



# INTERMEDIATE SMALL BANK

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## PUBLIC DISCLOSURE

February 08, 2010

### COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Community National Bank & Trust  
Charter Number: 21389

14 North Lincoln  
Chanute, KS 66720-0000

Office of the Comptroller of the Currency  
Kansas City North Field Office  
7101 College Boulevard Suite 1600  
Overland Park, KS. 66210

**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 Lending Test is rated: Satisfactory.**

**The Community Development Test is rated: Satisfactory.**

Summarize the major factors supporting the institution's rating.

- CNB's record of lending to businesses of different sizes and to borrowers of different income levels is good. The primary lending products consist of commercial/commercial real estate (commercial) and residential real estate loans by number and dollar of loans originated during the evaluation period.
- CNB's geographic distribution of loans is good.
- The majority of the bank's loans by number and dollar are in the assessment areas (AA).
- The loan-to-deposit ratio is more than reasonable considering the level of competition in the AAs. The quarterly average loan-to-deposit ratio calculated since the last CRA evaluation to December 31, 2009 is 92 percent.

## **Scope of Examination**

We used a combination of bank and examiner generated loan/demographic reports to evaluate CRA performance. For the assigned rating, more weight was given to AA#1 since it represents 92 percent of deposits. We performed a full-scope review of AA#1 and a limited-scope review of AA #2. Primary loans by dollar and number consisted of commercial loans followed by residential real estate loans. The lending evaluation period is August 31, 2006 to January 31, 2010. Our sample consisted of 55 (30 AA#1 and 25 AA#2) commercial loans. For residential real estate loans, the bank's Home Mortgage Disclosure Act (HMDA) data was used for the evaluation period January 1, 2007 to December 31, 2009. The lending analysis for the borrower and geographic distribution is based upon loans in the sample and HMDA in the AAs.

The composition of the bank's AA changed since the last CRA evaluation, Cowley County which is located close to Butler County was added to AA#1. It is a non-MSA county that the bank purchased branches during the evaluation period.

For the community development test, the evaluation period is September 23, 2006 to February 8, 2010. This test included a review of the investments, services, and loans meeting the definition of community development the bank provided in its AAs. Activities of affiliates were not included in the evaluation.

## **Description of Institution**

CNB is a \$615 million financial institution headquartered in Chanute, Kansas. CNB is owned by Community Bancshares of Chanute, Inc., a one-bank holding company. CNB is a full service financial institution offering various loan and deposit products. The primary business focus is commercial lending to small- and medium-sized businesses. CNB operates 23 full service branches and 30 ATMs in nineteen communities located in southeastern and south central Kansas. The bank also offers services to northeastern Oklahoma even though they have no branches in Oklahoma. Residential real estate lending is also a significant product for the bank. As of December 31, 2009, the bank's net loans as a percentage of total assets were 70 percent. The loan distribution by dollar volume consisted of: 41 percent commercial/industrial and commercial real estate, 32 percent residential real estate, 16 percent agricultural related, 7 percent other loans, and 4 percent consumer loans.

There are no legal, financial, or other factors that impede the bank's ability to help meet the credit needs of its AAs. CNB's CRA performance was rated "Satisfactory" during the last evaluation dated September 22, 2006.

## **Description of Assessment Areas**

CNB has two primary AAs, both of which meet the requirements of the regulation and do not arbitrarily exclude low- or moderate-income areas. Neither contains low-income census tracts (CTs).

AA #1: Allen, Anderson, Cowley, Crawford, Greenwood, Labette, Marion, Montgomery, Neosho, Wilson, and Woodson Counties (Non-Metropolitan Statistical Area Counties Combined)

AA #1 is comprised of nine contiguous counties in southeast Kansas and two counties in south central Kansas. The AA is a rural non-Metropolitan Statistical Area (non-MSA). The AA contains 68 CTs of which 10 are moderate-income, 56 are middle-income, and 2 are upper-income. Although there are no low-income CTs in the AA, 21 percent of the families are considered low-income and 21 percent are moderate-income and 9 percent of the families in the AA live below the poverty level.

