



Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

June 27, 1997

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The First National Bank of Cunningham
Charter Number 12791
101 E. First
Cunningham, Kansas 67035**

**Comptroller of the Currency
Wichita Duty Station
3450 North Rock Road, Suite 505
Wichita, Kansas 67226**

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 First National Bank of Cunningham** prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of June 27, 1997. 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.

- o The bank has a reasonable record of lending to borrowers in its assessment area.
- o The bank has a good lending record to borrowers of different income levels and to businesses and farms with different gross income levels.

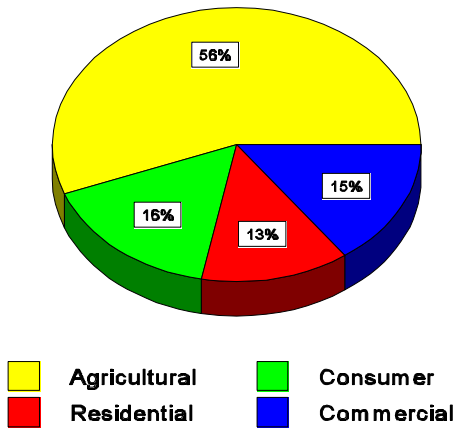
DESCRIPTION OF INSTITUTION

The First National Bank of Cunningham is a \$16 million bank located in Cunningham, Kansas. The bank does not have any branches, drive-up facilities, or automated teller machines. The bank offers traditional commercial and personal banking services. The First National Bank of Cunningham is primarily an agricultural lender, but also offers a variety of loan products for real estate, commercial, and consumer credit needs.

As of March 31, 1997, the bank had an \$8 million loan portfolio with the following composition:

Loan Portfolio Composition

As of March 31, 1997



56% agricultural and farmland, 16% consumer, 15% commercial and commercial real estate, and 13% residential real estate.

The bank's financial condition, size, local economic conditions, and other factors allow it to assist in meeting the credit needs of its assessment area. The bank has not opened or closed any offices since the previous examination on December 31, 1994.

The First National Bank of Cunningham received a "Satisfactory" rating at its last CRA examination in December 1994.

DESCRIPTION OF ASSESSMENT AREA

The bank's assessment area is located in southcentral Kansas. The assessment area meets all regulatory requirements and consists of all six contiguous block numbering areas in Kingman and Pratt Counties, Kansas. The assessment area is not located in a Metropolitan Statistical Area. The block numbering areas included in the assessment area are numbered 9686 through 9688 and 9911 through 9913. All six block numbering areas are middle-income tracts. There are no low-, moderate-, or upper-income tracts within the assessment area. Four other banks headquartered in the assessment area provide competition for the bank. Those banks range in size from \$55 million to \$161 million.

Based on 1990 census information, the population of the bank's assessment area is 17,994. The U.S. Department of Housing and Urban Development (HUD) updated median family income for the assessment area is \$34,300. Household incomes in the area are 21% low-income, 17% moderate-income, 20% middle-income, and 41% upper-income. Nineteen percent of the population is over 65 years old. The housing stock in the area is older with a median age of 50 years and a median value of \$36,350. The majority of all businesses have annual gross revenues less than \$1 million. Unemployment remains low at 2%.

The bank’s trade area and employment for local residents is primarily agricultural with wheat as the dominant crop. Small cattle operations add diversity to the area. The economy is stable with little prospect for significant change.

Agricultural credit is the primary credit need in the bank’s assessment area. We contacted the Mayor of Cunningham as part of this examination. He stated that the bank is adequately meeting the community’s credit needs.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Analysis

The bank’s loan-to-deposit ratio is reasonable based on its competitive environment. Using the previous nine quarters, the bank’s average loan-to-deposit ratio is 60%. This is consistent with the bank’s national peer group (banks of similar size, type and location) average of 61% for the same period. The bank’s loan-to-deposit ratio has gradually trended upward during the previous nine quarters. The First National Bank of Cunningham ranks second when compared with average loan-to-deposit ratios over the previous nine quarters for all five banks headquartered in the assessment area. Those ratios ranged from 48% to 85%, with an average of 59%.

Comparison of Credit Extended Inside and Outside of the Assessment Area

A majority of all loans are located within the assessment area. We reviewed three samples of loans to determine the location and the pattern of loans originated in the assessment area. Our total loan sample showed 80% by number and 84% by dollar volume of loan originations are located within Pratt and Kingman Counties. The following table illustrates the percentage of our loan sample located inside the bank’s assessment area.

