



SMALL BANK

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

PUBLIC DISCLOSURE

September 27, 2006

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**CornerBank, National Association
Charter Number 3218**

**900 Main Street
Winfield, KS 67156**

**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.

- CornerBank's average loan-to-deposit ratio of 75% is comparable to the average of 77% for similarly situated banks with locations in the assessment areas.
- A majority of CornerBank's primary loan products have been granted in the assessment areas. The loan sample indicated 56% of the number and 33% of the dollar volume were granted within the assessment areas.
- CornerBank demonstrated adequate lending to farms and businesses of different sizes within its assessment area. The agricultural loan sample indicated that 81% of the loans were granted to farms with annual gross revenues less than one million dollars. The commercial real estate loan sample indicated that 55% of the loans were granted to businesses with annual gross revenues less than one million dollars.
- CornerBank's lending performance in low- and moderate-income tracts is adequate. Five percent of the commercial real estate loans were granted to borrowers in moderate-income tracts.

DESCRIPTION OF INSTITUTION

CornerBank, National Association (CornerBank) is a \$223 million bank headquartered in Winfield, Kansas. The bank is a wholly-owned subsidiary of Cornerstone Alliance, Ltd., a \$224 million holding company also located in Winfield, Kansas. CornerBank Mortgage, Inc. is a wholly-owned subsidiary of the bank. Since the last exam, the bank opened a loan production office in Wichita, Kansas and moved the operations of affiliate Cornerstone Credit Company into the bank. Besides the main bank, there are two motor banks in Winfield and branches in Oxford, Douglass, Wellington, Lawrence, and Arkansas City, Kansas. Each branch location offers a drive-through facility and a deposit-taking automated teller machine (ATM). A deposit-taking ATM is also located in Lawrence and a convenience store in Udall has a cash-only dispensing ATM.

CornerBank is a full service bank offering a variety of traditional commercial and personal banking services. As of June 30, 2006, the bank's \$159 million loan portfolio had the following composition: 68% real estate, 13% commercial, 13% agricultural, 5% individual, and 1% other loans. The bank's primary lending products, by number and dollar amount of loans granted since the last Community Reinvestment Act (CRA) examination, were commercial real estate and agricultural loans.

The bank's financial condition, size, and local economic conditions, and other factors allow it to meet the credit needs of its assessment areas. We assigned a "Satisfactory" rating at the May 13, 2002 CRA examination.

DESCRIPTION OF ASSESSMENT AREA

CornerBank has two assessment areas (AA): the Winfield AA consists of Cowley County (11 tracts), Sumner County (six tracts), and a portion of Butler County (three tracts); and the Lawrence AA consists of a portion of Douglas County (16 tracts), all in the state of Kansas.

The Winfield AA is located in south-central Kansas, just south of Wichita. Of the 20 census tracts, none is a low-income tract, two are moderate-income tracts (10%), 15 are middle-income tracts (75%), and three are upper-income tracts (15%). The Sumner County portion and the Butler County portion of the AA are in the Wichita Metropolitan Statistical Area (MSA). The 2000 U.S. Census population of the AA was 73,431 and the 2006 Housing and Urban Development (HUD) median family income is \$54,930. The AA has the following income distribution for families: 18% low-income, 19% moderate-income, 25% middle-income, and 38% upper-income. Of the 27,776 households in the AA, 30% receive social security, three percent receive public assistance, and 10% are below the poverty level. Fifteen percent of the population is over the age of 65 and 27% of the population consists of civilians not in the workforce. The median housing value is \$64,081 and 68% of the units are owner-occupied. The trade area is dependent on agriculture. Major employers include Southwestern College, Winfield Correctional Facility, Rubbermaid, Creekstone Farms, General Electric, city and county governments, and local hospitals. The August 2006 unemployment rate for Kansas was 5.1%.

