



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

August 18, 2003

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The Coldwater National Bank
Charter Number 6767**

**145 East Main
Coldwater, KS 67029**

**Comptroller of the Currency
Assistant Deputy Comptroller, C. Scott Schainost
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 Needs to Improve.

The bank is given a **Needs to Improve** rating based on its low level of lending. Coldwater National Bank (CNB) has a quarterly average loan-to-deposit ratio considerably below that of peer banks operating in and adjacent to its assessment area. The bank's quarterly average loan to deposit ratio since the previous examination is 28% compared 73% for peer banks. Coldwater National Bank shows satisfactory performance in lending in its AA and satisfactory performance in lending to farms of different sizes and consumer borrowers of different incomes; however, this performance is negated due to the low level of lending overall.

DESCRIPTION OF INSTITUTION

The Coldwater National Bank (CNB or "the bank") is a \$16 million financial institution located in Coldwater, Kansas. The bank has one branch in Wilmore, Kansas and does not maintain any automated teller machines. CNB does not operate under a holding company. The bank merged with its sister bank, The State Bank of Wilmore, in August of 2001.

CNB is a full service bank providing a variety of loan products with an emphasis on agricultural and consumer purpose loans. On March 31, 2003, net loans represented 18% of total assets. The bank's \$2.8 million loan portfolio has the following composition: 54% agricultural; 14% consumer; 13% residential real estate; 12% other real estate; and 7% commercial. The bank has not changed any existing loan products, or offered any new products since the previous CRA examination. Examiners determined the primary lending products were agricultural and consumer purpose loans.

The bank's financial condition, size, and local economic conditions allow it to help meet the credit needs of its assessment area. Examiners assigned a "Satisfactory" rating at the August 2, 1999, CRA examination.

DESCRIPTION OF ASSESSMENT AREA

The bank's assessment area (AA) consists of Comanche County, Kansas. The county is not in a Metropolitan Statistical Area. The AA consists of the middle-income block numbering area 9676. The AA complies with regulation and does not arbitrarily exclude any low- or moderate-income areas. The Kansas statewide non-MSA median family income for 2002 is \$44,200. The unemployment rate for the AA in June of 2003 is 1.8% compared to 6.2% nationwide.

Examiners made two community contacts with local business professionals in the AA. The contacts felt that the areas credit needs are being met. Agricultural and general consumer purpose loans were identified as two of the areas primary credit needs. The contacts indicated that the local financial institutions are active in the community.

The AA has a population of 2,313. The income distribution for families in the AA is 28% low-

income, 20% moderate-income, 21% middle-income, and 31% upper-income. Two other banks provide competition in the AA. The asset sizes of these banks are \$19 million and \$33 million. CNB has 22% of the area's deposits ranking it 3rd in deposit market share.

The local economy is highly dependent upon the agricultural industry including both row crop and cattle ranching. Consecutive below average crop yields, combined with poor cattle prices have adversely affected the local economy.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

CNB's level of lending is poor. The bank's quarterly average loan-to-deposit ratio (LTD) since the previous examination ending March 31, 2003, is 28%. Examiners compared this ratio to that of similarly situated banks in and adjacent to the AA. For peer banks, examiners analyzed the ratios over the same time period for a group of three banks. The quarterly average ratio for this group is 73%. The quarterly average ratios for the banks within the peer group range from 64% to 82%. The bank is the smallest banking office in the AA. CNB accounted for \$12 million or 22% of Comanche County's total deposits as of June 30, 2003.

The bank's low level of lending is attributed to management's conservative lending philosophy. Two of the peer group banks operate within the AA and have quarterly average LTD ratios of 64% and 82%. These other banks provide similar lending products and operate in communities similar to Coldwater. The demographic composition of the AA and the high level of lending by other banks indicate there is credit demand in the AA. These factors make it reasonable to conclude that the bank's low LTD ratio reflects that management has not made lending a focus of bank activity.

Lending in Assessment Area

FNB's lending in its AA is satisfactory as it extends the majority (90% of the number and 94% of the dollar) of its loans in the AA. Examiners utilized management reports detailing the bank's lending in its AA.

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

CNB's lending distribution among farms of different sizes and borrowers of different incomes is satisfactory. Examiners utilized a sample of 19 agricultural and 20 consumer purpose loans, originated in 2000 through 2002, to assess the bank's performance in this area. Revenue and income information is not consistently obtained by the bank therefore examiners used loan size as a proxy.

The bank's level of lending to agricultural borrowers of different sizes is satisfactory. Loans under \$150 thousand are considered to be made to small farms. The sample found that 95% of loans are made to small farms. Further breakdown of the sample indicates 84% of loans were under \$100 thousand and 79% were under \$50 thousand. Dun & Bradstreet data shows 100% of farms in the AA have revenues of less than \$1 million and are considered small.

The bank's level of lending to consumer borrowers of different incomes is good. Loans under \$5

thousand are considered to be made to low-income borrowers and loans under \$20 thousand are considered to be made to moderate-income borrowers. Lending to low-income borrowers is satisfactory as the bank extended 30% of the sample to low-income borrowers compared to demographic data showing 28% of households in the AA having low incomes. Lending to moderate-income borrowers representing 46% of the sample is well above household demographic data showing 20% and represents excellent performance.

Geographic Distribution of Loans

An analysis of the geographic distribution of loans within the AA would not be meaningful as it includes only a middle-income block numbering area.

Responses to Complaints

The bank has not received any CRA related complaints since the previous CRA examination.

Fair Lending Review

We found no evidence of illegal discrimination or other illegal credit practices.