



Office of the  
Comptroller of the Currency  
Washington, DC 20219

# INTERMEDIATE SMALL BANK

## PUBLIC DISCLOSURE

June 3, 2013

## COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The Girard National Bank  
Charter Number 13347

100 E. Forest  
Girard, KS 66743

### Office of the Comptroller of the Currency

1027 S. Main Street, Suite 405  
Joplin, MO 64801

**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 Lending Test is rated: Satisfactory

The Community Development Test is rated: Outstanding

The major factors supporting the institution's rating:

- Girard National Bank's (GNB) record of lending to small farms and businesses of different sizes is reasonable.
- The overall geographic dispersion of loans to small farms and businesses of different sizes is excellent.
- The bank's average loan-to-deposit ratio reflects more than reasonable responsiveness toward meeting the credit needs of the community, considering the level of competition in the assessment areas (AAs).
- The bank originates a substantial majority of loans within its combined AAs.
- GNB's level of qualified investment and community development activity demonstrates excellent responsiveness to community development needs in the AAs.

## Scope of Examination

We conducted a full scope examination of GNB's performance using Intermediate Small Bank Examination procedures. Our objective was to assess the bank's ability to serve and meet the needs of the community within its AAs. Because GNB has branches in two states and a portion of one metropolitan statistical area (MSA), we analyzed loan data separately for the states of Kansas and Colorado. Our loan samples included loan originations from January 1, 2010 to December 31, 2011. The bank's primary lending products for the Kansas non-metropolitan area (MA) AA and Topeka AA are commercial and agricultural (including farmland loans), using originations by number and dollar amount. The primary product for the Colorado non-MA AA is commercial loans. To assess the bank's performance, we selected a random sample of 30 agricultural loans and 30 commercial loans from the Kansas non-MA AA, 20 agricultural and 20 commercial loans from the Topeka AA, and 20 commercial loans from the Colorado non-MSA AA. The evaluation period for community development activities was from January 1, 2010 to December 31, 2012.

## Description of Institution

GNB is a \$545 million financial institution headquartered in Girard, Kansas. G.N. Bancshares, Inc. (HC), a \$560 million one-bank holding company located in Girard, Kansas, owns 100 percent of the bank's outstanding stock. GNB owns 100 percent of GNB Mortgage Company, Inc., a company that originates and services residential real estate secondary mortgage loans. In addition to the main location in Girard, Kansas, management operates 10 full-service branches in Yates Center, Bucklin, Offerle, Clay Center, Horton, Hiawatha, Wetmore, and Holton, Kansas; and Lamar and Eads, Colorado. Since the last CRA examination, GNB has not acquired any branch locations, but has closed two full-service branches – one in Lamar, Colorado and one in White Cloud, Kansas.

The bank's trade area is primarily comprised of agricultural and related businesses at all locations from the surrounding rural communities and some commercial operations. As of December 31, 2012, the outstanding loan and lease portfolio balances consisted of 49 percent agricultural loans, 30 percent commercial loans, 15 percent residential real estate loans, 5 percent consumer loans, and 1 percent other loans and leases. GNB received a rating of "Outstanding" at its last CRA examination dated February 1, 2010. There are no legal or financial factors that impede the bank's ability to help meet the credit needs of its AAs.

## Selection of Areas for Full-scope Review

GNB has identified separate counties located near each branch's operations as the bank's AA. These include fourteen counties located in Kansas (Atchison, Brown, Clay, Clark, Comanche, Crawford, Edwards, Ford, Hamilton, Hodgeman, Jackson, Kiowa, Nemaha, and Woodson) and four counties in Colorado (Baca, Bent, Kiowa, and Prowers). We combined the counties into three AAs for analysis based on the similarity of the markets, as all are primarily rural agricultural communities with predominately middle-income census tracts. We labeled the AAs as the Topeka AA, Kansas non-MA AA, and Colorado non-MA AA.

