



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

September 17, 2001

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Community National Bank
Charter Number 18394**

**210 Main Street
Seneca, KS 66538**

**Comptroller of the Currency
Kansas City North Field Office
6700 Antioch Road Suite 450
Merriam, KS 66204**

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.

TABLE OF CONTENTS

<u>INSTITUTION'S CRA RATING</u>	2
<u>DESCRIPTION OF INSTITUTION</u>	2
<u>DESCRIPTION OF NEMAHA COUNTY AND TONGANOXIE ASSESSMENT AREAS</u>	3
<u>CONCLUSIONS ABOUT PERFORMANCE CRITERIA</u>	4

INSTITUTION'S CRA RATING

This institution is rated Outstanding.

Major factors supporting this rating are:

- The bank is doing an excellent job lending to borrowers of different income levels and businesses of different sizes.
- A majority of loans are within the assessment area.
- The bank's average loan-to-deposit ratio since the last CRA examination is satisfactory.

Our conclusions are based on a review of Community National Bank's (CNB) CRA efforts from November 1, 1996 to September 5, 2001.

DESCRIPTION OF INSTITUTION

CNB is an \$84 million institution owned by Community Bancshares, Inc., a one-bank holding company. The holding company is headquartered in Seneca, Kansas and is the same size as the bank by total assets. The bank's main office is also located in Seneca, Kansas. The bank has one branch and deposit-taking automated teller machine in Tonganoxie, Kansas. Net loans represent 66 percent of total assets. CNB offers a full range of both lending and deposit services.

CNB's primary lending focus is commercial, agriculture, and real estate lending. As of June 30, 2001, the dollar volume of CNB's loan portfolio consists of 71 percent real estate loans, 12 percent agriculture loans, 10 percent commercial loans, 6 percent consumer loans, and 1 percent municipal loans. One-to-four family real estate loans are 36 percent of the real estate category.

The following table represents loan originations and purchases from November 1, 1996 to September 5, 2001. The information does not include paid loans since data was not readily available.

NEMAHA COUNTY LOAN ORIGINATIONS

LOAN TYPE	NUMBER OF LOANS	DOLLAR VOLUME OF LOANS
Agricultural	47 percent	27 percent
1-4 family residential real estate	9 percent	9 percent
Home equity	7 percent	4 percent
Commercial	19 percent	56 percent
Individual loans	18 percent	2 percent

TONGANOXIE LOAN ORIGINATIONS

LOAN TYPE	NUMBER OF LOANS	DOLLAR VOLUME OF LOANS
Construction	4 percent	14 percent
Commercial	17 percent	23 percent
Agricultural	8 percent	5 percent
1-4 family residential real estate	18 percent	39 percent
Home equity	9 percent	11 percent
Individual	44 percent	8 percent

Based on loan origination information by assessment area (AA), primary loan products in Nemaha County are agricultural and commercial loans. In the Tonganoxie AA, primary loan products are 1-4 family residential real estate and individual consumer loans.

Based on a review of HMDA information from Tonganoxie, refinanced and home purchase loans are the primary products in the 1-4 family residential real estate loan category. By number of loans, home purchase, refinanced, and home improvement loans represent 36 percent, 57 percent, and 7 percent, respectively. By dollar volume, home purchase, refinanced, and home improvement loans are 35 percent, 64 percent, and 2 percent, respectively. Based on this information, we will analyze both home purchase and refinanced loans as part of the 1-4 family residential real estate category in the Tonganoxie AA.

There are no legal or financial constraints that impede the bank's CRA efforts. The last CRA examination dated November 1, 1996 rated the bank's performance as "Outstanding." Since the last CRA exam, the bank opened a branch in Tonganoxie, Kansas on May 19, 1997.

DESCRIPTION OF NEMAHA COUNTY AND TONGANOXIE

CNB has two assessment areas (AA): Nemaha County and Tonganoxie. Both AAs meet regulatory requirements.

