



PUBLIC DISCLOSURE

April 01, 2013

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

CornerBank, National Association
Charter Number 3218

900 Main Street
Winfield, KS 67156

Office of the Comptroller of the Currency

Wichita Field Office
2959 N. Rock Road, Suite 510
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 quarterly loan-to-deposit (LTD) of 63% reflects reasonable responsiveness to credit needs in its assessment areas (AA).
- CornerBank extended a majority of its primary loan products to businesses and farms located within the bank's three AAs.
- CornerBank's lending to businesses and farms with gross revenues less than or equal to one million dollars reflects reasonable penetration.
- Geographical distribution of loans to business and farms located in low- or moderate-income tracts reflects reasonable dispersion.

SCOPE OF EXAMINATION

CornerBank's primary loan product in the Cowley County AA and the Wichita Rural AA is agricultural loans. The primary lending product in the Lawrence AA is business loans. The evaluation of lending products included a review of twenty loans in each of the three AAs. The bank's business strategy has not changed; therefore loans granted during these years are representative of all loans granted since the September 27, 2006 Community Reinvestment Act (CRA) examination. CornerBank's lending results were compared to business and farm data from the 2000 U. S. Census, updated for 2011.

DESCRIPTION OF INSTITUTION

CornerBank is a federally chartered institution with total assets of \$287 million as of December 31, 2012. The bank is a wholly owned subsidiary of Cornerstone Alliance, Ltd., a one-bank holding company located in Winfield, Kansas. The holding company had total consolidated assets of \$287 million as of December 30, 2012. The institution operates nine full-service offices in three AAs. The main bank location is located in Winfield, Kansas, with two branch locations also serving the community. Additional branches are located in the small Kansas towns of Oxford, Douglass, Wellington, and Arkansas City. The Metropolitan Statistical Areas (MSA) of Wichita and Lawrence have one location each. Six locations in the smaller communities have 24-hour deposit taking ATMs. The Oxford location does not take deposits. The Wichita and Lawrence locations do not have ATMs as their primary focus is business customers.

CornerBank is a full-service banking institution offering a full range of commercial, real estate, and consumer credit products. On December 31, 2012, net loans and leases represented 42% of the bank's total assets. The \$117 million loan portfolio consisted of 41% business loans, 31% agricultural loans, 23% one-to-four family residential real estate loans, and 5% consumer loans.

The CornerBank business strategy includes addressing the needs of less qualified borrowers. The bank works with the Small Business Association (SBA) to assist customers who do not meet the bank's credit standards or who could benefit from SBA assistance. The bank has been approved as an Express Lender through the Wichita District SBA office. Additionally, the Chief Credit Officer provided instruction for potential business borrowers in conjunction with the Kansas Small Business Development Center and Cowley County Community College.

CornerBank has secondary market relationships that make it possible for low- and moderate-income households to qualify for residential real estate loans. Examples include Federal Housing Administration and U.S. Department of Agriculture Rural Development loans. CornerBank also participates in First Time Homebuyer programs when available.

There are no legal, financial, or other factors impeding the bank's ability to help meet the credit needs of its AAs. The Office of the Comptroller of the Currency last evaluated CornerBank's CRA performance on September 27, 2006. The bank received an overall rating of "Satisfactory" under the Small Bank Performance Standards.

DESCRIPTION OF ASSESSMENT AREAS

CornerBank has defined three separate AAs in Kansas. The Cowley County AA consists of the eleven census tracts comprising that county. The Wichita Rural AA consists of the six census tracts located in Sumner County, three census tracts located in Butler County, and four census tracts located in the city of Wichita, Sedgwick County. The counties of Sumner, Butler, and Sedgwick are three of the four counties that comprise the Wichita MSA. The Lawrence AA is comprised of the city of Lawrence, Kansas. The city of Lawrence is contained within the Lawrence MSA, which consists of all of Douglas County.

Primary consideration was given to the Cowley County AA for this evaluation. The Cowley County AA holds 74% of the institution's total deposits, with the Wichita Rural AA maintaining 20%, and the Lawrence AA holding 6%.

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

Cowley County AA

The Cowley County AA consists of eleven census tracts. The 2000 U. S. Census updated for 2011 indicates there are two moderate-income tracts, eight middle-income tracts, and one upper-income tract within the AA. None of the tracts are located in an MSA.

