



INTERMEDIATE SMALL BANK

Comptroller of the Currency
Administrator of National Banks
Washington, DC 20219

PUBLIC DISCLOSURE

September 22, 2006

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Community National Bank
Charter Number 21389**

**14 North Lincoln
Chanute, KS 66720**

**Office of the Comptroller of the Currency
Kansas City North
7101 College Boulevard, Suite 1600
Overland Park, Kansas 66210-2077**

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.

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 **Community National Bank (CNB)** prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **September 22, 2006**. 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 major factors that support this rating are as follows:

- The bank's performance under the Lending Test is good.
- CNB's record of lending to businesses of different sizes and to borrowers of different income levels is excellent. The bank's primary lending products consist of commercial/commercial real estate (commercial) and residential real estate loans by number and dollar of loans originated during the evaluation period.
- CNB's geographic distribution of loans is good.
- The majority of the bank's loans by number and dollar are in the assessment areas (AA).
- The bank's loan-to-deposit ratio is more than reasonable considering the level of competition in the bank's AAs. The bank's quarterly average loan-to-deposit ratio calculated since the last CRA evaluation to September 30, 2006 is 95 percent.
- The bank's performance under the Community Development Test is adequate.

SCOPE OF EXAMINATION

We used a combination of bank and examiner generated loan/demographic reports to evaluate the bank's CRA performance. For the assigned rating, more weight was given to AA # 1 since it represents 91 percent of the bank's total assets and 94 percent of deposits. We performed a full-scope review of AA # 1 and a limited-scope review of AA # 2. Primary loans by dollar and number consisted of commercial loans followed by residential real estate loans. The lending evaluation period is March 4, 2003 to August 31, 2006. Our sample consisted of 55 (30 AA # 1 and 25 AA # 2) commercial loans and 60 (30 AA # 1 and 30 AA # 2) residential real estate loans originated during the evaluation period. The lending analysis for the borrower and geographic distribution is based upon loans in the sample in the bank's AA.

The composition of the bank's AAs changed since the last CRA evaluation. Marion County, which was a part of AA # 2 during the last exam, is now part of AA # 1. Its median family income was more similar to that of the rural counties in AA # 1 than to Butler County which is part of the Wichita MSA and has a higher median family income of \$61,200 compared to \$49,800 for the rural counties. Details about the AAs are included in the Description of Assessment Area section of this Report.

For the community development test, the evaluation period is March 4, 2003 to September 22, 2006. This test included a review of the investments, services and loans meeting the definition of community development the bank provided in its AAs. Activities of affiliates were not included in the evaluation.

DESCRIPTION OF INSTITUTION

CNB is a \$418 million financial institution headquartered in Chanute, Kansas. CNB is owned by Community Bancshares of Chanute, Inc., a one-banking holding company. CNB is a full service financial institution offering various loan and deposit products. The primary business focus is commercial lending to small- and medium-sized businesses. CNB operates 20 full service branches and 28 ATMs in sixteen communities located in southeastern and south central Kansas. Residential real estate lending is also a significant product for the bank. As of September 30, 2006, the bank's net loans as a percentage of total assets were at 79 percent. The loan distribution by dollar volume consisted of: 25 percent commercial real estate, 21 percent commercial/industrial, 32 percent residential real estate, 15 percent agricultural related, and 7 percent consumer loans.

There are no legal, financial, or other factors that impede the bank's ability to help meet the credit needs of its AAs. CNB's CRA performance was rated "Satisfactory" during the last evaluation dated March 3, 2003.

DESCRIPTION OF ASSESSMENT AREA

CNB has two primary AAs, both of which meet the requirements of the regulation and do not arbitrarily exclude any low- or moderate-income areas. Neither contains low-income census tracts (CTs).

AA #1: Allen, Anderson, Crawford, Greenwood, Labette, Montgomery, Neosho, Wilson, Woodson and Marion Counties (Non-Metropolitan Statistical Area Counties Combined)

AA #1 is comprised of nine contiguous counties in southeast Kansas and one county in south central Kansas. The AA is a rural non-Metropolitan Statistical Area (non-MSA). The AA contains 57 CTs of which 8 are moderate-income, 48 are middle-income, and one is upper-income. Although there are no low-income CTs in the AA, 21 percent of the families are considered low-income and 9 percent of the families live below the poverty level.

