



PUBLIC DISCLOSURE

January 7, 2014

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Community National Bank
Charter Number 18394

210 Main Street
Seneca, KS 66538

Office of the Comptroller of the Currency

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: Satisfactory

Community National Bank's (CNB) lending performance helps meet the community credit needs of its assessment areas (AAs). We reached this conclusion based on the following:

- The bank's loan-to-deposit ratio reflects reasonable performance.
- The bank originated a majority of its loans inside its AAs.
- Lending activities represent a reasonable penetration among individuals of different income levels.

SCOPE OF EXAMINATION

Examiners evaluated CNB under the small bank examination procedures, which includes only a lending test. Our objectives were to assess the bank's record of meeting the credit needs within its AAs. We identified the bank's primary products as 1-4 family refinanced residential real estate loans by dollar amount and consumer loans by number of loans originated. The lending test covers the bank's performance from January 1, 2011 through September 30, 2013, as this is representative of its lending strategy since the last CRA examination. We selected a random sample of 80 home and 80 consumer loans.

DESCRIPTION OF INSTITUTION

CNB is a \$302 million institution owned by Community Bancshares, Inc., a one-bank holding company. The bank qualifies as a small bank; total assets as of December 31, 2012 were \$271 million. The holding company headquarters is in Seneca, Kansas. The bank is its only asset. The bank's main office is also located in Seneca, Kansas. The bank has three other branches in Kansas: one each in Sabetha, Tonganoxie, and Basehor. The bank also has non-deposit-taking automated teller machines in Seneca, Sabetha, Tonganoxie, and Basehor. Net loans represent 33 percent of total assets. CNB offers a full range of both lending and deposit services.

CNB's primary lending focus is real estate lending and consumer loans. As of September 30, 2013, the dollar volume of CNB's loan portfolio consists of 73 percent real estate loans, 12 percent agriculture loans, 10 percent commercial loans, 2 percent consumer loans, and 1 percent other loans.

Legal or financial constraints do not impede the bank's CRA efforts. The last CRA examination, dated April 28, 2008, rated the bank's performance as Satisfactory. Since the last CRA examination, the bank moved the Sabetha Branch from 913 Main Street to 15 East Main Street. The branch remains in the same census tract.

DESCRIPTION OF ASSESSMENT AREA(S)

CNB has two AAs. The first AA is the Seneca/Sabetha AA, a non-MSA area including all of Nemaha County and part of Brown County. All tracts in the AA were middle-income for the 2000 census information. Three tracts were middle-income and one was an upper-income for the 2010 census information. The second AA is the Tonganoxie/Basehor AA, an MSA including parts of Leavenworth and Wyandotte counties. There are nine census tracts in the AA; six are middle-income and three are upper-income for the 2000 census information. There are 11 census tracts in the AA; six are middle-income and five are upper-income for the 2010 census information. Both AAs meet regulatory requirements.

According to the 2000 and 2010 census information, the Seneca/Sabetha AA had a population of 10,178 and 13,101, with 3,983 and 5,097 households and 2,783 and 3,479 families, respectively. The updated HUD non-MSA median family income was \$41,800 and \$54,400, respectively.

According to the 2000 and 2010 census information, the Tonganoxie/Basehor AA had a population of 35,647 and 48,278 persons, with 12,821 and 16,783 households and 10,331 and 13,139 families, respectively. The HUD updated MSA median family income is \$72,300 and \$73,300, respectively.

We performed one community contact with a community development organization within the Tonganoxie/Basehor AA. The contact disclosed that banks are meeting the needs in the community; however, there is a misunderstanding between state law for first time home buyers and the city's requirements. This leads to local institutions not granting loans to some of the city's first time homebuyers. These borrowers find funding from other institutions outside the area.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

CNB's loan-to-deposit (LTD) ratio is reasonable given the bank's size, financial condition, and credit needs of the AA. The bank's net LTD ratio averaged 55 percent over 23 quarters from March 31, 2008 to September 30, 2013, with a quarterly low of 35 percent and a quarterly high of 79 percent.

The bank's net LTD ratio is lower than other community banks of similar size, location, and product offerings. CNB ranks last among six similarly situated banks serving its AAs. The six banks have an average net LTD ratio of 72 percent, with a range from 55 percent to 84 percent over the 23 quarters.

Lending in Assessment Area

A majority of CNB lending for residential and consumer loans is to customers within the AA. The following table details the bank's lending activity within the AA by number and dollar amount of loans originated during the sampling period.

Table 1 – Lending in the AAs										
Loan Type	Number of Loans					Dollars of Loans (\$000)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Residential Real Estate-Refinanced	27	67.50	13	32.50	40	4,048	69.89	1,744	30.11	5,792
Consumer	32	80.00	8	20.00	40	293	84.93	52	15.07	345
Totals	59	73.75	21	26.25	80	4,341	70.73	1,796	29.27	6,137

Source: loan sample

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

The distribution of loans reflects a reasonable penetration among individuals of different income levels, given the bank's product offerings and local economic conditions.

Seneca/Sabetha Assessment Area

Overall performance in the Seneca/Sabetha AA is reasonable.

Home Loans

The distribution of home loans in the Seneca/Sabetha AA reflects poor penetration among borrowers of different income levels.

CNB's home lending to low-income borrowers in the Seneca/Sabetha AA is reasonable. While the bank's home lending to low-income customers is below the AA's demographics for both the 2011 and 2012-2013 loan samples, it is comparable to the demographic comparator when taking into account the AA's 2000 and 2010 percentage of families below poverty rates of 4.81 percent and 6.50 percent, respectively.