**Topeka AA:** Consists of Jackson County, a portion of the Topeka MSA, and a branch located in Holton. The bank has two branches and one deposit-taking ATM in the AA. This AA had 10 percent of bank deposits by dollar volume as of June 30, 2012. The bank ranked third for deposit market share within the AA with 16 percent of deposits. Competition from other financial institutions is low. The bank's primary competitors are two local community banks, Denison State Bank and Farmers State Bank. As of December 2012, the unemployment rate in the AA was 6.0 percent, compared to the state of Kansas unemployment rate of 5.5 percent.

The Topeka AA has three census tracts, all of which are middle income. Based on the 2000 U.S. Census data, the updated 2011 median family income is \$63,300. The percent of low-income, moderate-income, middle-income, and upper-income families is 13 percent, 18 percent, 26 percent, and 43 percent, respectively. The economy in the Topeka AA has remained relatively stable with Topeka being the capital city of the state. Major employers in the AA are education, health care, manufacturing, accommodation and food services, and retail.

Based on community contacts performed within the last 12 months for this AA, the primary need is community services. Opportunities for community development lending are available; however, individuals and/or organizations are often not able to meet lending guidelines to qualify for financing. Banks have been responsive to the needs of the community and provided donations.

**Kansas non-MA AA:** Consists of Atchison, Brown, Clark, Clay, Comanche, Crawford, Edwards, Ford, Hamilton, Hodgeman, Kiowa, Nemaha, and Woodson counties, with branches located in Bucklin, Clay Center, Girard, Horton, Hiawatha, Offerle, Wetmore, and Yates Center. GNB's main office is located in Crawford County. The bank has seven branches and seven deposit-taking ATMs in the AA. This AA has 67 percent of the bank's deposits by dollar volume as of June 30, 2012. The bank ranks first for deposit market share within the AA with 8 percent of deposits.

Competition from other financial institutions is strong. There are 53 financial institutions in this AA. The bank's primary competitors are several local community banks and branches of large regional institutions including United Bank and Trust, Exchange National Bank and Trust Company, The Morrill and James Bank and Trust Company,

Community National Bank, Fidelity State Bank and Trust Company, and Commerce Bank.

The non-MSA Kansas AA has 38 census tracts with a designation of 5 moderate-income, 30 middle-income, and 3 upper-income tracts. During the evaluation period, GNB closed one branch in a middle-income tract. Based on the 2000 U.S. Census data, the updated 2011 median family income is \$53,700. The percent of low-income, moderate-income, middle-income, and upper-income families is 20 percent, 20 percent, 25 percent and 35 percent, respectively. The economy is stable with a majority of the area being agricultural. Major employers in the AA are agriculture, manufacturing, education, health care, and retail. The December 2012 average unemployment rates for the AA is 4.0 percent, with Atchison County having the highest unemployment rate at 6.7 percent and Kiowa County having the lowest at 2.6 percent.

Based on community contacts performed within the last 12 months in this AA, area credit needs include small business and affordable housing loans. Opportunities for community development lending and investments are limited.

**Colorado non-MSA AA:** Consists of Baca, Bent, Kiowa, and Prowers counties in Colorado, with branches located in Eads and Lamar, Colorado. The bank has two branches and two deposit-taking ATMs in the AA. The AA has 23 percent of the bank's deposits by dollar volume. The bank ranks third for deposit market share in the AA with 16 percent of deposits. Competition is moderate with seven other financial institutions in the AA. The bank's primary competitors are Colorado East Bank and Trust, Frontier Bank, The First National Bank of Las Animas, and Community State Bank.

The Colorado non-MA AA has 10 census tracts with a designation of 5 moderate-income and 5 middle-income tracts. There are no low- or upper-income tracts in the AA. The branches serve communities with similar markets and offer similar primary products. Primary loan types by dollar volume and number consist of commercial loans. GNB closed one branch in a moderate-income tract during the evaluation period.

