



SMALL BANK

Comptroller of the Currency
Administrator of National Banks
Washington, DC 20219

PUBLIC DISCLOSURE

May 09, 2006

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The Exchange National Bank of Cottonwood Falls
Charter Number 6590**

**235 Broadway
Cottonwood Falls, KS 66845**

**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.

INSTITUTION'S CRA RATING

This institution is rated Satisfactory.

- The Exchange National Bank of Cottonwood Falls' quarterly average loan-to-deposit ratio of 70% is good compared to the other bank in the assessment area and three similarly-situated banks in an adjacent county that are considered competitors.
- A majority of Exchange National Bank of Cottonwood Falls' primary loan products have been granted in the assessment area. The sample indicated that 75% of the number and 70% of the dollar amount of loans granted were in the assessment area.
- The level of lending to borrowers of different incomes and businesses of different sizes is good. The agriculture loan sample indicated adequate performance with 90% of the bank's loans to farming operations with annual gross revenues under one million dollars. The bank demonstrated excellent lending levels to low-income borrowers and lending to moderate-income borrowers is excellent.

DESCRIPTION OF INSTITUTION

The Exchange National Bank of Cottonwood Falls (Exchange National) is a \$34.6 million bank in Cottonwood Falls, Kansas. The bank does not have any branches or affiliates. The bank has an ATM at the main location.

Exchange National is a full-service bank offering a variety of loans. Net loans represent 57% of the bank's total assets. As of December 31, 2005, the bank's \$19 million loan portfolio had the following composition: 41% agricultural, 32% residential real estate, 17% commercial, and 10% consumer loans. The bank's business strategy is to diversify the loan portfolio by purchasing commercial loan participations.

We assessed the bank's compliance with the small bank Community Reinvestment Act (CRA) procedures. The bank's primary lending products, by number and dollar amount of loans granted since the last examination, were agricultural loans and consumer loans.

The bank's financial condition, size, local economic conditions, and other factors allow it to help meet the credit needs of its assessment area. We assigned a "Satisfactory" rating at the August 27, 2001 examination.

DESCRIPTION OF ASSESSMENT AREA

The bank's assessment area (AA) is Chase County, Kansas. Chase County is in the heart of the Flint Hills region and is not in a Metropolitan Statistical Area (MSA). This county contains one middle-income census tract and no low-, moderate-, or upper-income census tracts. The 2000 US Census population of the AA was 3,030. The Kansas statewide non-metropolitan median family income for 2006 is \$49,800. The AA has the following income distribution for families: 18% low-income, 23% moderate-income, 26% middle-income, and 33% upper-income. Ten percent of the households in the AA have income below the poverty level. Of the 1,255 households, 31% receive social security and 2% receive public assistance. Twenty-seven percent of the population is not in the work force and almost 19% is over the age of 65.

The median housing value is \$52,000 and 60% of the housing units are owner-occupied. The trade area is dependent on agriculture, especially feeder cattle. The economy is fairly stable and the Kansas unemployment rate for March 2006 is 4.7%. Major employers include the county, school district, and CT Systems. CT Systems is currently negotiating a contract with Spirit AeroSystems, which could potentially provide 25-50 additional jobs for Chase County.

Exchange National faces moderate competition from another bank located in the AA and several other banks in an adjacent county. Examiners selected the other bank in the AA and three similarly-situated banks in the adjacent county for the loan-to-deposit comparison. Exchange National is significantly larger in asset size than the other bank in the AA and has 77% of the total deposits inside the market. Total assets for the competitor banks range from \$17 million to \$115 million.

The 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. The area's primary credit needs are agricultural and consumer loans. The community contact is not aware of any unmet credit needs in the AA.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

Exchange National's lending level is good, given the bank's size, financial condition, AA credit needs, and the competition in the area. The bank's quarterly average loan-to-deposit ratio since the last CRA examination is 70%. The loan-to-deposit ratio is impacted by seasonal variations because of the bank's high volume of agriculture loans. Although the bank's loan-to-deposit ratio has fluctuated, it remains above the competitors' loan-to-deposit ratios. The quarterly average loan-to-deposit ratio over the same period for the competitor banks was 63%, with ratios ranging from 55% to 67%.

Lending in Assessment Area

Exchange National's level of lending in the AA is good, as it extended a majority of its primary loan products in the AA. Specifically, we found the bank made 75% of the number and 70% of the dollar amount of loans in the AA. The sample included twenty agricultural loans originated this year or in the prior two years and twenty consumer loans from the same time period.

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

Exchange National's lending level to borrowers of different income levels and farms of different sizes is good. The agricultural loan sample indicated adequate performance with 90% of the number and 95% of the dollar amount of loans to farms with revenues less than or equal to one million dollars. The distribution is below the demographic data showing 94% of farms with less than one million in gross revenue in Chase County. The loan sample included only one borrower with revenues over one million and only accounted for 2% of the total dollar amount of the sample.

Borrower Distribution of Loans to Farms in AA				
Business Revenues	≤\$1,000,000	>\$1,000,000	Unknown	Total
% of AA Businesses	94%	4%	2%	100%
% of Bank Loans in AA by #	90%	5%	5%	100%
% of Bank Loans in AA by \$	95%	2%	3%	100%

Source: Loan sample; 2005 Business Geodemographic Data

Exchange National has excellent penetration among individuals of different income levels. Consumer lending to low-income borrowers is excellent considering ten percent of the households in the AA have income levels below the poverty level. Consumer lending to moderate-income borrowers is excellent, as the percentage of loans granted is above AA demographics.

Borrower Distribution of Consumer Loans in 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	23%	35%	19%	25%	20%	25%	38%	15%

Source: loan sample; 2000 U.S. Census Data

Geographic Distribution of Loans

Exchange National's AA does not consist of any low- or moderate-income areas. An analysis of the geographic distribution of loans would not be meaningful.

Responses to Complaints

Exchange National has not received any CRA related complaints since the previous exam.

Fair Lending or Other Illegal Credit Practices Review

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