



PUBLIC DISCLOSURE

January 30, 2017

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Community National Bank
Charter Number 18394
210 Main Street
Seneca, KS 66538

Office of the Comptroller of the Currency
7101 College Boulevard, Suite 1600
Overland Park, KS 66210

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: Satisfactory.

The lending test is rated satisfactory.

The community development test is rated satisfactory.

The major factors supporting the institution's rating.

- Community National Bank's (CNB) record of lending to consumers, small farms, and small businesses of different sizes is reasonable.
- The bank's loan-to-deposit ratio is reasonable.
- The bank originates a majority of loans within its combined assessment areas (AAs).
- CNB's community development activities show satisfactory responsiveness in meeting the needs of the bank's AAs.

Scope of Examination

Examiners used the intermediate small bank examination procedures to evaluate CNB's record of meeting the credit needs of its community through its lending and community development activities. The lending test review period is January 1, 2015 through December 31, 2016. The bank has two AAs: non-MA AA and the Leavenworth AA. Conclusions were based on the bank's agricultural, consumer, and commercial loan products originated or purchased during the review period and compared to the 2010 census demographics. The evaluation period for the community development test is January 7, 2014 through January 30, 2017. We sampled 31 agricultural, 26 consumer, and 34 commercial loans for the review period.

Description of Institution

CNB is a \$398 million community bank headquartered in Seneca, Kansas. CNB is a wholly owned subsidiary of Community Bancshares, Inc., a one-bank holding company also headquartered in Seneca, Kansas. CNB operates four branch locations and four ATMs in its AAs. CNB's branches and ATMs are located in northeastern Kansas in Seneca, Sabetha, Tonganoxie, and Basehor.

CNB offers a full range of deposit and loan products and services. The loan portfolio comprises primarily agricultural loans and commercial loans, by dollar, and consumer and agricultural loans, by number, of loans outstanding. CNB has developed a significant retirement plan division specializing in custodial self-directed IRA (SDIRA) accounts. Pursuant to its relationship with the retirement division, CNB has acquired approximately 47,000 savings accounts from outside its AAs. Management and the board cannot use the SDIRA deposits for lending purposes. As of December 31, 2016, these deposits total \$220 million and comprise 59 percent of CNB's \$376 million in total

deposits. Local deposits comprise \$156 million, or 41 percent of CNB's total deposits. CNB reported net loans of \$126 million, or 30 percent of total assets, with \$36.1 million in tier 1 capital.

CNB has the financial capacity to assist in meeting the credit needs of its AAs. The bank was rated satisfactory as a small bank at its last Community Reinvestment Act (CRA) examination, dated January 7, 2014. During the previous CRA cycle, the retirement division's significant growth caused CNB to be classified as an intermediate small bank (ISB) for this examination. Since the last CRA examination, CNB has not added, moved, or closed any branches.

Description of Assessment Areas

DESCRIPTION OF INSTITUTION'S OPERATIONS

Non-MA KS AA: The non-MA KS AA consists of four census tracts and encompasses all of Nemaha County and one tract in Brown County, as one bank branch is on the county border. CNB operates its main office and one additional branch location in this AA. The AA is not located in an MSA, and consists of three middle-income designated tracts and one upper-income tract. Demographic data reports the 2016 median family income (MFI) as \$57,300, while the 2015 MFI was \$57,700. The AA has 11.65 percent of households below the poverty level.

Primary businesses within the AA are agriculture, service industries, and retail trade. Major employers are Koch and Company, C. J. Foods Inc., Nemaha Central and Prairie Hills schools, and Nemaha Valley Community Hospital. The December 2016 unemployment rate in the AA was 3.65 percent, compared to the state of Kansas unemployment rate of 4.2 percent and the national unemployment rate of 4.7 percent.

Based on loan originations during the evaluation period, the primary product by dollar and volume for the non-MA KS AA is agriculture loans.

As of June 30, 2016, this AA has 83 percent of the bank's total deposits. Competition with seven other institutions in the market area is moderate. CNB ranks first in deposit market share at 41 percent. The primary competitors in the AA are several community banks including United Bank & Trust, First Heritage Bank, Morrill and Janes Bank and Trust Company, State Bank of Bern, Elk State Bank, Merit Bank, The Girard National Bank, and branches of larger regional institutions.