Based on the U.S. Census data, the updated 2011 median family income is \$60,200. The percent of low-income, moderate-income, middle-income, and upper-income families is 29 percent, 25 percent, 23 percent, and 23 percent, respectively. The average December 2012 unemployment rate for the AA is 6.5 percent. The highest unemployment rate in the AA is Bent County at 9.5 percent, and the lowest is Baca County at 4.4 percent. The state of Colorado unemployment rate is 7.5 percent. The economy is showing growth with individuals and businesses leaving the larger cities for smaller communities. Major employers in the AA are agricultural, education, health and social services, and retail.

During the examination, we performed one community contact with a small business development organization in this AA. Lending to small businesses is a primary credit need. Our contact stated banks provide assistance with small business financing that promote job growth and affordable housing.

## **Ratings**

The bank's overall rating is a blend of state ratings. We weighed performance based on the number of loan originations in the AAs and volume of deposit production. We gave more emphasis to performance in the state of Kansas, and more specifically to the Kansas non-MA AA, given the number of loan originations and deposit volume there. For the evaluation period, 86 percent of the total number of loan originations were generated in the Kansas non-MA AA. As of June 30, 2012, 77 percent of the bank's deposits were from locations in Kansas.

## **Conclusions with Respect to Performance Criteria**

The following conclusions represent the bank's performance in all AAs based on a review of reported loan and other information maintained during the evaluation period.

### **Loan-to-deposit Ratio**

GNB's loan-to-deposit (LTD) ratio is excellent and shows more than reasonable responsiveness in meeting the credit needs of the community. The bank's average LTD ratio for the past 13 quarters since the last CRA evaluation is 84 percent. The ratio is at the top of the six similarly situated independent banks in the AAs. The average LTD ratio of similarly situated banks is 72 percent. The average loan-to-deposit ratios for all institutions ranged from 62 percent to 84 percent.

### **Lending in Assessment Area**

The bank's record for lending to borrowers within its AAs is satisfactory. The bank extended a majority of its loans inside the bank's AAs. Of the loans made during the evaluation period, GNB originated 78 percent by number and 71 percent by dollar within its AAs.

### **Responses to Complaints**

GNB did not receive any written complaints about its CRA performance in its AAs during the evaluation period.

## **Fair Lending or Other Illegal Credit Practices Review**

Pursuant to 12 C.F.R. § 25.28(c) or 12 C.F.R. § 195.28(c), in determining a CRA rating for a national bank (bank) or federal savings association (FSA), respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography as part of the bank's or FSA's lending performance.

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

## State Rating

### State of Kansas

#### CRA Rating for Kansas: Satisfactory

The lending test is rated: Satisfactory

The community development test is rated: Outstanding

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

Overall, the borrower distribution of loans is reasonable. The Kansas non-MA AA received the most weight in our analysis since it contains the largest percentage of both deposits and loans originated and/or purchased during the evaluation period.

##### Topeka MSA

The overall distribution of small loans to businesses and farms of different revenue sizes in the Topeka AA is reasonable.

##### *Small Loans to Businesses*

The distribution of loans to businesses reflects reasonable penetration among businesses of different sizes. The percentage of bank loans to businesses with revenues of \$1 million or less of 50 percent is below area demographics of 73 percent. For informational purposes using loan size as a proxy, 92 percent of the bank's loans had loan origination amounts of \$100 thousand or less.

##### *Small Loans to Farms*

The distribution of loans to small farms reflects reasonable penetration among small farms of different sizes. The percentage of bank loans to small farms with revenues of \$500 thousand or less of 74 percent is below demographics of 100 percent. For informational purposes using loan size as a proxy, 84 percent of the bank's loans had loan origination amounts of \$100 thousand or less.

##### Kansas non-MA AA

The distribution of small loans to businesses and farms of different revenue sizes reflects reasonable penetration based on our loan sample. Since the bank does not routinely collect revenue information, we used loan size as a proxy to determine our overall rating.

