination.

Fair Lending Review

An analysis of 1997, 1998, 1999, 2000, and year-to-date 2001 public comments and consumer complaint information was performed according to the OCC's risk based fair lending approach. Based on its analysis of the information, the OCC decided that a comprehensive fair lending examination would not need to be conducted in connection with the CRA evaluation this year. The latest comprehensive fair lending examination was performed in 1997.