



PUBLIC DISCLOSURE

January 4, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Community National Bank
Charter Number 21389**

**14 North Lincoln
Chanute, Kansas 66720**

**Comptroller of the Currency
Midwestern District
Kansas City South Field Office
1710 East 32nd Street, Suite H
Joplin, Missouri 64804**

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, prepared by the Office of the Comptroller of the Currency (OCC), the institution's supervisory agency, as of January 4, 1999. 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 “**Satisfactory.**”

Community National Bank continues to meet the credit needs of its assessment area.

- The bank’s loans are reasonably distributed to borrowers of various income levels.
- The bank’s loan-to-deposit ratio is very good based on its competitive environment and the opportunities for loan growth within the assessment area. The loan-to-deposit ratio since the last Performance Evaluation (October 1995) has averaged 87%.
- The bank has an excellent record of lending within the assessment area. Approximately 95% of all extensions of credit are granted to borrowers located within the bank’s assessment area.

DESCRIPTION OF INSTITUTION

Community Bancshares of Chanute, Inc., a one-bank holding company, controls Community National Bank, Chanute, Kansas. The bank's total assets were \$94 million, of which loans were 75%, according to the December 31, 1998, Report of Condition. The bank has five full service branch locations, two deposit service locations, one with walk-in and drive-up facilities and one drive-up only. Also, there are five automated teller machines (ATMs) located at the south Chanute branch, Chanute Wal-Mart, and Frontenac, Girard, and Humboldt branches. The full service branches are located in El Dorado, Frontenac, Girard, and Humboldt. The bank offers a full range of traditional personal and commercial banking services, with the primary lending focus on residential real estate. There are no legal or financial impediments limiting the bank's ability to help meet the credit needs of the community. Community National Bank was rated "Outstanding record of meeting community credit needs" in the last Performance Evaluation dated October 13, 1995.

Loan Portfolio as of September 30, 1998		
Loan Type	Dollar Amount (\$000)	Percent
Construction & Development	0	0%
1 - 4 Family Residential	27,039	41%
Farmland	5,494	8%
Commercial Real Estate	6,942	11%
Agricultural Production	4,221	6%
Commercial	12,901	20%
Consumer	8,585	13%
Other Purposes	42	0%
Total	65,224	100%

DESCRIPTION OF ASSESSMENT AREA

The bank has two assessment areas, both of which meet the requirements of the regulation and does not arbitrarily exclude low and moderate-income tracts. The first assessment area is the nine southeastern counties of Kansas that consist of Allen, Bourbon, Cherokee, Crawford, Labette, Montgomery, Neosho, Wilson, and Woodson counties. The population of 180,495, consists of 15 moderate-income, 41 middle-income, and three upper-income tracts. The main bank and five branches are located within the assessment area. Thirty-six other banks are located in the assessment area and provide considerable competition for loan products.

Low and moderate-income families represent 17% and 19% of the assessment area's population, and middle and upper-income families represent 27% and 38%, respectively. The updated 1998 median family income for non-Metropolitan Statistical Areas in these nine counties is \$38,200. The percentage of households below poverty level in this assessment area is 18%. The weighted average of the median housing value is \$28,101 and 64% of the housing consists of owner occupied units. This assessment area economy has a wide variety of employment opportunities and enjoys a low unemployment rate of 2.9%.

The second assessment area consists only of Butler County Kansas, where Community National Bank has a branch. The population of 50,580, consists of one moderate-income and ten middle-income tracts. Six other banks are located in the assessment area that provide competition for loan products. Community National Bank opened this branch in April of 1998. All of the data contained in this Performance Evaluation was combined since the bank has only had a presence in this market for nine months and only 7% of the originations come from this branch.

Low and moderate-income families represent 22% and 20% of the assessment area's population, and middle and upper-income families represent 24% and 34%, respectively. The updated 1998 median family income for non-Metropolitan Statistical Areas in this county is \$49,000. The percentage of households below poverty level in this assessment area is 10%. The weighted average of the median housing value is \$52,165 and 69% of the housing consists of owner occupied units. This assessment area's main employers are school districts and the petroleum industry. Many of the residences also commute to Wichita for the many opportunities it offers. Butler County enjoys a low unemployment rate of 1.9%.

Two community contacts, one in each assessment area, were interviewed during the examination. The contacts indicated that all credit needs of their respective communities were met in a satisfactory manner.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Comparison of Credit Extended Inside and Outside of the Assessment Area

The bank's record of lending within the assessment area is excellent. Based on the bank's home loan application register (HLAR), a majority of all loans made at this bank are located within the assessment area. The following tables summarize these findings for the last three years.

