



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## **PUBLIC DISCLOSURE**

**April 21, 2008**

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

The Downs National Bank  
Charter Number 11318

800 North Morgan Avenue  
Downs, KS 67437

Office of the Comptroller of the Currency

KANSAS CITY NORTH  
7101 College Blvd Suite 1600  
Overland Park, KS 66210-4706

**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 major factors supporting the institution's rating are:

- The bank's record of lending to agricultural borrowers of different income levels and sizes is reasonable.
- The majority of loans by number and dollar are made to borrowers in the bank's assessment area (AA).
- The bank's overall lending levels are satisfactory and reflect a reasonable response to meeting community credit needs.

**SCOPE OF EXAMINATION**

We performed a full-scope evaluation of Downs National Bank's (DNB) assessment area using small bank Community Reinvestment Act Procedures.

There are no changes in the type of loan products the bank offers since the last Community Reinvestment Act (CRA) examination. We based our review on the bank's number and dollar volume of loans originated and purchased from September 13, 2002 through March 31, 2008.

**DESCRIPTION OF INSTITUTION**

Downs National Bank (DNB) is a \$14 million dollar bank located in Downs, Kansas. The bank has no branches or automated teller machines (ATMs). DNB is owned by Downs Bancshares, Inc., a one-bank holding company. The bank offers a variety conventional financial products and services.

Primary lending products by number are agricultural loans 40% and consumer auto purchases 18%. By dollar volume, agricultural loans comprised 40%, residential real estate loans 12%, and consumer auto purchases totaled 5% of total loans. We chose farm land purchases and residential real estate loans for our sample. However, there were not enough loans made within our assessment time frame of January 1, 2006 through March 31, 2008 to obtain a good representative sample in either category (16 residential real estate and 6 farm land purchases). In order to obtain a comprehensive sample, we combined all types of agricultural loans to obtain a sample. The bank does not retain income information on the consumer automobile borrowers. This decreased the level of analysis that we were able to perform.

There are no financial, legal, or other factors that impede the bank's ability to help meet the credit needs of its assessment area. DNB received a Satisfactory rating in its last CRA evaluation dated September 13, 2002.

## **DESCRIPTION OF ASSESSMENT AREA(S)**

DNB's assessment area (AA) consists of five contiguous census tracts (CT) to include: 9741 in Osborne County; 9758 and 9759 in Smith County; 9767 in Mitchell County; and 9762 in Jewell County. The bank is located in CT 9741 in Osborne County. CT 9741 and CT 9767 are designated as underserved due to their remote rural location. CT 9758, 9759, and 9762 are designated as underserved and distressed due to their remote rural location and population loss. All five CTs are designated as middle-income. The AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income geography.

The AA has a high percentage of lower income households and older persons that impact loan demand. The 2000 census of the AA reflects that 1.42% of households are on public assistance, 11.57% are below the poverty level, 41.47% of the households receive social security, and 13.94% are retired. The total population is estimated at 13,478.

The 1990 census of the AA reflected 5.05% of households on public assistance, 15.64% below the poverty level, 43.73% received social security, and 10.65% were retired. The total population was 13,725. There was a total of 6 tracts in the AA, 2 were designated moderate income with the remaining 4 designated as middle income tracts.

We also noted that in 1990 the AA included 1 tract in Osborne County (CT 9741) which had a population of 4,867. Osborne County tracts changed in 2000 from 2 separate tracts for the entire county (CT 9741 and 9742) to 1 tract (CT 9741) and had a population of 4,452 for the county. Although the square mileage of this portion of the AA increased significantly, the population still experienced a dramatic decline of 415 persons.

There are several competitors within the bank's AA. There are 16 financial institutions within the 4 County area (8 federal, 8 state) and 26 bank locations. DNB ranks 13th in deposit market share among these banks, but they only rank 15th in asset size. Several of the institutions in the 4 County area are significantly larger than DNB and have multiple offices.

We made one community contact during this review. The community continues to be agriculturally driven, and agricultural continues to be the primary credit need. The contact stated that overall, the banks in the area are meeting the credit needs of the community and provide community support.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

### **Loan-to-Deposit Ratio**

The bank's loan to deposit ratio (LTD) is reasonable. The average quarterly LTD ratio from September 30, 2001 through December 31, 2007 was 55%. We compared DNB to 5 other community banks in the AA. Given DNB's small asset size, there are few

similarly situated banks. We chose the smallest five within the bank's AA. The average LTD of the other banks ranged from 125% to 52%. DNB falls in the lower half of this range. This is reasonable given the bank's size, market competition, and the population demographics.

**Lending in Assessment Area**

The bank's record of lending to borrowers within their AA is excellent. We determined the primary product types by evaluating bank reports that detail the number and dollar amount of outstanding loans. We sampled a total of 40 agriculture operating, farmland purchase, and consumer auto loans originated during the evaluation period. The sampled loans were comprised of 20 consumer auto loans, 14 agriculture operating, and 6 farmland purchase credits. Lending to borrowers within the AA is calculated at 92 percent by number and 95 percent by dollar.

**Table 1 - Lending for Downs National Bank**

Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Agricultural Loans	20	85.00	0	0.00	20	559	100.00	0	0.00	559
Consumer Loans	17	100.00	3	15.00	20	145	78.73	39	21.27	185
Totals	37	92.50	3	7.50	40	704	94.71	39	5.29	743

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

The bank's record of lending to borrowers of different income levels, including low- and moderate-income borrowers, and to business of different sizes and income levels is reasonable. We evaluated the bank's performance by sampling revenue distribution of 20 agricultural borrowers. The bank does not retain income information on their consumer auto loans. Therefore, we could not perform an income distribution analysis on the auto portion of our loan sample. Our sample period focused on loans originated in the current period and the prior two years.

DNB's level of agricultural lending to farms of different sizes and income levels is reasonable. Lending to farms with revenues below \$1 million is good as 100% of the agricultural loans in the sample were to farms with revenues below \$1 million. This is comparable to AA demographics that show 98.49% of farms have revenues below \$1 million. The borrower distribution by loan size is evenly distributed when looking at the percentage of dollar volume of the loans. By number of loans, 50% of the sample is loans for \$20 thousand or less.

Business Revenues	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Farms	98.49%	0.00%	1.51%	100%
% of Bank Loans in AA by #	100.00%	0.00%	0.00%	100%
% of Bank Loans in AA by \$	100.00%	100.00%	100.00%	100%

Loan Size	Number of Loans	Percent of Number	Dollar Volume of Loans	Percent of Dollar Volume
\$0 - \$20,000	10	50.00%	\$119,196	21.34%
\$20,001 - \$40,000	5	25.00%	\$134,772	24.13%
\$40,001 - \$60,000	4	20.00%	\$205,000	36.70%
\$60,001 - \$80,000	0	0.00%	\$0	0.00%
\$80,001 - \$100,000	1	5.00%	\$99,662	17.84%
Total	20	100.00%	\$558,630	100.00%

**Geographic Distribution of Loans**

A geographic distribution analysis of the bank's loans would not be meaningful since all census tracts within the bank's assessment area are designated as middle-income geographies.

**Responses to Complaints**

DNB has not received any written CRA related complaints during the evaluation period.

**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.