We relied on a community contact with the USDA Farm Services Agency (FSA) located in Seneca, KS, on November 2, 2015, during the evaluation period. According to the contact, there is ample opportunity for participation by local financial institutions. The contact cited all of the banks located in the community as being very involved with FSA participation lending. The contact stated that there is a competitive credit environment, with Farm Credit Services posing the greatest competition for all lenders. In the last fiscal year, 76 percent of the FSA loans in the four county area were originated to beginning farmers. FSA offers programs with down payment assistance and no down payment.

The contact's perception of the local financial institutions was favorable. The contact indicated a good level of involvement from all banks in the regional area covered.

Leavenworth AA: The Leavenworth AA consists of 11 census tracts and encompasses part of Leavenworth County and Wyandotte County. The bank does not include all of the tracts in Leavenworth County, as lending and banking occur primarily in the southern part of the county along a major highway, and includes all of the tracts in the political boundaries in which the branches are located, and the surrounding census tracts, which includes adjacent census tracts in Wyandotte County. There are no low- or moderate-income tracts adjacent to the aforementioned Wyandotte County census tracts. CNB does not operate in the city of Leavenworth where there is heavy competition, and is located across the county from where the bank branches are located. Leavenworth and Wyandotte Counties are part of the Kansas City, MO-KS MSA. CNB operates two branches in this AA. The AA consists of six middle-income (55 percent) and five upper-income (45 percent) census tracts. Demographic data shows the 2016 MFI is \$72,500, while the 2015 MFI was \$74,700. Households below poverty level totaled 5.2 percent. The primary products for the Leavenworth AA are commercial loans, by dollar, and consumer loans, by volume.

Primary businesses within the AA are education, government, military, and healthcare. Major employers in the AA are Fort Leavenworth, Leavenworth Federal Penitentiary, Lansing Correctional Facility, Leavenworth Public Schools, Lansing Public Schools, Dwight D Eisenhower VA Medical Center, and St. Johns Hospital. The August 2016 unemployment rate in the AA was 3.65 percent, compared to the state of Kansas unemployment rate of 4.2 percent and national unemployment rate of 4.7 percent.

As of June 30, 2016, this AA accounts for 17 percent of CNB's total deposits by dollar. CNB ranks eighth out of nine financial institutions in the AA, with 6 percent of the market. Competition is moderate with eight other institutions. The bank's primary competitors are several local community banks, including Armed Forces Bank, First State Bank and Trust, Citizens Savings and Loan Association, Mutual Savings Association, and branches of large regional institutions, such as Commerce Bank.

We performed a community contact with the Northeast Kansas Community Action Agency (NEK-CAP). The interviewee sees a strong need for banks to play a role in financial education. They also see banks playing a role in home improvement lending because most LMI homeowners have older housing stock in both communities. The interviewee would like to see banks making smaller loans to LMI populations in these markets, to prevent clients becoming trapped in payday lending cycles.

Conclusions with Respect to Performance Tests

LENDING TEST

The bank's performance under the lending test in Kansas is rated satisfactory.

Loan-to-Deposit Ratio

CNB's quarterly average loan-to-deposit (LTD) ratio is reasonable at 37.14 percent. This percentage is reasonable due to more than half of the bank's deposits being generated by the bank's retirement division and are not deposits from which the bank lends. We calculated the bank's quarterly average LTD ratio using information from the Consolidated Reports of Condition from March 31, 2014 to September 30, 2016. The quarterly average LTD ratio for similarly situated financial institutions for the same period is 86.63 percent. The highest average peer ratio is 105.82 percent, and the lowest is 72.08 percent. By asset size, CNB ranked fourth out of six similarly situated financial institutions. These financial institutions ranged from \$323 million to \$582 million in asset size with an average asset size of \$422 million.

Lending in Assessment Area

This analysis is performed at the bank level rather than AA levels.

CNB extended a majority of its primary loan products to consumers and small farms located within the AAs. The bank made 58 percent, by number, and 43 percent, by dollar, of loans within the bank's AAs. The percentages based on the number of loans made inside the AAs by loan type are as follows: consumer loans (70 percent), small loans to businesses (44 percent), and agricultural loans (94 percent). The bank made a majority of their loans to small businesses outside the AAs, but it is a primary product type for the Leavenworth AA.

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

CNB's performance in lending to borrowers of different incomes demonstrates reasonable penetration across the bank's AAs. The greatest weight is placed on agricultural loans in the non-MA KS AA.

Non-MA KS AA

The overall distribution of small loans to farms demonstrates excellent penetration within the AA.

Small Loans to Farms

The distribution of small loans to farms of different revenue sizes in the non-MA AA is excellent and exceeds the AA demographics.