HLAR Loan Originations by Number						
	1996		1997		1998	
	Number	%	Number	%	Number	%
In the assessment area	233	95%	144	96%	357	94%
Out of the assessment area	13	5%	6	4%	22	6%
Total	246	100%	150	100%	379	100%

HLAR Loan Originations by Dollars						
	1996		1997		1998	
	Amount (\$000)	%	Amount (\$000)	%	Amount (\$000)	%
In the assessment area	\$7,308	94%	\$4,875	93%	\$14,989	94%
Out of the assessment area	\$491	6%	\$381	7%	\$896	6%
Total	\$7,799	100%	\$5,256	100%	\$15,885	100%

Distribution of Credit Within the Assessment Area by Geography

Community National Bank's geographic distribution of credit within the assessment area is reasonable. We used a sample from the HLAR loan originations to assess performance with this category. Specific census tract location was not available for the commercial loan sample. There are no low-income census tracts in the assessment areas. The bank's lending in moderate-income tracts are 7% of their originations. This is reasonable as only 18% of the population live in these tracts and 83% of those households are non-owner occupied. Also, moderate-income tracts represent only 23% of the total tracts, and are widely spread across the assessment areas.

HLAR Origination Distribution by Census Tract (CT)					
Census Tract Designation	% of total CT's	Number of originations	% of total originations	\$ of originations	% of originations
Low-income CT	0.00%	0	0.00%	\$0	0.00%
Moderate-income CT	22.86%	5	6.67%	\$180,318	6.51%
Middle-income CT	72.86%	69	92.00%	\$2,528,372	91.25%
Upper-income CT	4.29%	1	1.33%	\$62,000	2.24%
Totals	100%	75	100%	\$2,770,690	100%

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

The bank's lending to borrowers of different incomes and to businesses of different sizes is reasonable. One to four family residential real estate loans are Community National Bank's primary product type. Based on the HLAR, management has responded favorably to the credit needs of its assessment area by originating loans to low and moderate-income borrowers, as well as to small businesses. The following table summarizes originations by the number of loans to each income designation within the assessment area.

Sample of 1996, 1997, & 1998 HLAR Lending Activity by Borrower Income Level			
Borrower Income Level	# of Loans	% of Total Loans	Percent of Families in Income Category
Low-Income	6	8.11%	20.68%
Moderate-Income	21	28.38%	19.85%
Middle-Income	20	27.03%	24.65%
Upper-Income	27	36.49%	34.82%
Total	74	100%	100%

The following table reflects the distribution of commercial/agricultural loans by gross revenue size to the number of loan originations for the same time period.

Distribution of Commercial/Agricultural Loans by Revenue Size		
Revenue Size	Number	Percent
Borrowers w/revenues < \$1MM	30	91%
Borrowers w/revenues > \$1MM	3	9%
Total	33	100%

Loan-to-Deposit Analysis

The bank's loan-to-deposit ratio is very good based on its competitive environment and opportunities for loan growth within the assessment area. The quarterly loan-to-deposit ratio since the last Performance Evaluation has averaged 87%. The bank's loan-to-deposit ratio has ranged from 83% in the first quarter of 1996 to a high of 90% in the fourth quarter of 1997. This compares favorably with other institutions in the bank's assessment area. Community National Bank ranks second of all 42 banks. The average loan-to-deposit ratio of all institutions within the assessment area is 65%, with the other institutions' loan-to-deposit ratio ranging from 34% to 88%.

Services

Community National Bank has taken a leadership role, in cooperation with the city of Chanute, in providing low interest rate loans to building owners in downtown Chanute. The project is called the "Blighted Area Revitalization." Bank management makes loans to purchase and/or renovate the buildings in downtown Chanute to bring business back to the area. Since the project started in 1998, Community National Bank has made more than \$724M in loans to renovate the downtown area.

Bank management has also made presentations to two closing manufacturing plant employees in Chanute. The presentations, made by Executive Vice President Ron Sheddrick, focused on getting financial assistance for those employees who expected some financial stress. This presentation was well received by the audience, and is a good example of community involvement.

Compliance with Antidiscrimination Laws and Regulations

Community National Bank is in compliance with the applicable antidiscrimination laws and regulations. No violations were disclosed or revealed at this examination.

Response to Complaints

The bank has received no complaints.