##### *Small Loans to Businesses*

The distribution of small loans to businesses of different revenue sizes reflects poor penetration. The percentage of bank loans to businesses with revenues of \$1 million or less of 36 percent is significantly lower than area demographics at 68 percent. The

bank's percentage of business loans with no revenue information was 59 percent. As a mitigating factor, using loan size as a proxy, 91 percent of loans made to businesses had an original loan amount of \$100 thousand or less. Therefore, overall performance is reasonable.

The distribution of small loans to farms of different revenue sizes reflects poor penetration. The percentage of loans to farms with revenues of \$500 thousand or less of 65 percent is significantly lower than area demographics of 97 percent. The bank's percentage of farm loans with no revenue information was 31 percent. As a mitigating factor, using loan size as a proxy, 81 percent of small loans to farms had an original loan amount of \$100 thousand or less. Therefore, overall performance is reasonable.

### **Geographic Distribution of Loans**

Overall, GNB's geographic dispersion of small loans to businesses and farms is excellent.

#### Topeka AA

A geographic analysis of the Topeka AA is not meaningful. There are no low- or moderate-income census tracts in the AA.

#### Kansas non-MA AA

The geographic distribution of small loans to businesses and farms in the Kansas non-MA AA shows excellent dispersion.

##### *Small Loans to Businesses*

The geographic distribution of small loans to businesses in the Kansas non-MA AA is reasonable. The dispersion of small loans to businesses within moderate-income geographies of 14 percent is slightly below area demographics of 15 percent. There are no low-income census tracts in the AA.

##### *Small Loans to Farms*

The geographic distribution of small loans to farms in the Kansas non-MA AA is excellent. The dispersion of small loans to farms of 15 percent in moderate-income geographies exceeds area demographics of 10 percent. There are no low-income census tracts in the AA.

## **COMMUNITY DEVELOPMENT TEST**

The bank's performance in Kansas under the community development test is rated "Outstanding."

Based on the analysis for the full-scope review, the bank's performance in the Kansas non-MA AA is excellent and the performance in the Topeka AA is poor. Primary weight is given to the Kansas non-MA AA. GNB provided CD loans, investments/donations, and services throughout the AAs. Bank officers and employees also provided community development services during the evaluation period.

### Topeka AA

#### **Number and Amount of Community Development Loans**

GNB originated one CD loan during the evaluation period totaling \$45 thousand. This loan was to a business that provided rehabilitation of an apartment complex, providing affordable housing.

#### **Number and Amount of Qualified Investments**

The bank did not make any investments/donations in this AA during the evaluation period.

#### **Extent to Which the Bank Provides Community Development Services**

One bank employee provided community services for affordable housing.

The branch delivery systems provide reasonable responsiveness to the needs of the community. The bank's hours of operations are flexible and based on customer needs. The bank also offers a no-fee checking account, Internet banking, and online bill pay.

### Kansas non-MA AA

#### **Number and Amount of Community Development Loans**

GNB originated 14 CD loans totaling \$12 million during the evaluation period. These loans promoted economic development by providing permanent jobs to low- and moderate-income individuals and revitalized communities by providing community resources.

#### **Number and Amount of Qualified Investments**

The bank provided investments/donations totaling \$76 thousand during the evaluation period. These were to revitalize/stabilize communities and community services to low- and moderate-income individuals.

### **Extent to Which the Bank Provides Community Development Services**

Bank employees provided community development services to 23 different organizations during the evaluation period. These services helped to revitalize/stabilize communities, provide economic development, promote affordable housing, and provide social services.

GNB's branch delivery systems provide reasonable responsiveness to the needs of the communities within the AA. The bank's hours of operations are flexible and based on customer needs. Three of the bank's branches are located in middle-income distressed and underserved areas. The bank also offers a no-fee checking account, Internet banking, and online bill pay.

### **Responsiveness to Community Development Needs**

The bank's performance under the Community Development Test shows an excellent level of responsiveness given performance in the AAs.