CNB operates 17 branch offices and 25 ATMs in this AA, 10 of which accept deposits. Numerous financial institutions provide strong competition in the AA. Management identified eight financial institutions as its primary competition, however only five are considered similarly situated based on asset size, markets served, business focus, and branch structure. A review of the June 30, 2006 Summary of Deposits Report shows that CNB ranks 1st with a deposit-market share of 11 percent. Economic conditions are stable. The workforce is diverse with the service and retail industries providing the majority of the employment opportunities. As of October 2006, the unemployment rate for the various counties in the AA range from 3.5 percent for Marion County to 5.2 for Labette. The average for the state of Kansas is 4.3 percent which is slightly higher than the national average of 4.1.

During the evaluation we contacted one local community organization. The contact stated primary credit needs consist of loans for small/start-up business loans and affordable housing programs. The contact felt the local banks are all active in meeting these credit needs.

AA #2: Butler County

AA #2 is comprised of Butler County. Butler County is part of the Wichita Metropolitan Statistical Area (MSA). The AA contains 13 CTs; one CT is moderate-income, eight are middle-income, and four are upper-income. Although there are no low-income CTs in the AA, 17 percent of the families are considered low-income and 5 percent of the families live below the poverty level.

CNB operates three branch offices and three depositing taking ATMs in this AA. Several financial institutions provide strong competition in the AA. CNB identified five financial institutions as its primary competitors in this AA. These five are similarly situated based on asset size, markets served, business focus, and branch structure. A review of the June 30, 2006 Summary of Deposits Report shows that CNB ranks 8th with five percent of the deposit-market share. Economic conditions are stable. As of October 2006, the unemployment rate for the county is 4.2 percent - similar to the national and state average.

A chart of the bank's branch and ATM locations by geography is included in the Community Development section of this Report. Review the bank's public file for additional information about its AAs.

CONCLUSION ABOUT PERFORMANCE CRITERIA

Our analysis focused on the bank’s primary product lines, consisting of commercial and residential real estate (home purchase and refinance) loans. More weight was given to AA # 1 performance. We conducted a full-scope review of this AA. We performed a limited-scope review of AA # 2.

Lending Test

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

CNB’s lending to businesses of different sizes and to borrowers of different income levels is excellent. The borrower distribution of the bank’s loans to businesses of different revenue levels exceeds area demographic data for both AAs. Based on the sample, the table below illustrates the bank’s distribution of commercial loans made to businesses with less or more than \$1 million in revenue.. Although the percentage of loans the bank made to businesses with revenues less than \$1 million compares favorably to the percentage of businesses reporting revenues less than \$1million, there were a significant number of businesses that did not report revenues. In addition, revenue distribution in AA # 1 indicates 57 percent by number and 23 percent by dollar were originated to businesses with revenues of \$100 thousand or less.

Borrower Distribution of Loans to Businesses in AA # 1				
Business Revenues	< 1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	50.48%	3.49%	46.03%	100%
% of Bank Loans in AA by #	82.14%	7.14%	10.71%	100%
% of Bank Loans in AA by \$	44.40%	54.14%	1.46%	100%

Data Source: 2006 Business Geo-demographic data; bank and examiner generated reports

Borrower Distribution of Loans to Businesses in AA # 2				
Business Revenues	< 1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	52.58%	2.89%	44.54%	100%
% of Bank Loans in AA by #	80.95%	19.05%	0.00%	100%
% of Bank Loans in AA by \$	75.41%	24.59%	0.00%	100%

Data Source: 2006 Business Geo-demographic data; bank and examiner generated reports

The borrower distribution of residential real estate loans is excellent. Based on the sample of home purchase and refinance loans for AA # 1, the bank exceeded area demographics for lending to both low- and moderate-income individuals. For AA # 2, the bank’s performance was not consistent with the results for AA # 1. One key factor contributing to this difference is that the median housing value in AA # 2 is \$83 thousand compared to the lower housing value in AA # 1 of \$50 thousand. The next two tables show the borrower distribution of residential real estate loans based on the income level of the borrower.

Borrower Distribution of Residential Real Estate Loans in AA # 1									
Borrower Income Level	Low		Moderate		Middle		Upper		Income Not Required
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	
Purchase	20.90%	16.67%	21.63%	33.33%	25.50%	0.00%	31.98%	25.00%	25.00%
Home Improvement		14.49%		14.29%		42.86%		28.57%	0.00%
Refinance		37.50%		25.00%		37.50%		0.00%	0.00%

Source: 2000 U. S. Census; Residential Re Sample

Borrower Distribution of Residential Real Estate Loans in AA # 2									
Borrower Income Level	Low		Moderate		Middle		Upper		Income Not Required
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	
Purchase	16.72%	0.00%	18.56%	28.57%	23.84%	14.29%	40.87%	14.29%	42.86%
Home Improvement		0.00%		0.00%		12.50%		50.00%	37.50%
Refinance		12.50%		0.00%		12.50%		25.00%	50.00%

Source: 2000 U. S. Census; Residential Re Sample

Geographic Distribution of Loans

CNB's distribution of loans among the various geographies in its AAs is good. The bank's performance in AA # 1 is adequate for commercial loans and excellent for residential real estate loans compared to its excellent performance in AA # 2 for both products. According to the 2000 US Census data, neither AA has low-income CTs. AA # 1 has 8 moderate-income, 48 middle-income and 1 upper-income CTs. AA # 2 consists of 1 moderate-income, 8 middle-income, and 4 upper-income CTs. The next four tables illustrate the bank's geographic distribution of loans compared to area demographic data.

