



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

June 16, 2003

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The Marion National Bank
Charter Number 7911**

**302 East Main Street
Marion, KS 66861**

**Comptroller of the Currency
Assistant Deputy Comptroller, C. Scott Schainost
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.

DESCRIPTION OF INSTITUTION

Marion National Bank (MNB or the bank) is a \$19 million bank headquartered in Marion, KS. The bank does not have any branches. MNB has one automated teller machine located at the main office. The bank operates under Marion Bancshares, a one-bank holding company located in Marion. On December 31, 2002, the holding company had total assets of \$3 million. The holding company does not have any significant affiliates. MNB's corporate structure has not changed.

MNB is a full service bank offering a variety of loan products with an emphasis on residential real estate and agricultural loans. On March 31, 2003, net loans represented 40% of the bank's total assets. The bank's \$7.7 million loan portfolio has the following composition: 53% residential real estate; 18% agricultural; 13% other real estate; 10% consumer; and 6% commercial. The bank has not changed any existing loan products, or offered any new products since the previous CRA examination. Examiners determined the primary lending products were residential real estate and agricultural loans.

The bank's financial condition, size, and local economic conditions allow it to help meet the credit needs of its assessment area. Examiners assigned a "Satisfactory" rating at the January 13, 1999, CRA examination.

DESCRIPTION OF ASSESSMENT AREA

The bank's assessment area (AA) is all of Marion County, Kansas. The AA consists of the middle-income block numbering area 9897. The AA complies with regulation and does not arbitrarily exclude any low- or moderate-income tracts. The Kansas statewide non-MSA median family income for 2002 is \$44,200. The unemployment rate for the AA in April 2003 is 2.7% compared to 6.1% nationwide.

Examiners made one community contact with a local business professional in the AA. The contact identified home loans as well as agricultural purpose loans as two of the area's primary credit needs. The contact stated that the banks within the county are active in the community and knew of no unmet credit needs. The contact further stated that loan demand in the city of Marion was low due to the profile of the residents and the lack of new business.

The AA has a population of 2,786. The income distribution for families in the AA is 15% low-income, 22% moderate-income, 26% middle-income, and 37% upper-income. The median housing value is \$33,600 and 63% of homes are owner occupied units. Ten banks and several other financial institutions provide competition in the area. The asset sizes of the banks range between \$10 million and \$422 million. With 9% of the area's deposits, MNB ranks 5th in deposit market share.

Marion is a bedroom community for nearby McPherson, Wichita, and Emporia. Bank

management estimated a quarter of the workforce in Marion commute to these areas. The economy is dominated by agriculture. These farmers have been adversely affected by consecutive poor crop seasons and low cattle prices.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The bank's level of lending is adequate. The bank's quarterly average loan-to-deposit ratio (LTD) over the past 12 quarters ending March 31, 2003, is 56%. Examiners compared this ratio to that of peer banks in the AA. For peer banks, examiners analyzed the ratios over the same time period for a group of four banks, which derive the majority of their deposits from the AA. The quarterly average ratio for this group is 78%. The quarterly average ratios for the banks within the peer group range from 57% to 91%. While MNB's quarterly average LTD is below that of peer banks, it is still considered adequate. The bank's quarterly average LTD has improved from 45% at the 1999 CRA examination and 38% at the 1996 exam. Management stated that they would like to add more loans to the portfolio; however, the combination of strong competition and low loan demand are limiting their efforts. The community contact affirmed management's statement concerning the low level of loan demand in the area.

Lending in Assessment Area

The bank's lending in its AA is excellent as it extends the vast majority (98% of the number and 99% of the dollar) of its loans in the AA. Examiners utilized a sample of 20 residential real estate and 20 agricultural loans, granted from January 13, 1999, to December 31, 2002, to assess the bank's performance in this area. These loan products were selected as they represent the primary lending products of the bank.

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

The level of lending to farms of different sizes and residential real estate borrowers of different incomes is satisfactory. The sample used to determine the bank's performance in lending within the AA was used to determine the performance in this area.

The bank's level of lending to farms of different sizes is satisfactory. Ninety-five percent of the loans in the examiner's sample are to farms with annual gross revenues of \$1 million or less. The bank's performance is in line with the Dun and Bradstreet 2002 demographic data that shows 97% of the farms in the AA have annual gross revenues of \$1 million or less. Further breakdown of the sample shows 59% of the loans were to farms with revenues of less than \$250 thousand and 33% were to farms with revenues less than \$100 thousand.

Lending to residential real estate borrowers of different incomes is satisfactory. Lending to low-income borrowers is satisfactory (18% of the sample) compared to the family income demographics of 15%. Lending to moderate-income borrowers representing 21% of the sample is in line with demographic data showing 22% and represents satisfactory performance.

Geographic Distribution of Loans

An analysis of the distribution of loans within the AA would not be meaningful as the AA does

not included any low- or moderate-income tracts.

Responses to Complaints

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

Fair Lending Review

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