## State Rating

### State of Colorado

CRA Rating for Colorado: Satisfactory

The lending test is rated: Satisfactory

The community development test is rated: Outstanding

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

The overall distribution of small loans to businesses in the non-MA Colorado AA is reasonable.

#### *Small Loans to Businesses*

The distribution of small loans to businesses reflects excellent penetration among businesses of different sizes. The percentage of bank loans to businesses with revenues of \$1 million or less of 69 percent exceeds demographics of 67 percent. For informational purposes using loan size as a proxy, 77 percent of the bank's loans had loan origination amounts of \$100 thousand or less.

### Geographic Distribution of Loans

Overall, the geographic dispersion of loans to small businesses shows very poor dispersion.

#### *Small Loans to Businesses*

The geographic distribution of small loans to businesses is very poor. The dispersion of small loans to businesses of 15 percent in moderate-income geographies is significantly lower than area demographics of 49 percent. There are no low-income census tracts in the Colorado non-MA AA.

## COMMUNITY DEVELOPMENT TEST

The bank's performance under the community development test for the state of Colorado is rated "Outstanding."

GNB provides excellent responsiveness to the community development needs by providing loans, investments and services providing affordable housing, job retention, social services, and revitalization/stabilization of the community in the Colorado non-MA AA.

### **Number and Amount of Community Development Loans**

During the evaluation period, the bank made two loans totaling \$1.1 million that provided job retention and affordable housing.

### **Number and Amount of Qualified Investments**

GNB made nine donations totaling \$12 thousand during the evaluation period. These investments were to social service organizations.

### **Extent to Which the Bank Provides Community Development Services**

Bank associates did not provide any community development services during the evaluation period.

The bank's delivery systems are accessible to geographies and individuals of different income levels throughout the AA. The bank's hours of operations are flexible and based on customer needs. The bank also offers a no-fee checking account, Internet banking, and on-line bill pay. The bank's branch in Kiowa is located in a distressed and underserved middle-income geography. The Lamar branch closing in this AA did not adversely impact moderate-income geographies, as the bank has another branch located within one block of the closed branch. This allowed the bank to consolidate banking services into one location.

### **Responsiveness to Community Development Needs**

GNB provides excellent responsiveness to community development needs of the AA through CD lending, investments, and services.

## Appendix A: Scope of Examination

The following table identifies the time period covered in this evaluation, affiliate activities that were reviewed, and loan products considered. The table also reflects the metropolitan and nonmetropolitan areas that received comprehensive examination review (designated by the term “full-scope”) and those that received a less comprehensive review (designated by the term “limited-scope”).

<b>Time Period Reviewed</b>	Lending Test: 01/31/2010 to 12/31/2011 Community Development Test: 01/31/2010 to 12/31/2012	
<b>Financial Institution</b>	<b>Products Reviewed</b>	
Girard National Bank, Girard, Kansas	Small loans to farms and businesses, community development loans, community development investments, and community development services	
<b>List of Assessment Areas and Type of Examination</b>		
<b>Assessment Area</b>	<b>Type of Exam</b>	<b>Other Information</b>
State of Kansas Topeka AA	Full scope	Jackson County, KS (a portion of the Topeka MSA #45820)
Kansas non-MA AA	Full scope	Atchison, Brown, Clay, Clark, Comanche, Crawford, Edwards, Ford, Hamilton, Hodgeman, Jackson, Kiowa, Nemaha, and Woodson counties
State of Colorado Colorado non-MA AA	Full scope	Baca, Bent, Kiowa, and Prowers counties

## Appendix B: Summary of Multistate Metropolitan Area and State Ratings

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Overall Bank:	Lending Test Rating	Community Development Test Rating	Overall Bank/State/Multistate Rating
Girard NB	Satisfactory	Outstanding	Satisfactory
Kansas	Satisfactory	Outstanding	Satisfactory
Colorado	Satisfactory	Outstanding	Satisfactory