Table 2A - Borrower Distribution of Loans to Businesses/Farms in Non-MA AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	98.26	1.16	.58	100%
% of Bank Loans in AA by #	100.00	0.00	0.00	100%
% of Bank Loans in AA by \$	100.00	0.00	0.00	100%

Source: Loan sample; Dun and Bradstreet data.

Leavenworth AA

The overall borrower distribution of consumer loans and small loans to businesses of different sizes demonstrates poor penetration in the AA with the greatest weight given to commercial lending.

Consumer Loans

CNB’s consumer lending reflects reasonable penetration. Lending to low-income borrowers significantly exceeds demographics and is excellent. Lending to moderate-income borrowers is poor, as it is lower than demographics. See the table below for additional information.

Table 2B - Borrower Distribution of Consumer Loans in Leavenworth AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	3.87%	36.84%	26.70%	21.05%	42.94%	21.05%	26.50%	21.05%

Source: Loan sample or data collected by the bank; U.S. Census data.

Small Loans to Businesses

The overall distribution of small loans to businesses of different sizes shows poor penetration. CNB’s percentage of loans to businesses with revenues of \$1 million or less is significantly lower than demographics. In addition, 80 percent of small loans to businesses by proxy in the AA were in amounts of \$100 thousand or less. Refer to table 2A for additional details.

Table 2A - Borrower Distribution of Loans to Businesses in the Leavenworth AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	87.51	4.18	8.31	100%
% of Bank Loans in AA by #	53.33	46.47	0.00	100%
% of Bank Loans in AA by \$	9.69	90.31	0.00	100%

Source: Loan sample; Dun and Bradstreet data.

Geographic Distribution of Loans

Non-MA KS AA

Geographical analysis in the non-MA KS AA is not meaningful since no low- or moderate-income census tracts are in the AA.

Leavenworth AA

Geographical analysis in the Leavenworth AA is not meaningful since no low- or moderate-income census tracts are in the AA.

Responses to Complaints

CNB has not received any complaints during the evaluation period relating to its CRA performance.

COMMUNITY DEVELOPMENT TEST

The bank's performance under the community development test demonstrates adequate responsiveness and is rated satisfactory.

Non-MA KS AA

The bank's performance under the community development test in the non-MA KS AA demonstrates adequate responsiveness and is rated satisfactory.

CNB's community development performance is satisfactory. Bank management has provided community development loans and services that benefit low- and moderate-income families.

Number and Amount of Community Development Loans

CNB generated five loans in the non-MA KS AA equaling \$2.5 million. All of these loans were provided for economic development within the AA. Three of these loans are a part of the Beginning Farmer's Loan Program and two of these loans were provided to businesses to purchase equipment in order to retain low- and moderate- income full- and part- time employees. CD loans in the AA represent 8.5 percent of tier 1 capital.

Number and Amount of Qualified Investments

CNB provided no qualified community development investments.

Extent to Which the Bank Provides Community Development Services

During the evaluation period, CNB employees provided two community development services to various low- and moderate-income organizations. These services were primarily for community services and affordable housing.

Responsiveness to Community Development Needs

CNB provided adequate responsiveness to CD needs in the AA through CD lending and services.

Leavenworth AA

The bank's performance under the community development test in the Leavenworth AA demonstrates adequate responsiveness and is rated satisfactory.

CNB's community development performance is adequate. Bank management has provided community development loans that benefit low- and moderate-income by providing loans that retained or created jobs.

Number and Amount of Community Development Loans

CNB generated three CD loans in the Leavenworth AA totaling \$443 thousand. These loans provided funding to businesses to retain low-to moderate-income employees. CD loans represent 7.1 percent of the bank's tier 1 capital in the AA.

Number and Amount of Qualified Investments

CNB provided no qualified community development investments in this AA.

Extent to Which the Bank Provides Community Development Services

CNB made no qualified CD services in the Leavenworth AA during the review period.

Responsiveness to Community Development Needs

CNB provided adequate responsiveness to CD needs in the AA through CD lending.

Outside of AA

Number and Amount of Community Development Loans

CNB generated four community development loans totaling \$5.4 million for affordable housing in Leavenworth, KS.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 CFR 25.28(c), or 12 CFR 195.28(c), in determining a national bank's (bank) or Federal savings association's (FSA) CRA rating, respectively. The OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or FSA, or in any AA by an affiliate whose loans have been considered as part of the bank's or FSA's lending performance.

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.