The Lawrence AA contains one low-income tract (6%), four moderate-income tracts (25%), seven middle-income tracts (44%), and four upper-income tracts (25%). This AA is located entirely in the Lawrence MSA. The 2000 U.S. Census population of the AA was 77,974 and the 2006 HUD MSA median family income is \$64,700. The AA has the following income distribution for families: 20% are low-income, 19% are moderate-income, 24% are middle-income, and 38% are upper-income. Of the 30,490 households in the AA, 15% receive social security, two percent receive public assistance, and 20% are below the poverty level. Seven percent of the population is over the age of 65 and 25% of the population consists of civilians not in the workforce. The median housing value is \$117,642 and 43% of the units are owner-occupied. Major employers include the University of Kansas, Sprint, Quaker Oats, Hallmark, the school district, and the city, county, and state governments. The Lawrence MSA unemployment rate for August 2006 was 4.0%.

The assessment areas comply with the regulation and do not arbitrarily exclude any low- or moderate-income areas.

Examiners contacted one community professional in each of the AAs. The contacts indicated that local financial institutions are active in their communities. The Winfield AA contact identified housing, small business, and agricultural loans as the primary credit needs of the area. The Lawrence contact identified affordable housing as the area's primary credit need. Both community contacts indicated that the credit needs of the communities are being met by the local financial institutions.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

CornerBank's lending level is reasonable. The average quarterly loan-to-deposit ratio since the last CRA exam was 75%, as compared to 77% for similarly situated banks with locations in the AAs. The average loan-to-deposit ratio for these banks range from 51% to 106%.

Lending in Assessment Area

CornerBank's lending in its assessment area is adequate, as it extended a majority of its major loan products to borrowers in the AAs. Specifically, we found the bank made 56% of the number and 33% of the dollar amount of loans in the assessment areas. The sample included seventy-eight loans originated or purchased this year and in the prior two years. We sampled twenty commercial real estate and twenty agricultural loans from the Winfield AA and twenty commercial real estate and all eighteen of the agricultural loans from the Lawrence AA.

Lending in Assessment Areas										
	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Total	44	56%	34	44%	78	5,168,751	33%	10,346,741	67%	15,515,492

Source: Loan sample

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

CornerBank's lending to farms of different sizes and businesses of different sizes is adequate. To assess the bank's performance, examiners selected a sample of twenty commercial real estate loans granted in the Winfield AA, twenty agricultural loans granted in the Winfield AA, twenty commercial real estate loans granted in the Lawrence AA, and the only agricultural loan granted in the Lawrence AA. These loan products represent the primary loan types originated since the last CRA examination.

Winfield AA

The bank's lending to farms of different sizes in the Winfield AA is adequate. The agricultural loan sample had 80% of the number and 98% of the dollar amount of loans granted in the AA to farms with annual revenues less than one million dollars. Twenty percent of the number of loans did not have revenue data, but this represents only two percent of the total dollar volume of the sample. The demographic data shows that 99% of the farms have gross annual revenues less than one million dollars.

Borrower Distribution of Loans to Farms in Winfield AA				
Farm Revenues	≤\$1,000,000	>\$1,000,000	Unknown	Total
% of AA Farms	99%	1%	0%	100%
% of Bank Loans in AA by #	80%	0%	20%	100%
% of Bank Loans in AA by \$	98%	0%	2%	100%

Source: Loan sample and 2006 Business Geodemographic Data

Lending to businesses of different sizes in the Winfield AA is adequate. The commercial real estate loan sample had 70% of the number and 63% of the dollar amount of loans granted in the AA to businesses with revenues less than one million dollars. Twenty-five percent of the loans in the sample did not contain revenue information. The demographic data shows 51% of the AA businesses have revenues less than one million dollars and 46% have unknown revenues.

Borrower Distribution of Loans to Businesses in Winfield AA				
Business Revenues	≤\$1,000,000	>\$1,000,000	Unknown	Total
% of AA Businesses	51%	3%	46%	100%
% of Bank Loans in AA by #	70%	5%	25%	100%
% of Bank Loans in AA by \$	63%	21%	16%	100%

Source: Loan sample and 2006 Business Geodemographic Data

Lawrence AA

The bank's lending to farms of different sizes in the Lawrence AA is good. The one agricultural loan granted from the Lawrence AA is to a farm with gross annual revenues less than one million dollars. The demographic data shows 94% of the farms have revenues less than one million dollars. The demographics also reveal that less than two percent of the total number of businesses in the Lawrence AA are farms.

