



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

August 08, 2012

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The First National Bank of Cunningham
Charter Number 12791

101 East First Street
Cunningham, KS 67035

Office of the Comptroller of the Currency
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 Satisfactory

- The First National Bank of Cunningham's average quarterly loan-to-deposit ratio over the evaluation period is reasonable. The loan-to-deposit ratio of 49% is similar to two of the competitor banks in the assessment area.
- Lending in the assessment area is outstanding. The lending sample indicated that 100% of the agricultural loans were made within the bank's assessment area.
- Lending to farms of different sizes is outstanding. The agricultural loan sample indicated that during the evaluation period, the bank extended 100% of its agricultural loans to farming operations with annual gross revenues less than one million dollars.

DESCRIPTION OF INSTITUTION

The First National Bank of Cunningham (First National) is a \$30 million bank in Cunningham, Kansas. The bank does not have any affiliates, branches, or ATMs. First National is a full service bank offering a variety of loans. As of June 30, 2012, net loans represent 36% of the bank's total assets. The bank's \$11 million loan portfolio had the following composition: 57% agriculture, 19% commercial, 10% consumer, and 14% residential real estate.

The bank's financial condition, size, local economic conditions, and other factors allowed it to meet the credit needs of its assessment area (AA). We assigned a "Satisfactory" rating at the prior February 13, 2006 Community Reinvestment Act (CRA) examination.

SCOPE OF EXAMINATION

Agriculture loans are the bank's primary loan product. During the evaluation period, agriculture loans represented 63% of originations by dollar volume and 49% by number. The evaluation of lending products included a review of twenty agriculture loans originated during 2010, 2011, and year-to-date August 7, 2012. The bank's business strategy has not changed; therefore the loans granted during these years are representative of all loans granted since the previous Community Reinvestment Act (CRA) examination.

DESCRIPTION OF ASSESSMENT AREA

First National's assessment area consists of Kingman and Pratt counties. These counties are located in south central Kansas and are not in a Metropolitan Statistical Area (MSA). The AA contains six census tracts; five middle-income tracts and one upper-income tract. The bank's AA complies with the regulation and does not arbitrarily exclude any low- or moderate-income geographies. Pratt County was classified as both a Distressed (population loss) and Underserved Middle-Income Nonmetropolitan geography during the evaluation period.

The 2000 US Census population of the AA is 18,320. The Kansas non-MSA median family income for 2011 is \$53,700. The AA has the following income distribution for families: 16% low-income, 19% moderate-income, 25% middle-income, and 40% upper-income. Ten percent of the households in the AA have income below the poverty level. The assessment area contains 7,328 households of which 35% receive social security and 3% receive public assistance. Thirty-six percent of the population is not in the workforce and 19% of the population is over the age of 65. Owner-occupied units represent 65% of all housing units. The median housing value is \$59,979.

The trade area is largely dependent on agriculture. Besides agriculture, primary employers include city and county governments, school districts, and health care facilities. Diversity is provided from the oil and gas industry and related services, and from retail businesses. The economies of Kansas and the AA are more stable than other parts of the country. The state

unemployment rate is 6.2% as of June 2012 while the unemployment rate is 4.1% and 4.8% for Pratt and Kingman counties, respectively.

Competition is strong with six other financial institutions in the assessment area. Management considers five of them as direct competitors for lending products. Of the five competitors, four have full-service branches located outside the AA. Several of the branches are located in the Wichita Metropolitan Statistical Area, which is adjacent to the bank’s AA. First National is the smallest bank by asset size. The bank has 5% of the deposit market share in the AA, which is the lowest market share among its five competitors.

Examiners contacted one community professional while at the bank. The contact indicated that the main credit need in the assessment area is for agriculture loans. The contact is not aware of any credit needs in the AA that are not being met.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

First National’s loan-to-deposit ratio is reasonable. The bank’s average quarterly loan-to-deposit ratio since the last CRA examination is 49.28%. First National has only one location located in a small rural town. Two institutions have an average quarterly loan-to-deposit ratio that is below First National’s ratio. The institution with the lowest loan-to-deposit ratio also has only one location within the AA. First National has significant competition in the assessment area from larger financial institutions. Three institutions obtain over one-half of their deposits outside the AA and have multiple branches, including branches in an MSA.

Lending in Assessment Area

First National’s level of lending in the AA is outstanding. The lending sample indicates that the bank extended 100% of its primary loan product within the AA.

Lending to Farms of Different Sizes

First National’s lending to small farms is outstanding. The lending sample of 20 agricultural loans granted in the AA during the evaluation period indicates that 98% were extended to farms with gross revenues less than \$1 million.

Distribution of Loans to Farms in the Kingman/Pratt AA				
Farm Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Farms	97.56%	.73%	1.71%	100%
% of Bank Loans in AA by #	100%	0%	0%	100%
% of Bank Loans in AA by \$	100%	0%	0%	100%

Source: Loan sample, Dun and Bradstreet data

Geographic Distribution of Loans

First National's AA does not consist of any low- or moderate-income geographies. An analysis of the geographic distribution of loans would not be meaningful.

Responses to Complaints

First National has not received any CRA related complaints since the previous Performance Evaluation.

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of discriminatory or other illegal practices inconsistent with helping to meet community credit needs.