



PUBLIC DISCLOSURE

April 27, 1998

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The Citizens National Bank
Charter Number 10789**

**417 Commercial - Post Office Box 309
Greenleaf, Kansas 66943**

**Office of the Comptroller of the Currency
Kansas City North - Salina Office
Post Office Box 616
Salina, Kansas 67402-0616**

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 **The Citizens National Bank (CNB)** prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of April 27, 1998. 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.**”

The Citizens National Bank's CRA rating is based on the following factors:

- The revenue distribution of the bank's borrowers is good. The bank lends to farms and businesses of various revenue sizes. CNB also has a good record of lending to low- and moderate-income individuals.
- CNB has an adequate record of lending in all census tracts in its North Eastern Kansas Assessment Area. We did not perform a geographic analysis for the bank's North Central Kansas Assessment Area because none of the tracts are considered low- or moderate-income.
- The bank maintains a reasonable loan-to-deposit ratio. A substantial majority of CNB's loan originations are to borrowers residing within the assessment area.

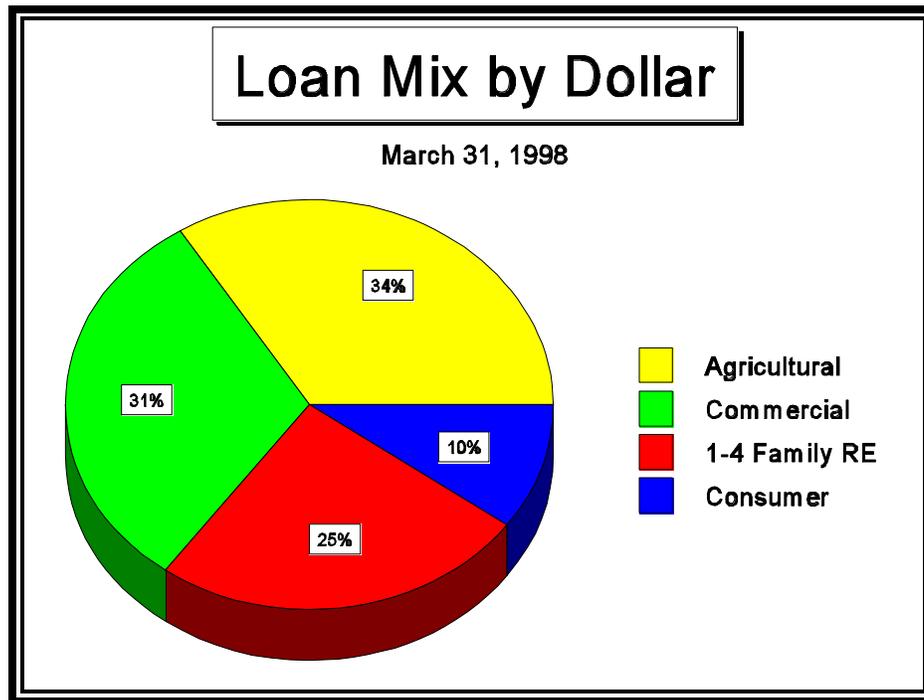
DESCRIPTION OF INSTITUTION

The Citizens National Bank is a \$122 million institution based in Greenleaf, Kansas. The institution has branch offices located in Belleville, Concordia, Lansing, and Leavenworth, Kansas. CNB is wholly owned by The Padgett Agency, Inc., a one-bank holding company. The institution received a rating of “*Outstanding Record of Meeting Community Credit Needs*” at its last CRA examination dated April 27, 1995. Since its last CRA examination, CNB entered a new market in eastern Kansas with its purchase of a \$16 million state bank based in Lansing that had one branch office in Leavenworth. The bank acquired \$10 million of loans and \$14 million of deposits in this transaction. CNB has subsequently opened an additional branch office at a supermarket in Leavenworth and installed seven automated teller machines throughout the cities of Lansing and Leavenworth.