Borrower Distribution of Loans to Farms in Lawrence AA				
Farm Revenues	≤\$1,000,000	>\$1,000,000	Unknown	Total
% of AA Farms	94%	4%	2%	100%
% of Bank Loans in AA by #	100%	0%	0%	100%
% of Bank Loans in AA by \$	100%	0%	0%	100%

Source: Loan sample and 2006 Business Geodemographic Data

Lending to businesses of different sizes in the Lawrence AA is adequate. The commercial real estate loan sample had 40% of the number and 45% of the dollar amount of loans granted in the AA to businesses with gross annual revenues less than one million dollars. The demographic data shows 64% of the businesses have revenues less than one million dollars and 32% of the businesses have unknown revenues. Fifteen percent of the loan sample included loans to businesses with unknown revenues, due to the fact that the bank obtains the business' balance sheet, but not always the income statement or tax return.

Borrower Distribution of Loans to Businesses in Lawrence AA				
Business Revenues	≤\$1,000,000	>\$1,000,000	Unknown	Total
% of AA Businesses	64%	4%	32%	100%
% of Bank Loans in AA by #	40%	45%	15%	100%
% of Bank Loans in AA by \$	45%	40%	25%	100%

Source: Loan sample and 2006 Business Geodemographic Data

Geographic Distribution of Loans

An analysis of the geographic distribution of credit within the Winfield AA indicates that the bank has adequate penetration to businesses and farms in moderate-income tracts. The Winfield AA does not contain any low-income tracts. An analysis of the geographic distribution of credit within the Lawrence MSA AA indicates that the bank has adequate penetration to businesses and farms in low- and moderate-income tracts.

Winfield AA

The geographic distribution of agricultural loans in the Winfield AA is adequate. The following table indicates that the bank has poor penetration in the AA's two moderate-income tracts. Although the sample did not reveal any agricultural loans granted to farms located in the moderate-income tracts, this is mitigated by the fact that only one percent of the farms in the AA are located in the moderate-income tracts.

Geographic Distribution of Loans to Farms in Winfield AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Farms	% of Number of Loans	% of AA Farms	% of Number of Loans	% of AA Farms	% of Number of Loans	% of AA Farms	% of Number of Loans
Agricultural	0%	0%	1%	0%	87%	100%	12%	0%

Source: Loan sample and 2000 U.S. Census Data.

The geographic distribution of commercial real estate loans in the Winfield AA is poor. The following table indicates that the bank has no penetration in the AA's two moderate-income tracts. This is mitigated by the fact that only six percent of the AA businesses are located in moderate-income tracts.

Geographic Distribution of Loans to Businesses in Winfield AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Commercial Real Estate	0%	0%	6%	0%	82%	95%	12%	5%

Source: Loan sample and 2000 U.S. Census Data.

Lawrence AA

The geographic distribution of agricultural loans in Lawrence AA is adequate. Agricultural loans are not a main product for the Lawrence AA, farms represent less than two percent of the AA businesses, and only 14% of the farms are located within the moderate income tracts. The AA contains 97 farms, thus limiting the lending opportunities of the bank.

Geographic Distribution of Loans to Farms in Lawrence AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Farms	% of Number of Loans	% of AA Farms	% of Number of Loans	% of AA Farms	% of Number of Loans	% of AA Farms	% of Number of Loans
Agricultural	0%	0%	14%	0%	58%	100%	28%	0%

Source: Loan sample and 2000 U.S. Census Data.

The geographic distribution of commercial real estate loans in the Lawrence AA is adequate. While it appears the bank's level of lending within the low- and moderate-income tracts is low, the bank has had limited lending opportunities. The bank has no loans in the low-income tract; however, only three percent of the total businesses are located in the low-income tract and the tract primarily consists of student housing. The bank's penetration in the moderate-income tracts is low as 5% of the loans in the sample were extended to businesses in moderate-income tracts compared to the demographics of 29%. The University of Kansas campus covers much of the land in the moderate-income tracts, limiting the commercial real estate lending opportunities.

Geographic Distribution of Loans to Businesses in Lawrence AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Commercial Real Estate	3%	0%	29%	5%	41%	30%	27%	65%

Source: Loan sample and 2000 U.S. Census Data.

Responses to Complaints

CornerBank has not received any
CRA-related complaints since the previous CRA examination.

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.