



Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

March 21, 1997

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First National Bank of Elkhart
Charter Number #18458**

**601Morton
Elkhart, Kansas 67950**

**Office of the Comptroller of the Currency
Wichita Duty Station
3450 N. 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 **First National Bank of Elkhart** prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of March 21, 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 **Outstanding**.

The bank has a good level of lending which reflects a strong response to community credit needs. The bank's lending to businesses of different sizes and to borrowers of different incomes is good and compares favorably to the assessment area's income demographics. The bank makes a majority of its loans within its assessment area.

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

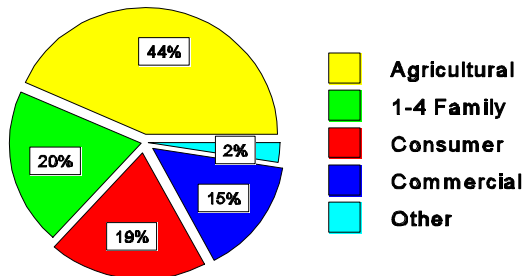
SMALL INSTITUTION ASSESSMENT CRITERIA	FIRST NATIONAL BANK OF ELKHART PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does not meet Standards for Satisfactory Performance
Loan to Deposit Ratio	X		
Lending in Assessment Area		X	
Lending to Borrowers of Different Incomes and to businesses of Different sizes	X		
Geographic Distribution of Loans	An analysis of the geographic distribution of loans would not be meaningful.		
Response to Complaints	No complaints were received since the prior examination.		

DESCRIPTION OF INSTITUTION

First National Bank of Elkhart (FNB) is a \$34 million bank located in Elkhart, Kansas. The bank is owned by Elkhart Financial Company, a wholly owned subsidiary of Kansas Bank Corporation. Kansas Bank Corporation is a multi-bank holding company.

Loan Portfolio Composition

As of December 31, 1996



The bank has one branch location in Rolla, Kansas and two automated teller machines (ATM). One ATM is located at the branch in Rolla and one is in the foyer of the main bank. PCA provides the bank's primary loan competition and brokers the primary deposit competition.

FNB is a full service bank offering a variety of loan products. The bank's primary product is agricultural lending. As of December 31, 1996, 44% of the bank's lending was for agricultural and farmland purposes. One-to-four family real estate loans account for 20% of the bank's portfolio. Consumer loans make up 19%, commercial loans make up 15%, and other loans make up the remaining 2% of the

banks \$23 million loan portfolio.

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.

The bank was rated "Satisfactory Record of Meeting Community Credit Needs" at the last CRA examination, July 1, 1994.

DESCRIPTION OF ASSESSMENT AREA

The bank's assessment area is Morton and Stevens counties in Kansas, Cimarron and Texas counties in Oklahoma, and Baca county, Colorado. The assessment area consists of five middle-income block numbering areas. Of all households in the assessment area, 22% are low-income, 17% are moderate-income, 18% are middle-income, and 44% are upper-income. The median family income for the assessment area is \$23,382, compared to the 1996 updated non-metropolitan median family income of \$32,420 for Kansas, Oklahoma, and Colorado. Thirty-one percent of the area's households receive

social security or public assistance. Sixteen percent of the area's households are below poverty level.

Elkhart is in the southwest corner of Kansas. The town is less than one mile from the Oklahoma border and less than ten miles from the Colorado border. Population of the bank's assessment area is approximately nine thousand. The area's economic base is dependant on the oil and gas industry as well as agriculture. Community contacts indicate the bank meets the community's credit needs.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA :

Loan-to-Deposit Analysis

The bank's lending level is good and reflects a strong response to community credit needs. The bank's eight quarter average loan-to-deposit ratio is 78%, and is the highest of all banks in the assessment area. Lending performance is particularly strong compared to the other bank in Elkhart. The other bank's loan to deposit ratio is 26%, despite its larger asset size. The average loan-to-deposit ratios for other banks in the assessment area is 59%, and ranged from 26% to 75% over the same eight quarter time period.

Comparison of Credit Extended Inside and Outside the Assessment Area

The bank extends a majority of loans within its assessment area. A review of the bank's February 21, 1997, Geographic Report of Lending/Leasing Activities by BNA disclosed the bank loans 85% of the dollar volume and 86% of the number of loans to customers residing within the bank's assessment area.

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

Lending levels to businesses of different sizes and to borrowers of different incomes is good. Examiners selected a sample of ten percent of agricultural loans made in 1996. The sampled borrowers had gross annual revenues ranging from \$18 thousand to \$551 thousand, with the following distribution:

Gross Annual Revenue Distribution Agriculture Lending	
\$0 to \$100,000	11
\$100,001 to \$250,000	4

Gross Annual Revenue Distribution Agriculture Lending	
\$250,001 to \$500,000	2
\$500,001 and above	3

The bank lends to individuals of all income levels and compares favorably to the assessment area's demographics. We selected a sample of ten percent of consumer loans made in 1996. Our sample disclosed the bank has a strong level of penetration to borrowers with low or moderate incomes. As the table below indicates, the bank has originated a larger portion of its consumer loans to borrowers with low or moderate incomes than the proportion of low-or moderate-income individuals residing in the assessment area.

	% of households in assessment area	% of consumer loans generated
Low-Income	22%	28%
Moderate-Income	16%	34%
Middle-Income	18%	17%
Upper-Income	44%	21%

We also discovered the bank lends to individuals for various consumer purposes, without regard to minimum loan amounts. Although management believes many small loans are unprofitable for the bank, 38% of new loans generated in 1996 were for \$2,500 or less. Our sample of eighty-two consumer loans disclosed borrowers with gross annual revenues ranging from \$4 thousand to \$136 thousand.

Distribution of Credit Within the Assessment Area

An analysis of the distribution of credit within the assessment area would not be meaningful as the assessment area consists of only middle-income tracts.

Compliance with Anti-Discrimination Laws and Regulations

We did not identify any substantive violations of the fair lending laws and regulations. Our review did not indicate any evidence of apparent disparate treatment or other illegal credit practices.