The Nemaha County AA consists solely of three middle-income block-numbering areas with a population of 10,446 persons. The updated HUD, non-MSA median family income for 2001 is \$43,200. This compares to the 1990 Census median family income of \$28,067. In Nemaha County, 20 percent of families are low-income, 19 percent are moderate-income, 27 percent are middle-income, and 34 percent are upper-income. The median housing value is \$32,826 and 74 percent of housing units are owner-occupied. The percentage of households below the poverty level is 15 percent.

Nemaha County's economic base is heavily concentrated in farm and agricultural service industries. CR Industries is the areas largest manufacturing plant in Seneca, Kansas. As of July 2001, the unemployment rate is 2.9 percent. Economic conditions are stable. Competition is strong with several banks in Nemaha County ranging in asset size from \$6 million to \$1.3 billion.

The Tonganoxie AA consists of three middle-income (60 percent) and two upper-income (40 percent) census tracts. Four of the tracts are in Leavenworth County, which is part of the Kansas City, Missouri-Kansas MSA. One tract is in Jefferson County, a non-MSA. The Jefferson County tract is contiguous with and does not substantially exceed the boundaries of the Leavenworth County tracts. The updated HUD, MSA median family income for 2001 is \$62,200. This compares to the 1990 Census median family income of \$37,652. In the Tonganoxie AA, 13 percent of families are low-income, 18 percent are moderate-income, 27 percent are middle-income, and 42 percent are upper-income. The median housing value is \$62,759 and 80 percent of housing units are owner-occupied. The percentage of households below the poverty level is 7 percent.

Tonganoxie’s economic base is concentrated in manufacturing, trade, and professional service industries. Economic conditions are stable. Competitors consist of two financial institutions with total assets ranging from \$153 million to \$273 million. The unemployment rate in Leavenworth and Jefferson Counties are 3.9 percent and 3.4 percent, respectively.

During the evaluation, we made one community contact with a business organization that serves Nemaha County. According to our contact, there is a need for rental housing for senior citizens. There is also a need to attract more small businesses. We also reviewed two recent contacts made by regulators in Leavenworth County. These contacts identified a need for low- and moderate-income housing. Contacts stated banks are very helpful in meeting community credit needs. Opportunities for community development activities are very limited in both AAs.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

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

CNB’s lending to borrowers of different income levels and businesses of different sizes is excellent.

Nemaha County Assessment Area:

Primary products in Nemaha County are commercial and agricultural loans. We reviewed twenty commercial loans and twenty agricultural loans originated and purchased during 1999, 2000, and through September 5, 2001.

The following table summarizes the bank’s commercial loan performance in Nemaha County compared to the percentage of businesses in this AA.

Commercial loans			
	# of loans	\$ volume of loans	% of AA businesses
Annual gross revenues ≤ \$1 million	90%	88%	90%
Annual gross revenues > \$1 million	0	0	7%
Revenues not reported	10%	12%	3%

CNB is doing an excellent job lending to small businesses with annual gross revenues of less than \$1 million. All of the loans sampled that reported income information have annual revenues of less than \$250 thousand. Approximately 55 percent of loans reviewed have annual gross revenues of less than \$100 thousand. CNB's performance either meets or is comparable to demographics.

The following table summarizes the bank's agricultural loan performance in Nemaha County compared to the percentage of farms in this AA.

Agricultural loans			
	# of loans	\$ volume of loans	% of AA farms
Annual gross revenues < \$1 million	70%	70%	97%
Annual gross revenues > \$1 million	0	0	1%
Revenues not reported	30%	30%	2%

CNB is doing a good job lending to small farms with annual gross revenues of less than \$1 million. All of the loans sampled that reported income have annual revenues of less than \$500 thousand. Approximately 55 percent of loans reviewed have annual gross revenues of less than \$250 thousand. CNB's performance is comparable to demographics.