The updated 2000 U. S. Census population of the AA is 36,291. The Housing and Urban Development (HUD) Updated 2011 MSA Median Family Income is \$53,700. The

AA has the following distribution for families; 19% low-income, 18% moderate-income, 24% middle-income, and 39% upper-income. Of the 14,073 households in the AA, 31% receive social security, 12% have income below the poverty level, and 3% receive public assistance. Approximately 16% of the population is over the age of sixty-five and 36% of the population consists of civilians not in the workforce. The Weighted Average of Median Housing value from the updated 2000 U. S. Census data is \$55,253. Sixty-three percent of the units are owner occupied.

The primary industries in the AA are agriculture and manufacturing. Other significant employers in the AA include the hospital, schools, and small businesses. In 2010, Cowley County had 774 businesses of which 686 employed between one and nineteen employees. Eighty-eight percent of the people working in Cowley County were employed by these small businesses.

CornerBank faces strong competition in the AA. Based on the Federal Deposit Insurance Corporation's (FDIC) most recent Deposit Market Share Report dated June 30, 2012, eight competing institutions maintain twenty-one offices in the AA. The largest competitor with forty-three billion dollars in deposits and 643 branches has a location in the same town as CornerBank's main office. CornerBank maintains second position for market share with 27% of the Cowley County deposits.

Wichita Rural AA

The Wichita Rural AA consists of thirteen census tracts. All census tracts in Sumner County are included as well as tracts 209.01 – 209.03 in Butler County, and four census tracts, 72.01, 100.01, 100.02, and 101.15, in the city of Wichita, Sedgwick County. The updated 2000 census data reflects eight middle-income tracts and five upper-income tracts. The AA does not contain any low- or moderate-income census tracts. All census tracts in the AA are located within the Wichita MSA.

The updated 2000 U. S. Census population of the AA is 56,133. The Housing and Urban Development (HUD) Updated 2011 MSA Median Family Income is \$64,100. The AA has the following distribution for families; 14% low-income, 17% moderate-income, 25% middle-income, and 44% upper-income. Of the 21,070 households in the AA, 25% receive social security, 7% have income below the poverty level, and 2% receive public assistance. Approximately 12% of the population is over the age of sixty-five and 32% of the population consists of civilians not in the workforce. The Weighted Average of Median Housing value from the 2000 U. S. Census data is \$90,295. Seventy-one percent of the units are owner occupied.

The aircraft industry provides a significant number of jobs in the Wichita area. Major aircraft companies include Spirit Aero Systems, Cessna Aircraft, Hawker Beechcraft Aircraft, Bombardier Learjet, and Boeing Defense, Space & Security. Other key employers in the area include McConnell Air Force Base, Via Christi Healthcare, Koch Industries, Wesley Medical Center, Wichita State University, and state and local governments. Wichita's commutable distance provides employment opportunities for many Butler and Sumner County residents.

The Sumner County and Butler County census tracts are primarily rural. The principal industry for these areas is agriculture. Other significant employers in the rural census tracts are local governments and school districts.

Competition in the Wichita Rural AA is significant. The FDIC's Deposit Market Share Report reflects fifty institutions with 220 branches located within Butler, Sedgwick, and Sumner Counties. The heaviest concentration of institutions is in the city of Wichita where CornerBank has one branch. CornerBank ranks 31st in deposit market share with 0.34% of deposits in the three-county area.

Lawrence AA

The Lawrence AA consists of the city of Lawrence and contains eighteen census tracts; 1, 2, 3, 4, 5.01, 5.02, 6.01, 6.02, 7.01, 7.02, 7.97, 8.01, 8.02, 9.01, 9.02, 10.01, 10.02, and 15. The updated 2000 census data reflects one low-income tract, five moderate-income tracts, eight middle-income tracts, and four upper-income tracts. All census tracts in the AA are located within the Lawrence MSA.

The updated 2000 U. S. Census population of the AA is 82,921. The Housing and Urban Development (HUD) Updated 2011 MSA Median Family Income is \$70,600. The AA has the following distribution for families; 20% low-income, 16% moderate-income, 25% middle-income, and 39% upper-income. Of the 32,444 households in the AA, 15% receive social security, 19% have income below the poverty level, and 2% receive public assistance. Approximately 7% of the population is over the age of sixty-five and 29% of the population consists of civilians not in the workforce. The Weighted Average of Median Housing value from the updated 2000 U. S. Census data is \$116,041. Forty-five percent of the units are owner occupied.

The University of Kansas is the largest employer in the Lawrence AA, followed by the local governments, school districts, and Lawrence Memorial Hospital. The city also has some sizeable manufacturing facilities (Hallmark Cards and Del Monte Foods) and a large regional distribution center (K-Mart Distribution).

