



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

December 31, 2002

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The Stockton National Bank
Charter Number 7815**

**123 North Cedar
Stockton, KS 67669**

**Comptroller of the Currency
Kansas City North - Salina Office
Post Office Box 616
Salina, KS 67402-0616**

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.

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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 sizes is good.
- The bank's record of lending to borrowers of different income levels is satisfactory.
- The majority of loans are to borrowers in the bank's assessment area.
- The average quarterly loan-to-deposit ratio is excellent.

DESCRIPTION OF INSTITUTION

Stockton National Bank (SNB) is a \$59 million dollar bank located in Stockton, Kansas. The bank operates their office and one automated teller machine (ATM) in Rooks County. The bank owns no branches or deposit-taking ATMs. SNB is owned by Stockton Bancshares, Inc., Stockton, Kansas, a small, multi-bank holding company. Affiliated banks include: Farmers & Merchants Bank, Hill City, Kansas; and Trego-Wakeeney State Bank, Wakeeney, Kansas. The bank offers conventional financial products and services and primarily caters to consumers and agricultural businesses.

The bank's primary lending focus is real estate, agricultural, and consumer loan products. As of September 30, 2002, the bank's assets totaled \$59 million, with Tier 1 Capital of \$6.7 million. Net loans and leases equal 89 percent, or \$53 million of total assets. Outstanding loans are comprised of \$28.8 million real estate loans (54 percent) and \$17.2 million agricultural loans (32 percent). The remainder of the portfolio is comprised of \$5.2 million in commercial loans (10 percent), and \$2.2 million consumer loans (4 percent).

There are no financial, legal, or other factors that impede the bank's ability to help meet the credit needs of its assessment area. SNB received a Satisfactory rating in its last CRA evaluation dated February 23, 1998.

DESCRIPTION OF ASSESSMENT AREA

SNB's assessment area (AA) is Rooks County, Kansas. Rooks County consists of two contiguous Block Numbering Areas (BNAs): BNAs 9746 and 9747. The bank is located in BNA 9746. The AA is a non-metropolitan statistical area. Both BNAs are middle-income tracts. There are no low-, moderate-, or upper-income tracts in this AA. The AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income geographies.

1990 United States Census Data reflects a weighted average median family income of \$24,454 for the AA. The 2002 updated State of Kansas non-MSA median family income is \$44,200. Total family income, as a percent of the non-MSA median is comprised as follows: low-income 24 percent, moderate-income 21 percent, middle-income 28 percent, and upper-income 27 percent. Sixty-four percent of the area housing is owner occupied. The weighted average median housing value is \$29 thousand.

There is one other financial institution located in Stockton and four other financial institutions throughout the county. Three of the competitor financial institutions are comparable in size and one is significantly larger than SNB.

Local economic conditions are fair. Agricultural activities provide the mainstay of the local economy, but commercial businesses within the AA provide some diversification. The largest employers in the AA include Schult Homes; Dessin-Fournir, Classic Cloth, Palmer Hargrave, and Pineapple Post (Comeau Family); and Plainville Call Center. 1990 United States Census Data reflects a total population of 6,039 in the AA. The unemployment rate as of September 2002 for the State of Kansas is 4.4 percent and the U.S. rate is 5.6 percent. The unemployment rate for Rooks County is 1.8 percent.

One community contact was made during this review. Agricultural loans continue to be a primary need due to the rural demographics. Real estate, consumer, and small business loans are also needed. The contact stated that local financial institutions were effectively meeting credit needs in the area and provide strong community support.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The bank's loan to deposit ratio (LTD) is excellent. SNB's LTD has risen steadily over the last 19 quarters. The lowest LTD ratio was 90 percent in March 1998 and the highest was 116.9 percent in September 2002. The large increase is primarily attributed to purchases of interim construction loans based in Colorado. These loans currently comprise 18 percent of the bank's total loans and leases. However, the bank's LTD ratio would still be high at approximately 96 percent, even without the inclusion of these loans.

SNB's average quarterly LTD ratio from March 31, 1998 through September 30, 2002 is 106 percent. We compared the bank's LTD ratio to six similarly sized community banks with an agricultural business focus in a four county area, including the bank's AA. Ratios for these banks ranged from 57 percent to 106 percent. SNB's average LTD ratio ranked first among the six institutions reviewed.

Lending in Assessment Area

The bank's record of lending to borrowers within their AA is good. The bank does not track loan information by origination date. We determined the primary product types by evaluating reports that detail the number and dollar amount of outstanding loans. We sampled a total of 60 residential real estate, agriculture operating, and farmland purchase loans originated during the evaluation period. Consumer auto installment loans also represent a significant volume of lending by number, however, management does not collect and retain income information for these borrowers. Therefore, an analysis of this loan type would not provide meaningful information. The sampled loans were comprised of 20 residential real estate, 20 agriculture operating, and 20 farmland purchase credits. Lending to borrowers within the AA is calculated at 73 percent by number and 72 percent by dollar.

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

The bank's record of lending to borrowers of different income level, including low- and moderate-income borrowers, and to businesses of different sizes is good. We evaluated the bank's performance by sampling revenue distribution of 40 agricultural borrowers and income levels of 20 residential real estate borrowers. Our sample period focused on loans originated in the prior two years.

Agricultural revenue sampling reflects lending to borrowers with revenues of less than one million is good. Sampling results show 80 percent by number and 90 percent by dollar amount originated to borrowers with revenues of less than one million. This compares favorably to AA demographics.

<u>Agricultural Lending Distribution</u>				
<u>Loan Sample Originated January 2001 – December 2002</u>				
<u>Revenue Category</u>	<u>Loans by #</u>	<u>% of Loans by #</u>	<u>% of Loans by \$</u>	<u>% of Farms in AA</u>
<u>< 250,000</u>	32	80%	90%	96%
<u>250,000 - 500,000</u>	0	0%	0%	0%
<u>500,000 - 1,000,000</u>	0	0%	0%	0%
<u>> 1,000,000</u>	0	0%	0%	4%
<u>Revenue not reported</u>	8	20%	10%	0%
<u>Totals</u>	40	100%	100%	100%

Residential real estate loan sampling reflects lending to borrowers of different income levels is satisfactory. Sampling results demonstrate lending to low-income borrowers was 20 percent by number and 8 percent by dollar and moderate-income borrowers represented 20 percent by number and 26 percent by dollar. Lending to low- and moderate-income borrowers is near to AA demographics.

<u>Borrower Distribution Income Level</u>				
<u>Residential Real Estate Loan Sample Originated January 2000 – October 2002</u>				
<u>Borrower Income Level</u>	<u>Loans by #</u>	<u>% of Loans by #</u>	<u>% of Loans by \$</u>	<u>% of Families in AA</u>
<u>Low-income</u>	4	20%	8%	24%
<u>Moderate-income</u>	4	20%	26%	21%
<u>Middle-income</u>	8	40%	40%	28%
<u>Upper-income</u>	4	20%	26%	27%
<u>Totals</u>	20	100%	100%	100%

Geographic Distribution of Loans

We did not perform an analysis of the geographic distribution of loans. Both BNAs are designated middle-income tracts. As a result, an analysis would not be meaningful.

Responses to Complaints

The bank has not received any written CRA related complaints during our review period of February 23, 1998 to January 22, 2002.

Fair Lending Review

An analysis of 1998 to 2002 public comments and consumer complaint information was performed according to the OCC's risk based fair lending approach. Based on its analysis of the information, the OCC decided that a comprehensive fair lending examination would not need to be conducted in connection with the CRA evaluation this year.