Tonganoxie Assessment Area:

Primary products in the Tonganoxie AA are 1-4 family real estate purchase and refinanced loans, and consumer loans. We reviewed all HMDA reported home purchase and refinanced loans originated and purchased in 1999, 2000, and through September 5, 2001. We also reviewed twenty consumer loans originated and purchased during the same time period.

The following table summarizes CNB's performance regarding HMDA reported home purchase and refinanced loans in the Tonganoxie AA compared to the percentage of families in this AA.

Real estate loans					
Income level	Home purchase loans		Refinanced loans		% of families
	#	\$	#	\$	
Low-income	15%	10%	10%	7%	13%
Moderate-income	28%	28%	14%	11%	18%
Middle-income	20%	22%	38%	36%	27%
Upper-income	37%	40%	38%	46%	42%

CNB is doing an excellent job making home purchase loans to low- and moderate-income individuals. Community contacts identified a need for low- and moderate-income housing in Leavenworth County. By number of loans, performance is above demographics. By dollar volume, performance is comparable to demographics for loans to low-income individuals and above demographics for loans to moderate-income individuals.

CNB is doing a good job making refinanced HMDA loans to low- and moderate-income individuals. By number of loans, performance is comparable to demographics. By dollar volume, performance is comparable to demographics for loans to moderate-income individuals. The dollar volume of loans to low-income individuals is low; however, this is mitigated by the fact that CNB's performance is comparable to demographics based on the number of loans in this category.

The following table summarizes CNB's consumer loan performance compared to the percentage of households in the Tonganoxie AA.

Consumer loans			
Income level	# of loans	\$ volume of loans	% of households
Low-income	15%	5%	16%
Moderate-income	35%	32%	14%
Middle-income	20%	27%	22%
Upper-income	20%	31%	48%
Income not reported	10%	6%	0

CNB is doing an excellent job making consumer loans to low- and moderate-income individuals. By number of loans, performance is comparable to demographics for loans to low-income individuals and above demographics for loans to moderate-income individuals. By dollar volume of loans, performance is above demographics for loans to moderate-income individuals. The dollar volume of loans to low-income individuals is low; however, this is mitigated by the fact that CNB's performance is comparable to demographics based on the number of loans in this category.

Loan-to-Deposit Ratio

CNB's average loan-to-deposit (LTD) ratio since the last CRA examination is good.

The quarterly average LTD ratio from December 31, 1996 to June 30, 2001 is 74 percent. This compares to quarterly average LTD ratios of six similarly situated banks ranging from 49 percent to 92 percent, with an average of 74 percent during the same time period. The six banks are similarly situated as they are headquartered in Kansas, located in Nemaha County, and have total assets under \$100 million.

Lending in Assessment Area

Lending in the assessment area is adequate.

A majority of CNB's loan originations and purchases, by both number and dollar amount are in its AA. We sampled twenty commercial, twenty agricultural, and twenty consumer loans. These samples were randomly selected from loan originations and purchases from November 1, 1996 to September 5, 2001. We also reviewed all HMDA reported home purchase and refinanced loan originations and purchases during 1998, 1999, 2000, and through September 5, 2001. CNB did

not collect HMDA data prior to 1998. The following table represents our findings.

LOAN TYPE	IN THE AA	
	#	\$
Commercial	80%	48%
Agricultural	95%	99%
Consumer	95%	99%
Home purchase	46%	43%
HMDA refinanced	57%	60%
Totals	56%	54%

Geographic Distribution of Loans

An analysis of geographic distribution was not performed. This analysis is not meaningful since the AAs do not have low- or moderate-income geographies.

Responses to Complaints

CNB has not received any complaints about its CRA performance.

Fair Lending Review

An analysis of recent public comments, consumer complaint, and HMDA information was performed according to the OCC's risk based fair lending approach. Based on its analysis of the information, the OCC decided that a comprehensive fair lending examination would not need to be conducted in connection with the CRA evaluation this year. The latest comprehensive fair lending exam was performed in 2000.