The bank operates in two separate and distinct markets. Management has defined these markets as the North Central Kansas Assessment Area and the North Eastern Kansas Assessment Area. Demographic information regarding each assessment area is described below. In the North Central Kansas Assessment Area, competition is provided by nine banks chartered within the assessment area, one local branch of a large bank chartered outside the assessment area, and one savings bank. In the North Eastern Kansas Assessment Area, there are four banks chartered within Leavenworth County, one branch of a large bank chartered outside the assessment area, and two savings and loan institutions. No legal constraints, financial conditions, or other factors inhibit the bank’s ability to fulfill its CRA obligation.

The bank offers a wide variety of loan and deposit products. In addition, CNB operates a trust department and provides a brokerage service through an independent third party. By dollar volume, the largest portion of CNB’s outstanding loans are agricultural in nature. However, the bank has had an increasing volume of commercial loan activity since entering the Lansing market. By number of loans originated, consumer loans for nonresidential purposes are the most common type of loan extension. As of March 31, 1998, the loan portfolio totaled \$49 million and represented 40 percent of total assets. The chart on the following page shows the bank’s loan portfolio composition as a percentage of average gross loans:

DESCRIPTION OF INSTITUTION (continued)



DESCRIPTION OF ASSESSMENT AREA

CNB has two assessment areas. Both assessment areas meet the requirements of the CRA regulation and do not arbitrarily exclude any low- or moderate-income areas.

North Central Kansas Assessment Area (NCKAA):

The NCKAA includes all of Washington County, Republic County, and Cloud County. Total combined population of these three counties based on 1990 U.S. Census information is 24,578. The NCKAA includes nine block numbering areas (BNA). There are no low- or moderate-income BNA's in this assessment area.

The assessment area includes 6,914 families. Approximately 20 percent of the families are designated as low-income, 23 percent are moderate-income, 27 percent are middle-income, and 30 percent are upper-income. Income designations are based on the median family income levels as a percentage of the 1997 Non-MSA Updated Median Family Income figure of \$36,100.

DESCRIPTION OF ASSESSMENT AREA (continued)

We relied on information provided by six individuals throughout the NCKAA to determine the primary credit needs of this area. These individuals were familiar with area economic development and residential real estate sectors. Some of these contacts with community officials were conducted by other regulatory agencies. Primary credit needs of the assessment area include agricultural loans and small business loans. Affordable housing was identified as a secondary credit need.

North Eastern Kansas Assessment Area (NEKAA):

This assessment area includes ten census tracts in Leavenworth County and is considered a part of the Kansas City Metropolitan Statistical Area (MSA). Total population of this assessment area is 38,831. CNB's assessment area includes three moderate-income tracts, 6 middle-income tracts, and 1 upper-income tract. There are no low-income tracts in Leavenworth County. CNB has one branch office in a moderate-income tract. However, this location is not presently staffed with a loan officer. The bank excluded four middle-income tracts from its assessment area since these tracts are not in close proximity to CNB's branch locations and are adequately served by other financial institutions.

The assessment area includes 9,997 families. Approximately 18 percent of the families are designated as low-income, 20 percent are moderate-income, 28 percent are middle-income, and 34 percent are upper-income. Income designations are based on median family income levels as a percentage of the 1997 MSA Updated Median Family Income figure of \$50,200.

We relied on information provided by two community contacts to determine the primary credit needs of this assessment area. The contacts identified affordable housing and small business loans as the primary credit needs. The Lansing and Leavenworth area has experienced significant growth in recent years as evidenced by numerous commercial construction projects and a strong housing market. Two savings and loan institutions in the assessment area provide strong competition for home loans. Competition for commercial loans is provided primarily by four locally-chartered banks and a branch of a large bank chartered outside the assessment area.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Lending to Farms and Businesses of Different Revenue Sizes and Borrowers of Different Income Levels

Agricultural Lending:

CNB has a good record of lending to small farms within its assessment area. For this review, we focused only on the NCKAA since the bank has only a few agricultural borrowers in its other assessment area. We reviewed the revenue distribution of 65 agricultural borrowers with loan originations between January 1, 1996 and March 31, 1998. Total loan originations to these borrowers during the period we reviewed was \$4.8 million. Our agricultural sample represented 45 percent of the bank’s number of farm borrowers and 45 percent of the dollar volume of agricultural loan originations during the time period under review.

