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Comptroller of the Currency  
Administrator of National Banks

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## PUBLIC DISCLOSURE

June 14, 1996

### COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The Marion National Bank  
Charter Number 7911

P. O. Box 295  
Marion, Kansas 66861

Office of the Comptroller of the Currency  
Midwestern District  
Salina Duty Station  
1516 E. Iron  
Salina, Kansas 67401

NOTE: 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.

## GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the 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. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the Community Reinvestment Act (CRA) performance of The Marion National Bank prepared by The Office of the Comptroller of the Currency, the institution's supervisory agency, as of June 14, 1996. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.

INSTITUTION'S CRA RATING: This institution is rated Satisfactory.

The Marion National Bank has a satisfactory level of lending, reflecting a reasonable response to local credit needs. The bank makes most of its loans within its assessment area to borrowers of various income and revenue levels.

The following table indicates the performance level of The Marion National Bank with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	<u>(NAME OF FINANCIAL INSTITUTION)</u> PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does not meet Standards for Satisfactory Performance
Loan to Deposit Ratio		X	
Lending in Assessment Area		X	
Lending to Borrowers of Different Incomes and to businesses of Different sizes		X	
Geographic Distribution of Loans	Analysis is not meaningful.		
Response to Complaints	The bank has not received any complaints since the prior examination.		

## DESCRIPTION OF INSTITUTION

The Marion National Bank (Marion National) is a \$22 million bank in Marion, Kansas. Marion National does not have any branch locations or proprietary automated teller machines (ATM). The bank does offer ATM cards that customers may use with non-proprietary ATM machines. Marion National is the only financial institution headquartered within the bank's assessment area. A much larger \$367 million bank has a branch office in Marion.

Marion National is a full service bank and offers a variety of loan products with an emphasis on 1-4 family residential real estate and personal loans. As of May 16, 1996, these types of loans represent 52% and 18% of the loan portfolio, respectively. Additionally, agricultural and farm real estate loans represent 15% and commercial loans represent 13% of the loan portfolio. The bank offers Small Business Administration (SBA) guaranteed loans and guaranteed student loans to customers.

The bank's financial condition, size, local economic conditions, and other factors allow it to help meet the credit needs of its assessment area. The bank has not opened or closed any offices since the previous examination.

## DESCRIPTION OF ASSESSMENT AREA

The bank's assessment area consists of the single block numbering area (BNA) of 9897, population 2,786. The city of Marion is the county seat of Marion County and is the only town in the BNA. The assessment area is not in a Metropolitan Statistical Area. The entire assessment area is middle income. The Kansas statewide non-metropolitan median family income is \$34,300 for 1996. Of all the families in the BNA, 15% are low income families, 22% are moderate income, 26% are middle income, and 37% are upper income.

The assessment area is a rural community with strong agricultural ties. Small local business and manufacturing firms provide some economic diversification. Predominant area employers include the local county and city governments, the school system, medical/nursing care centers, and other service-based businesses. Marion is a bedroom community for nearby McPherson, Wichita, and Emporia. Bank management estimates approximately 25% of Marion's workforce commutes daily to these cities for employment. Located between two reservoirs, the area is also a popular retirement community. The assessment area has an older population with 27% of the population more than 65 years old.

We interviewed five representatives from the community to learn more about the

assessment area, the community's credit needs, and the performance of financial institutions within the community to meet those credit needs. Our contacts included representatives from the city and regional based economic development groups, local city government, business and real estate enterprises, and a local church-based emergency financial assistance organization.

All of the community contacts felt the community's credit needs are being adequately met within the community. They felt credit worthy borrowers could receive credit within the community for a variety of purposes. The financial institutions are competitive, however Marion National is not as aggressive as its competitors. They all cited the need for housing as a primary concern for the community.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA :

### Loan-to-Deposit Analysis

The bank's loan-to-deposit (LTD) ratio is reasonable given the bank's size and the assessment area's credit needs. During the last eight quarters the bank's average loan-to-deposit ratio equaled 38%. This compares favorably to 29% at the last Community Reinvestment Act performance evaluation in 1992. The bank's total loans have increased 20% during this period, while total deposits have declined by 7%. The loan growth includes a 34% increase in real estate lending, a need our community contacts identified. The bank has focused their lending toward residential lending to help address this need. They offer flexible lending qualifying terms and underwriting criteria to meet a wide range of customer needs. The bank's low loan yields compared with other bank's in the county show the bank's loan rates are very competitive, in the fourteenth percentile.

The assessment area does not include any other comparable financial institutions. The only other bank is a branch office of a much larger bank headquartered outside the county. There are five other similarly sized banks in the county (but outside Marion National's assessment area) that have an average LTD ratio of 66%, ranging from 58% to 74%. While these banks are in Marion County, management contends the loan demand within their assessment area is not as strong as other areas of the county.

The bank's assessment area has historically shown a low loan demand. Management reports, and examiner knowledge of the area confirms, that the bank has a strong German-Mennonite customer base that is very conservative and does not borrow unless absolutely necessary and then in minimal amounts for short periods. In addition, the 9897 BNA has a high percent of the population more than 65 years old (27%), a group

that is not normally a high borrowing category.

Another factor affecting the bank’s lower LTD ratio includes the much more aggressive marketing of the larger competitor branch. Many of our community contacts commented that while they felt Marion National was an active lender in the community, bank management did not actively pursue new business as aggressively as the larger competing bank.

### Comparison of Credit Extended Inside and Outside of the Assessment Area

The bank extends most of their loans within its assessment area. Management analysis shows 79% of the number of all customers and 77% of the dollar volume of all loans outstanding are within BNA 9897. Examiners tested this data to verify its accuracy.

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

The bank’s distribution of borrowers reflects a reasonable penetration among individuals of different income levels and businesses of different sizes.

Based on a sample of nine recent residential loans, the bank lends to individuals of all income levels for residential real estate purposes, including low- and moderate-income. Sixty-six percent of the customers were in the low- and moderate-income categories based on the 1996 Kansas median income.

Comparison of Bank Lending Practices to Assessment Area Income Ranges				
	Low Income Families	Moderate Income Families	Middle Income Families	Upper Income Families
Assessment Area Population	15%	22%	26%	37%
Sampled Residential Real Estate Loans	33%	33%	11%	22%

We could not feasibly analyze income levels on personal non-real estate loans because loan officers do not regularly receive this data. Our visual inspection of loans made to individuals showed the bank lends to individuals for various consumer purposes, without regard to minimum loan amounts or income levels. We found numerous loans

less than \$1,000, with several as low as \$200.

The following table shows a sound distribution of business and farm loans to various size customers based on their annual gross revenue. We base this analysis on our judgmental sample of 13 business and 17 farm customers that had income information. The bank has a strong volume of loans to small businesses and small farm customers with gross annual revenues of less than \$100,000. Management feels this represents their assessment area and is consistent with the size of their bank.

Business and Farm Loan Distribution by Gross Annual Revenues	
Gross Annual Revenues	Percent of Sample Total
Less than \$100,000	50%
\$100,000 to 249,999	16%
\$250,000 to 499,999	20%
\$500,000 to \$999,999	7%
Over \$1,000,000	7%

#### Distribution of Credit Within the Assessment Area

Analysis of the distribution of credit within the assessment area is not meaningful because the assessment area consists of a single middle income tract.

#### Compliance with Anti-Discrimination Laws and Regulations

Based on our review, the bank is complying with anti-discrimination laws. We did not identify any substantive violations of fair lending laws and regulations nor did we find any evidence of apparent disparate treatment or other illegal credit practices.