The economies of Kansas are generally more stable than other parts of the country. The Bureau of Labor Statistics reflects a December 2012 unemployment rate of 5.4% for the State of Kansas. Butler and Cowley Counties had a December unemployment rate of 5.8%. Sumner County and Sedgwick County had December unemployment rates of 5.5% and 6.1%, respectively. The national unemployment rate for December was 7.8%.

Examiners contacted two community professionals. We discussed lending needs in the community of Lawrence with a civic leader. Primary lending needs in this AA are loans for small business start-up companies in the technical industry and for entry-level housing. Our second contact was a nonprofit economic development organization serving in the bank's southern AAs. Primary lending needs in these AAs are small business and small farm loans. Both community professionals indicated that financial

institutions are meeting the credit needs of their areas. The contacts also noted that most of the institutions are very involved in their communities.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

CornerBank’s average quarterly LTD ratio of 63% reflects reasonable responsiveness to the credit needs of its AAs. During the period under review, the institution’s LTD ratio ranged between 47% and 79%. The average quarterly LTD ratio for the bank’s primary competitors was 71%, with ratios ranging from 48% to 100%.

Lending in Assessment Area

CornerBank extended a majority of its primary loan products to businesses and farms located within the bank’s three AAs. We found the bank granted 65% of the number and 76% of the dollar amount of its primary products within the AAs.

Lending to Businesses and Farms of Different Sizes

CornerBank’s lending to businesses and farms of different sizes reflects reasonable penetration.

The bank’s lending penetration to farms of different sizes in the Cowley County AA and Wichita Rural AA is reasonable. As indicated in Tables 1 and 2 below, the institution’s performance for lending to farms with revenues less than or equal to one million dollars is near the demographic ratio. The farm loan samples indicate the bank’s penetration is 70% and 71% for the Cowley County AA and the Wichita Rural AA, respectively. Demographic data reflect that at least 99% of the farms in both AAs have gross revenues less than or equal to one million dollars.

Table 1 - Borrower Distribution of Loans to Farms in Cowley County AA				
Farm Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Farms	99%	1%	00%	100%
% of Bank Loans in AA by #	70%	10%	20%	100%
% of Bank Loans in AA by \$	22%	33%	45%	100%
Table 2 - Distribution of Loans to Farms in Wichita Rural AA				
Farm Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Farms	99.80%	0.20%	0.00%	100%
% of Bank Loans in AA by #	71.43%	28.57%	0.00%	100%
% of Bank Loans in AA by \$	23.05%	76.95%	0.00%	100%

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

The bank’s lending penetration to businesses of different sizes in the Lawrence AA is also reasonable and near the demographic ratio. The business loan sample indicated the bank’s penetration is 45%. The demographic data reflect that 67% of the businesses in the Lawrence AA have gross revenues less than or equal to one million dollars. See Table 3.

Table 3 - Borrower Distribution of Loans to Businesses in Lawrence AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	67%	3%	30%	100%
% of Bank Loans in AA by #	45%	55%	0%	100%
% of Bank Loans in AA by \$	39%	61%	0%	100%

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

Geographic Distribution of Loans

CornerBank’s lending to businesses and farms located in low- and moderate-income tracts reflects reasonable dispersion.

Dispersion of farm loans in the Cowley County AA is excellent. The bank’s performance ratio of 5% in moderate-income tracts significantly exceeds the demographic ratio of 1%. There are no low-income tracts in the AA. See Table 4.

Table 4 - Geographic Distribution of Loans to Farms in Cowley County AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Farms	% of Number of Loans						
Farms	0%	0%	1%	5%	78%	90%	21%	5%

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

Dispersion of business loans in the Lawrence AA is reasonable. The bank’s performance ratio of 18% in moderate-income tracts is near to the demographic ratio of 31%. The bank’s performance ratio of 0% in low-income tracts is below the demographic ratio of 3%. CornerBank’s performance below the demographics in the low-income tract did not significantly influence our conclusion. The branch is located a significant distance from the low-income tract. Additionally, the tract consists primarily of the University of Kansas college campus. Both of these attributes limit the lending opportunities in the low-income tract. See Table 5 for geographic demographics.

Table 5 - 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
Businesses	3%	0%	31%	18%	36%	27%	30%	55%

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

A geographical analysis of farm loan dispersion in the Wichita Rural AA would not be meaningful. There are no low- or moderate-income tracts in the AA.

Responses to Complaints

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

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. 25.28(c), or 12 C.F.R. 195.28(c), in determining a national bank's (bank) or Federal savings association's (FSA) CRA rating, respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or FSA, or in any AA by an affiliate whose loans have been considered as part of the bank's or FSA's lending performance.

CornerBank was selected through random sampling to receive a Fair Lending examination during 2012. We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.