Based on our sample of agricultural borrowers, we determined that a substantial majority of the bank’s farm customers have gross annual revenues of less than \$250 thousand. The largest percentage of borrowers we reviewed had gross annual revenues of less than \$100 thousand. We compared the bank’s lending performance to area demographic information obtained from the 1992 Agricultural Census which was conducted by the U.S. Bureau of the Census. CNB’s proportion of small farm borrowers is comparable to local demographics. The following table shows a more detailed analysis of the agricultural borrower revenue distribution:

AGRICULTURAL BORROWER REVENUE DISTRIBUTION				
(Sample of 65 Loans Originated 1/1/96 - 3/31/98)				
	Distribution of CNB’s Agricultural Borrowers		Distribution of Farms in NCKAA	
Revenue Category	Number of Borrowers	Percentage	Number of Farms	Percentage
\$0 - \$99,999	41	63%	1,759	80%
\$100,000 - \$249,999	17	26%	342	15%
\$250,000 - \$499,999	3	5%	76	3%
\$500,000 and Over	4	6%	34	2%
TOTALS	65	100%	2,211	100%

Commercial Lending:

CNB has a good record of lending to businesses of varying revenue levels within the assessment area. We reviewed loan originations to 45 commercial borrowers in the bank's NCKAA and 25 commercial borrowers in the NEKAA. These samples represented 47 percent and 42 percent, respectively, of the bank's commercial borrowers in each assessment area. Based on this sample, 62 percent of the borrowers in the NCKAA had gross annual revenues of less than \$500 thousand. In the NEKAA, 60 percent of the borrowers had gross annual revenues of less than \$500 thousand. We compared these percentages to 1996 business demographic data provided by Dun & Bradstreet. This information showed that 85 percent of the businesses and farms in both assessment areas had gross annual revenues of less than \$500 thousand. Information on business data alone was not available. The following table shows a more detailed breakdown of our revenue analysis for commercial borrowers:

COMMERCIAL BORROWER REVENUE DISTRIBUTION				
Sample of Loans Originated 1/1/96 - 3/31/98				
	Distribution of Borrowers (NCKAA)		Distribution of Borrowers (NEKAA)	
Revenue Category	Number of Borrowers	Percentage	Number of Borrowers	Percentage
\$0 - \$100,000	15	33%	5	20%
\$100,001 - \$250,000	8	18%	4	16%
\$250,001 - \$500,000	5	11%	6	24%
Over \$500,000	17	38%	10	40%
TOTALS	45	100%	25	100%

Consumer Lending:

The bank’s record of lending to low- and moderate-income families and individuals is good. We reviewed the family income distribution of 100 borrowers in the NCKAA and 30 borrowers in the NEKAA. These samples represented approximately 10 percent of the consumer borrowers in the NCKAA and 20 percent of the consumer borrowers in the NEKAA. We determined the bank’s record of lending to low- and moderate-income borrowers is favorable in comparison to area demographics. In the NCKAA, 29 percent of the borrowers we reviewed were low-income and 21 percent were moderate-income. In this assessment area, 20 percent of the families are low-income and 23 percent are moderate-income. Of the borrowers we reviewed in the NEKAA, 40 percent were low-income and 10 percent were moderate-income. This compared favorably to demographic data which indicated 18 percent of the families were low-income and 20 percent were moderate-income. The following table shows the breakdown of borrower income levels for the 130 customers in our sample:

Individual Income Distribution						
Income Designation of Borrower	Distribution of Borrowers in NCKAA Sample		Percent of Families in NCKAA	Distribution of Borrowers in NEKAA Sample		Percent of Families in NEKAA
	#	%		#	%	
Low	29	29%	20%	12	40%	18%
Moderate	21	21%	23%	3	10%	20%
Middle	29	29%	27%	5	17%	28%
Upper	21	21%	30%	10	33%	34%
Total	100	100%	100%	30	100%	100%