CNB operates 20 branch offices and 26 ATMs in this AA, 7 of which accept deposits. Numerous financial institutions provide strong competition in the AA. Five financial institutions are considered similarly situated based on asset size, markets served, business focus, and branch structure. A review of the June 30, 2009 Summary of Deposits shows that CNB ranks 1<sup>st</sup> with a deposit-market share of 13 percent. The economic conditions have declined along with the downturn in the nation's economy. The workforce is diverse with the service and retail industries providing the majority of the employment opportunities. As of April 2010, the unemployment rate for the various counties in the AA range from 5.3 percent for Marion County to 9.9 percent for Montgomery and Wilson Counties. The average for the state of Kansas is 6.9

percent which is lower than the national average of 9.9 percent.

This AA consists of three counties that are identified as middle-income distressed and underserved. These counties are Allen, Wilson and Woodson.

During the evaluation, we contacted one local community organization. The contact stated the primary credit needs consist of loans for small/start-up business loans and affordable housing programs. The contact felt the local banks are all active in meeting these credit needs.

#### AA #2: Butler County

AA #2 is comprised of Butler County. Butler County is part of the Wichita Metropolitan Statistical Area (MSA). The AA contains 13 CTs; one CT is moderate-income, eight are middle-income, and four are upper-income. Although there are no low-income CTs in the AA, 17 percent are considered low-income and 19 percent moderate-income families and 5 percent of families live below the poverty level.

CNB operates three branch offices and two deposit taking ATMs in this AA. Several financial institutions provide strong competition. A review of the June 30, 2009 Summary of Deposits Report shows that CNB ranks 8<sup>th</sup> with 5 percent of the deposit-market share.

A chart of branch and ATM locations by geography is included in the Community Development section of this Report. The bank's public file contains additional information about the AAs.

## **Conclusions with Respect to Performance Tests**

Our analysis focused on the bank's primary product lines, consisting of commercial and residential real estate (home purchase and refinance) loans. We did not evaluate home improvement loans since the volume was low. More weight was given to AA #1 performance. We conducted a full-scope review of this AA. We performed a limited-scope review of AA #2.

## **LENDING TEST**

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

The bank's loan-to-deposit ratio is more than reasonable. The bank's quarterly average loan-to-deposit (LTD) ratio calculated since the last CRA evaluation to December 31, 2009 is 92.45 percent. Five institutions in the AA are considered similarly situated based on size, markets served, business focus, and branch structure. The quarterly LTD ratio for the similarly situated banks ranges from 69.47 percent to 90.25 percent with total assets of \$228 million to \$1.4 billion.

### **Lending in Assessment Area**

CNB's record of lending within its AAs is excellent. Both by number and dollar, a substantial majority of the bank's loans are extended to businesses and individuals in the AAs. By number, the bank originated 88 percent of its loans in the AAs. By dollar, the bank originated 81 percent of its loans in the AAs. We used a sample of commercial loans and HMDA residential real estate information to conduct this review.

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

CNB's lending to businesses of different sized and to borrowers of different income levels is excellent. The borrower distribution of the bank's loans to businesses of different revenue levels meets demographics in AA #1 and exceeds demographics in AA #2. Based on the sample, the table below illustrates the bank's distribution of commercial loans made to businesses with less or more than \$1 million in revenues. Although the percentage of loans the bank made to businesses with revenues less than \$1 million compares favorably to the percentage of businesses reporting revenues less than \$1 million, there were a significant number of businesses that did not report revenues. In addition, revenue distribution in AA #1 indicates 91 percent by number and 20 percent by dollar were originated to businesses with revenues of \$250 thousand or less. One loan for \$3.2 million had no revenues reported for the business creating the high percentage of bank loans in AA by \$ as unavailable/unknown. If it were removed the numbers would be more in line with the percent of AA businesses.

<b>Borrower Distribution of Loans to Businesses in AA # 1</b>				
<b>Business Revenues</b>	<b>&lt; 1,000,000</b>	<b>&gt;\$1,000,000</b>	<b>Unavailable/ Unknown</b>	<b>Total</b>
% of AA Businesses	75.34%	3.31%	21.36%	100%
% of Bank Loans in AA by #	60.87%	13.04%	26.09%	100%
% of Bank Loans in AA by \$	17.99%	8.88%	73.12%	100%

Data Source: 2008 Business Geo-demographic data; bank and examiner generated reports