Percentage of Loans within the Assessment Area		
Loan Type	Percentage by Number	Percentage by Dollar
Agricultural and Commercial	92%	96%
Residential Real Estate	80%	38%
Consumer	68%	59%
Total Sample	80%	84%

For consumer loans, we reviewed all automobile loans that originated between March and June 1996. The 25 loans in this sample totaled \$232 thousand and represented 37% of the bank's automobile loan portfolio. For residential real estate loans, we reviewed all home purchase loans that originated in 1995, 1996 and year-to-date May 1997. The 10 loans in this sample totaled \$283 thousand and represented 21% of the residential loan portfolio. For commercial and farm loans, we randomly sampled 25% of the bank's commercial and agricultural loan portfolios. The 24 loans in this sample totaled \$1.5 million.

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

Management has responded favorably to the credit needs of its assessment area by originating loans to low- and moderate-income borrowers as well as to small businesses and small farms. For consumer loans, we analyzed the income distribution by loan size as a proxy for the borrower's income because the bank does not routinely collect income information on consumer loan applicants. Management defines a consumer loan under \$25 thousand as small. As depicted in the following table, the bank has a strong loan penetration to low- and moderate-income borrowers.

Consumer Loan Distribution					
1990 Census Data			Loan Distribution		
INCOME	% HOUSEHOLDS	% FAMILIES	LOAN SIZE	% BY NUMBER	% BY DOLLAR
Low	21%	18%	< \$7,500	52%	27%
Moderate	17%	18%	\$7,500 - \$15M	36%	44%
Middle	20%	22%	\$15M - \$25M	8%	17%
Upper	41%	42%	> \$25M	4%	12%

Sample of 25 loans for a total of \$232 thousand.

The bank's volume of residential real estate loans equals 13% of the total loan portfolio as of March 31, 1997. An analysis of all residential real estate loans for 1995, 1996 and year-to-date May 1997, shows that the bank has a reasonable level of penetration to borrowers of all income levels except for low-income borrowers. Management has not investigated reasons for the lack of residential real estate loans originated to low-income borrowers. Although during this time period, the bank has not received any residential real estate loan applications from low-income individuals. Management will continue advertising the bank's low-cost residential real estate loan program in the local newspaper to reach low-income borrowers. The following table illustrates the bank's residential real estate loan penetration to borrowers with various income levels in 1995, 1996, and year-to-date May 1997.

Residential Real Estate Loan Distribution				
1990 Census Data			Loan Distribution	
INCOME	% HOUSEHOLDS	% FAMILIES	% BY NUMBER	% BY DOLLAR
Low	21%	18%	0%	0%
Moderate	17%	18%	20%	12%
Middle	20%	22%	60%	64%
Upper	41%	42%	20%	24%
Sample of 10 loans for a total of \$283 thousand.				

Examiners performed an income analysis on our commercial and farm loan sample. Management defines a small business or a small farm as having gross annual revenues of less than \$500 thousand. The bank has a good penetration to small farms and small businesses. Based on our loan sample, 87% by number and 93% by dollar volume of loans were to small businesses and small farms. The following table illustrates the bank's loan penetration to businesses and farms with different gross income levels.

Commercial and Farm Loans		
GROSS REVENUES	% BY NUMBER	% BY DOLLAR
< \$100M	33%	23%
\$101M - \$250M	50%	66%
\$251M - \$500M	4%	3%
> \$500M	13%	7%
Sample of 24 loans for a total of \$1.5 million.		

The bank has participated in some government sponsored or guaranteed loan programs such as the Farm Services Agency (FSA) and the Small Business Administration (SBA). Examples of participation include: one FSA loan for \$225 thousand in 1995 and one SBA loan for \$58 thousand in 1996.

Geographic Distribution of Loans

An analysis of the geographic distribution of the bank's credit extensions is not meaningful because the assessment area does not have any low- or moderate-income tracts.

Compliance with Antidiscrimination Laws and Regulations

The bank is in compliance with the applicable antidiscrimination laws and regulations. We found no violations of the fair lending laws at this examination.

Complaints

The bank has not received any complaints regarding the bank's performance under the Community Reinvestment Act.