Geographic Distribution of Loans

The bank's record of lending within moderate-income tracts in its assessment area is reasonable. Our analysis of the geographic distribution of loans focused only on the NEKAA since it contains three moderate-income census tracts. The NCKAA contains no low- or moderate-income tracts. In the NEKAA, we reviewed 30 residential real estate originations totaling \$2.7 million, 131 commercial originations totaling \$9.5 million, and 30 consumer originations totaling \$391 thousand. These three samples represented 100 percent of the bank's residential real estate originations, 90 percent of the bank's commercial originations, and 12 percent of consumer originations in the NEKAA. We compared the distribution of residential real estate originations to the percentage of owner-occupied housing in each income tract. We compared the distribution of commercial originations to the percentage of businesses in each income tract. We compared the distribution of consumer originations to the percentage of population living in each income tract. The following table shows the results of these comparisons:

GEOGRAPHIC DISTRIBUTION ANALYSIS						
Sample of Loans Originated in North Eastern Kansas Assessment Area						
1/1/96 - 3/31/98						
	Residential Real Estate Originations		Commercial Originations		Consumer Originations	
Geographic Tract Income Level	# (%) of Originations	% of owner-occupied housing in NEKAA	# (%) of Originations	% of Businesses in NEKAA	# (%) of Originations	% of Population in NEKAA
Moderate	4 (13%)	17%	30 (23%)	51%	2 (7%)	21%
Middle	25 (84%)	76%	99 (76%)	48%	28 (93%)	73%
Upper	1 (3%)	7%	2 (1%)	1%	0 (0%)	6%
TOTALS	30 (100%)	100%	131 (100%)	100%	30 (100%)	100%

Loan-to-Deposit Ratio (LTD)

The bank's LTD ratio is reasonable. CNB's average LTD ratio for the past eight quarters is 46 percent. The average LTD ratio for the 10 banks chartered in the NCKAA is 56 percent. CNB has the second lowest LTD ratio among these banks. However, CNB does maintain the largest market share of loans and deposits among the banks in this assessment area. As of December 31, 1997, CNB controlled 26 percent of all loans at state and national banks in this assessment area and 33 percent of all deposits. President Padgett indicated that one factor which reduced CNB's LTD ratio was the purchase of a savings and loan with offices in Belleville and Concordia in 1992. With this transaction, CNB acquired \$27 million of deposits and only \$1 million of loans. The bank's LTD ratio at the time of this acquisition was only 33 percent. Since that time, net loans have increased \$20 million and total deposits have increased \$27 million.

Lending in the Assessment Area

A substantial majority of the bank's loan originations are extended to borrowers living within the assessment areas. Bank personnel generated reports during the examination which showed loan originations made from January 1, 1996 to March 31, 1998. We verified the accuracy of this information and used it for our assessment area analysis. During the period under review, CNB originated 2,526 loans totaling approximately \$36 million from offices in the NCKAA and 502 loans totaling approximately \$19 million from offices in the NEKAA. We determined approximately 90 percent of the bank's loan originations were to borrowers living within the assessment areas. The following table further details our assessment area analysis:

ASSESSMENT AREA (A.A.) ANALYSIS (Based on Loans Originated 1/1/96 - 3/31/98)				
Type of Loan	North Central Kansas Assessment Area		North Eastern Kansas Assessment Area	
	% in A.A. (By #)	% in A.A. (By \$)	% in A.A. (By #)	% in A.A. (By \$)
Agricultural	86%	79%	100%	100%
Commercial	97%	86%	87%	89%
Consumer	90%	88%	87%	86%
Residential Real Estate	90%	89%	100%	100%
OVERALL	90%	84%	88%	90%

Compliance with Antidiscrimination Laws and Regulations

CNB adequately complies with antidiscrimination laws and regulations. We did not identify any substantive violations and found no evidence of discriminatory practices.

Response to Complaints

CNB has not received any complaints relating to its CRA performance since the last examination.