



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## **PUBLIC DISCLOSURE**

**January 31, 2011**

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

First National Bank of Elkhart  
Charter Number 18458

601 Morton  
Elkhart, KS 67950

Office of the Comptroller of the Currency

Wichita Field Office  
Northrock Business Park  
3450 N. Rock Road, Suite 505  
Wichita, KS. 67226-1355

**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 outstanding.**

- The First National Bank of Elkhart's average quarterly loan-to-deposit ratio is more than reasonable. The average quarterly loan-to-deposit ratio is 72%, compared to 75% for one other larger, similarly situated bank. The competitor operates one location in the assessment area and multiple locations outside the assessment area.
- A majority of the bank's primary loan products have been granted in the assessment area. The loan sample indicated that 66% of the dollar volume and 65% of the number of loans were granted in the assessment area.
- First National Bank's lending to farms of different sizes and borrowers of different income levels is excellent. One hundred percent of the number of loans were granted to farms with revenues less than or equal to one million dollars. The consumer automobile loan sample indicated 30% (by number) of loans were granted to low-income households in the assessment area and an additional 35% of loans were granted to moderate-income households.

## **DESCRIPTION OF INSTITUTION**

As of December 31, 2010, First National Bank of Elkhart (FNBE) was a \$69 million community bank located in Morton County in Elkhart, Kansas. Morton County is in the far southwest corner of the state, bordering Colorado and Oklahoma. FNBE operates out of a main office in Elkhart and one branch in Rolla, Kansas. The bank has two Automated Teller Machines (ATM), one located at each branch location. The bank has not closed any branch offices during the evaluation period. The bank is a subsidiary of Elkhart Financial Company, a bank holding company that is a subsidiary of Kansas Bank Corporation, a three-bank holding company of Johnson, Kansas. The other two banks are First National Bank of Liberal and First National Bank of Syracuse.

FNBE is a full-service bank offering a variety of loans. Net loans represent 60% of the bank's total assets. As of December 31, 2010, the bank's \$46 million loan portfolio had the following composition: 44% agricultural, 25% real estate, 22% commercial, and 9% individual loans.

The bank's primary lending products, by number and dollar amount, granted since the last Community Reinvestment Act (CRA) examination were agricultural loans and consumer automobile loans.

The bank's financial condition, size, local economic conditions, and other factors allow it to meet the credit needs of its assessment area (AA). We assigned an "Outstanding" rating at the October 27, 2003 CRA examination.

## **DESCRIPTION OF ASSESSMENT AREA**

The bank has one AA, comprised of Morton County, Kansas. The AA is not located in a Metropolitan Statistical Area (MSA). The bank's one census tract (CT) is located in a middle-income tract. In addition, the U.S. Department of Housing and Urban Development (HUD) has declared Morton County as a distressed and underserved area. The AA does not contain any low-income CT. The AA complies with the regulation and does not arbitrarily exclude any low- or moderate-income areas.

The 2000 U.S. Census population of the AA was 3,496. The 2010 HUD median family income of the AA was \$52,800. The income distribution for families in the AA is 17% low-income, 17% moderate-income, 22% middle-income, and 44% upper-income. Of the 1,282 households in the AA, 29% receive social security and 10% are below the poverty level. Fourteen percent of the population is over the age of sixty-five, and 34% of the population consists of civilians not in the workforce. The median housing value is \$63,100, and 62% of the housing units are owner occupied. The November 2010 unemployment rate for Morton County was 4.2%.

Competition for financial services is strong. The June 30, 2010 FDIC Deposit Market Share Report shows one other larger financial institution competed for \$99 million of the AA's total insured deposits. The nature of the competition includes another community bank with access to loans and deposits outside the local market. The bank considers this other institution to be a close competitor, due to geographic proximity and similar lines of business.

Examiner contacted one community professional in the AA. The contact indicated that the primary credit need of the community is agriculture, and that the local financial institutions are adequately meeting the needs of the area. The contact noted that FNBE is extensively involved in the communities in which it serves.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

### Loan-to-Deposit Ratio

The bank's lending level is more than reasonable compared to the primary, larger competitor. The bank operates both of its offices inside the AA, while the competitor operates one location in the AA and multiple locations outside the AA. Since the last CRA examination, the bank's average loan-to-deposit ratio is 72%. The average quarterly loan-to-deposit over the same period for one other similarly situated bank is 75%.

### Lending in Assessment Area

The bank's lending in the AA is more than reasonable, considering its close proximity to the Colorado and Oklahoma state line. The bank extended a majority of its primary loan products to borrowers located in the AA. We found 66% of the dollar amount and 65% of the number of loans granted by the bank were in the bank's AA. The sample consisted of 20 loans of each primary product originated during 2009, 2010, and year-to-date 2011.

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

The level of lending to farms of different sizes and borrowers of different incomes is excellent. To assess the bank's performance, examiners selected a sample of 40 loans originated since the prior CRA examination. The bank's primary products are agriculture and consumer automobile loans. The sample included 20 loans of each loan product type.

Lending to farms of different sizes is excellent. The agriculture sample had 100% of the dollar amount and number of loans granted in the AA to farms with revenues less than one million dollars. Geodemographic data indicates that 95% of farms in the AA have gross annual revenues less than one million dollars.

Distribution of Loans to Farms in AA				
Farm Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Farms	95%	3%	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 2010 Business Geodemographic Data

FNBE's level of lending for consumer automobile loans is excellent. Consumer automobile lending to low-income consumers is excellent. The bank granted 30% of the number of loans in the sample to low-income households; a group that represents 17% of the households in the AA. The volume of consumer automobile lending to moderate-income consumers is also excellent. The bank granted 35% of the number of loans to borrowers in moderate-income households; a group that represents 17% of the total households in the AA.

<b>Distribution of Consumer Automobile Loans in AA</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans						
Consumer Loans	17%	30%	17%	35%	22%	20%	44%	15%

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

### **Geographic Distribution of Loans**

An analysis of the distribution of credit within the assessment area would not be meaningful, as the assessment area does not have any low- or moderate-income tracts.

### **Responses to Complaints**

FNBE 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.