The distribution of home loans to moderate-income borrowers in the Seneca/Sabetha AA is poor. Performance for the 2011 and the 2012-2013 loan samples reflects poor penetration. The following tables show the distribution of home loan products among borrowers of different income levels for the periods of January 1, 2011 through December 31, 2011 and January 1, 2012 through September 30, 2013, as compared to the percentage of families in each income category.

Table 2A – Borrower Distribution of 2011 Residential Real Estate Loans in Seneca/Sabetha AA								
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
Refinance	16.63	5.00	20.58	10.00	29.56	25.00	33.23	60.00

Source: loan sample; 2000 U.S. Census data.

Table 2B – Borrower Distribution of 2012-2013 Residential Real Estate Loans in Seneca/Sabetha AA								
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
Refinance	14.11	0.00	18.22	5.00	25.73	15.00	41.94	80.00

Source: loan sample; 2010 U.S. Census data.

Consumer Loans

The distribution of consumer loans in the Seneca/Sabetha AA reflects excellent penetration among borrowers of different income levels. Primary weight is placed on 2012-2013 performance since it covers a majority of the evaluation period.

The distribution of consumer loans to low-income borrowers is reasonable. For 2011, performance is reasonable when you consider the household poverty level is 10.53 percent. Distribution to low-income borrowers in the 2012-2013 loan sample is excellent, especially when you consider a poverty level of 11.65 percent.

The distribution of consumer loans to moderate-income borrowers is excellent. Performance is excellent in both the 2011 and 2012-2013 loan samples. The following tables show the distribution of consumer loan products among borrowers of different income levels for the periods of January 1, 2011 through December 31, 2011 and January 1, 2012 through September 30, 2013, as compared to the percentage of households in each income category.

Table 2C – Borrower Distribution of 2011 Consumer Loans in Seneca/Sabetha AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Household	% of Number of Loans	% of AA Household	% of Number of Loans	% of AA Household	% of Number of Loans	% of AA Household	% of Number of Loans
Consumer	22.49	10.00	16.55	20.00	21.28	20.00	39.68	50.00

Source: loan sample; 2000 U.S. Census data.

Table 2D – Borrower Distribution of 2012-2013 Consumer Loans in Seneca/Sabetha AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Household	% of Number of Loans	% of AA Household	% of Number of Loans	% of AA Household	% of Number of Loans	% of AA Household	% of Number of Loans
Consumer	21.29	25.00	16.07	30.00	20.42	25.00	42.22	20.00

Source: loan sample; 2010 U.S. Census data.

Tonganoxie/Basehor Assessment Area

Overall performance in the Tonganoxie/Basehor AA is reasonable.

Home Loans

The distribution of home loans in the Tonganoxie/Basehor AA reflects reasonable penetration among borrowers of different income levels.

CNB’s home lending to low-income borrowers in the Tonganoxie/Basehor AA is reasonable. While the bank’s home lending to low-income customers is below the AA’s demographics for both the 2011 and 2012-2013 loan samples, it is comparable to the demographic comparator when taking into account the AA’s 2000 and 2010 percentages of families below the respective poverty levels of 3.22 percent and 3.26 percent.

The distribution of home loans to moderate-income borrowers in the Tonganoxie/Basehor AA is excellent for the 2011 loan sample and reasonable for the 2012-2013 loan sample. The following tables show the distribution of home loan products among borrowers of different income levels for the periods of January 1, 2011 through December 31, 2011 and January 1, 2012 through September 30, 2013, as compared to the percentage of families in each income category.

Table 2E – Borrower Distribution of 2011 Residential Real Estate Loans in Tonganoxie/Basehor AA								
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
Refinance	12.63	5.00	16.50	25.00	25.54	15.00	45.32	55.00

Source: loan sample; 2000 U.S. Census data.

Table 2F – Borrower Distribution of 2012-2013 Residential Real Estate Loans in Tonganoxie/Basehor AA								
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
Refinance	9.92	0.00	15.79	10.00	22.08	35.00	52.20	55.00

Source: loan sample; 2010 U.S. Census data.

Consumer Loans

The distribution of consumer loans in the Tonganoxie/Basehor AA reflects excellent penetration among borrowers of different income levels.

The distribution of consumer loans to low-income borrowers for the 2011 and the 2012-2013 loan samples is excellent, especially when you consider the poverty level is 4.75 percent and 5.42 percent, respectively.

The distribution of consumer loans to moderate-income borrowers is excellent for the 2011 and the 2012-2013 loan samples. The following tables show the distribution of consumer loan products among borrowers of different income levels for the periods of January 1, 2011 through December 31, 2011 and January 1, 2012 through September 30, 2013, as compared to the percentage of households in each income category.

Table 2G – Borrower Distribution of 2011 Consumer Loans in Tonganoxie/Basehor AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Household	% of Number of Loans	% of AA Household	% of Number of Loans	% of AA Household	% of Number of Loans	% of AA Household	% of Number of Loans
Consumer	17.45	35.00	16.13	25.00	22.52	20.00	43.90	20.00

Source: loan sample; 2000 U.S. Census data.

Table 2H – Borrower Distribution of 2012-2013 Consumer Loans in Tonganoxie/Basehor AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Household	% of Number of Loans	% of AA Household	% of Number of Loans	% of AA Household	% of Number of Loans	% of AA Household	% of Number of Loans
Consumer	15.02	35.00	12.85	20.00	16.92	25.00	55.21	20.00

Source: loan sample; 2010 U.S. Census data.

Geographic Distribution of Loans

We did not perform an analysis of geographic distribution of the bank's loans. An analysis would not be meaningful since the AAs do not have low- or moderate-income geographies.

Responses to Complaints

There were no CRA related complaints to review at this 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.