Geographic Distribution of Loans to Businesses in AA # 1								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Commercial Sample	0.00%	0.00%	12.73%	7.14%	84.97%	82.14%	2.30%	10.71%

Source: 2000 U. S. Census; Commercial Sample

Geographic Distribution of Loans to Businesses in AA # 2								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Commercial Sample	0.00%	0.00%	10.00%	19.05%	59.57%	80.95%	30.44%	0.00%

Source: 2000 U. S. Census; Commercial Sample

Geographic Distribution of Residential Real Estate Loans in AA # 1								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Purchase	0.00%	0.00%	8.72%	16.67%	88.77%	75.00%	2.51%	8.33%
Home Improvement		0.00%		0.00%		100.00%		0.00%
Refinance		0.00%		0.00%		100.00%		0.00%

Source: 2000 U. S. Census; Residential Re Sample

Geographic Distribution of Residential Real Estate Loans in AA # 2									
Census Tract Income Level	Low		Moderate		Middle		Upper		
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	
Purchase	0.00%	0.00%	3.33%	28.57%	67.17%	71.43%	29.50%	0.00%	
Home Improvement		0.00%		0.00%		12.50%		75.00%	12.50%
Refinance		0.00%		0.00%		12.50%		87.50%	0.00%

Source: 2000 U. S. Census; Residential Re Sample

Product Innovation and Flexibility

The bank did not track its participation in designated affordable housing programs. Management stated the bank participated in the State of Kansas first time homebuyers program and programs offered by other agencies to obtain up to 100% fixed rate financing for qualified applicants.

Lending in Assessment Areas

FNB's record of lending within its AAs is excellent. Both by number and dollar, a substantial majority of the bank's loans are extended to businesses and individuals in the AAs. By number, the bank originated 83 percent of its loans in the AAs. By dollar, the bank originated 85 percent of its loans in the AAs. We used a sample of commercial and residential real estate loans to conduct this review.

Loan-to-Deposit Ratio

The bank's loan-to-deposit ratio is more than reasonable. The bank's quarterly average loan-to-deposit (LTD) ratio calculated since the last CRA evaluation to September 30, 2006 is 94.74 percent. Five institutions in the AA are considered similarly situated based on size, markets served, business focus, and branch structure. The quarterly LTD ratio for the similarly situated banks ranges from 57.53 percent to 89.09 percent with total assets of \$147 to \$714 million.

Response to Complaints

CNB has not received any complaints during this evaluation period in regards to its CRA performance.

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.

Community Development Test

The bank's performance under the Community Development Test is adequate. Qualified community development activities consist of two loans totaling \$870 thousand. The loans primarily help to address targeted social services for low- and moderate-income individuals in AA # 1. There was only one community development service activity in AA#2. There were no other qualified community development activities identified in AA # 2.

CNB's delivery systems are reasonably accessible to geographies and individuals of different income levels throughout both AAs. The bank's hours of operation are flexible and based on customer needs. There are no significant differences in services or hours of operations in branches located in moderate-income geographies. The bank also offers a no fee checking account and Internet banking services.

The percentage of bank branches and ATMs in moderate-income geographies significantly exceed area demographics in AA # 2. It is below area demographics in AA # 1. The table below illustrates the bank's distribution of branches and ATMs throughout the AA.

Distribution of Branches and ATMs in the AA # 1					
	Number	Low % of #	Moderate % of #	Middle % of #	Upper % of #
Population by Geography	171,975	0.00%	9.75%	86.36%	3.89%
Branches	17	0.00%	5.89%	76.47%	17.64%
ATMs	26	0.00%	3.85%	92.30%	3.85%

Data Source: 2006 Demographic data and bank information

Distribution of Branches and ATMs in the AA # 2					
	Number	Low % of #	Moderate % of #	Middle % of #	Upper % of #
Population by Geography	59,482	0.00%	4.43%	66.61%	28.96%
Branches	3	0.00%	33.33%	66.67%	0.00%
ATMs	2	0.00%	50.00%	50.00%	0.00%

Data Source: 2006 Demographic data and bank information