<b>Borrower Distribution of Loans to Businesses in AA # 2</b>				
<b>Business Revenues</b>	<b>&lt; 1,000,000</b>	<b>&gt;\$1,000,000</b>	<b>Unavailable/ Unknown</b>	<b>Total</b>
% of AA Businesses	79.72%	2.89%	44.54%	100%
% of Bank Loans in AA by #	82.35%	5.88%	11.76%	100%
% of Bank Loans in AA by \$	63.74%	35.38%	0.88%	100%

Data Source: 2008 Business Geo-demographic data; bank and examiner generated reports

The borrower distribution of residential real estate loans is good. Low-income borrowers exceeded demographics for refinance. New home purchases were below demographics but the poverty level is 9 percent for the AA. For moderate income- borrowers, home purchases exceeded demographics while refinance loans met demographics. For AA #2, the bank's performance was consistent with the results for AA #1. The next two tables show the borrower distribution of residential real estate loans based on the income level of the borrower.

Borrower Distribution of Residential Real Estate Loans in AA # 1								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Purchase	20.60%	11.31%	21.06%	24.11%	25.28%	22.02%	33.07%	42.56%
Refinance		35.00%		19.78%		25.75%		41.44%

Source: 2000 U. S. Census; Residential Re Sample

Borrower Distribution of Residential Real Estate Loans in AA # 2								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Purchase	16.72%	12.50%	18.56%	6.25%	23.84%	31.25%	40.87%	50.00%
Refinance		35.00%		15.00%		25.00%		25.00%

Source: 2000 U. S. Census; Residential Re Sample

## Geographic Distribution of Loans

CNB's distribution of loans among various geographies in its AAs is good. The bank's performance in AA #1 is poor for commercial loans based on our sample and good for residential real estate loans compared to its excellent performance in AA #2 for both products. The next four tables illustrate the bank's geographic distribution of loans compared to area demographic data.

Geographic Distribution of Loans to Businesses in AA # 1								
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
Commercial Sample	0.00%	0.00%	10.75%	0.00%	85.48%	100.00%	3.77%	0.00%

Source: 2000 U. S. Census; Commercial Sample

Geographic Distribution of Loans to Businesses in AA # 2								
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
Commercial Sample	0.00%	0.00%	9.28%	20.00%	58.43%	80.00%	32.29%	0.00%

Source: 2000 U. S. Census; Commercial Sample

Geographic Distribution of Residential Real Estate Loans in AA # 1				
Census Tract Income Level	Low	Moderate	Middle	Upper

Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Purchase	0.00%	0.00%	8.68%	6.88%	87.84%	89.79%	3.47%	3.33%
Refinance		0.00%		5.02%		89.49%		5.50%

Source: 2000 U. S. Census; Residential Re Sample

Geographic Distribution of Residential Real Estate Loans in AA # 2								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Purchase	0.00%	0.00%	3.33%	12.00%	67.17%	84.00%	29.50%	4.00%
Refinance		0.00%		11.76%		85.29%		2.94%

Source: 2000 U. S. Census; Residential Re Sample

## Responses to Complaints

CNB has not received any complaints during this evaluation period in regards to its CRA performance.

## COMMUNITY DEVELOPMENT TEST

The bank's performance under the Community Development Test is good. Qualified community development activities consist of 79 loans totaling \$19 million. The loans primarily help to address economic development for job creation and small business loans and affordable housing in the assessment area.

CNB's delivery systems are reasonably accessible to geographies and individuals of different income levels throughout both AAs. The bank's hours of operation are flexible and based on customer needs. There are no significant differences in services or hours of operations in branches located in moderate-income geographies. The bank also offers a no fee checking account, Internet banking and trust services.

Distribution of Branches and ATMs in the AA # 1					
	Number	Low % of #	Moderate % of #	Middle % of #	Upper % of #
Population by Geography	208,266	0.00%	10.00%	85.53%	4.47%
Branches	20	0.00%	5.00%	90.00%	5.00%
ATMs	26	0.00%	3.85%	80.77%	15.38%

Data Source: 2008 Demographic data and bank information

## Distribution of Branches and ATMs in the AA # 2

	Number	Low % of #	Moderate % of #	Middle % of #	Upper % of #
Population by Geography	59,482	0.00%	4.43%	66.61%	28.96%
<b>Branches</b>	3	0.00%	33.33%	66.67%	0.00%
<b>ATMs</b>	4	0.00%	25.00%	75.00%	0.00%

*Data Source: 2008 Demographic data and bank information*

## **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.