



## **INTERMEDIATE SMALL BANK**

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

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### **PUBLIC DISCLOSURE**

**June 16, 2006**

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**The Girard National Bank  
Charter Number 13347**

**100 E. Forest  
Girard, KS 66743**

**Comptroller of the Currency  
Kansas City South  
1710 East 32nd Street Fountainside Plaza, Suite H  
Joplin, MO 64804**

**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.**

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 **Girard National Bank** (GNB) prepared by the Office of the Comptroller of the Currency, the institution's supervisory agency. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 C.F.R. Part 25.

### **INSTITUTION'S CRA RATING: This institution is rated Outstanding.**

We based the bank's CRA rating on the following primary factors:

- GNB's level of lending to businesses of different sizes and to borrowers of different income levels is excellent.
- The geographic distribution of both business and residential real estate loans reflects penetration throughout all of the assessment areas (AAs) and generally exceeds demographic data in moderate-income tracts.
- A substantial majority of the bank's lending activity is within its AAs.
- GNB's level of community development loans, qualified investments, and activities demonstrates superb responsiveness to opportunities in all AAs.
- GNB's loan-to-deposit (LTD) ratio reflects excellent responsiveness to the credit needs of the bank's AAs.

### **SCOPE OF EXAMINATION**

GNB's AA is represented by three different areas consisting of 13 counties located in Kansas in its entirety. Primary loan types by dollar volume and number consist of commercial real estate loans and commercial/industrial loans. The evaluation period for this examination's lending and community development activities covers January 2003 through December 2005. We used the Intermediate Small Bank Examination Procedures to evaluate the bank's CRA performance. We assessed activities of affiliates in this evaluation based on information provided by bank management.

## **DESCRIPTION OF INSTITUTION**

GNB is a \$289 million intrastate financial institution headquartered in Girard, Kansas. GN Bancshares, Inc., a \$290 million one bank holding company located in Girard, Kansas, is the 100 percent owner of GNB. While headquartered in Girard, management operates eight branches with offices in Yates Center, Bucklin, Offerle, Clay Center, Horton, Hiawatha, Wetmore, and Holton, Kansas. GNB has nine full-service facilities and one walk-up facility located in a convenience store. Eight branches offer drive-up facilities and non-deposit taking ATMs are located at six of the branches, including the convenience store location. Consumer installment, commercial/ industrial, and agriculture loans are the primary focuses of the bank's loan portfolio.

GNB received an "Outstanding" CRA rating at the last examination dated April 21, 2003. There are no legal or financial factors that impede the bank's ability to help meet the credit needs of the AAs.

## **DESCRIPTION OF ASSESSMENT AREA**

GNB's entire AA is comprised of three separate AAs consisting of 13 counties (Atchison, Brown, Clay, Clark, Comanche, Crawford, Edwards, Ford, Hodgeman, Jackson, Kiowa, Nemaha, and Woodson) located in Kansas. Although some of these counties are not contiguous, they have been combined into three AAs based on the similarity of the markets, as all are primarily rural agricultural communities with predominately middle-income census tracts.

**AA #1** consists of Atchison, Brown, Crawford, and Nemaha counties, with branches located in Girard, Horton, Hiawatha, and Wetmore. Only Nemaha, Brown, and Atchison counties are contiguous. While not all of the counties are contiguous, the branches serve communities with similar markets and offer similar primary products. Primary loan types by dollar volume and number consist of commercial/industrial loans and consumer installment loans respectively. AA #1 has 21 census tracts with a designation of three moderate income, 17 middle income, and one upper income. There are no low-income tracts in the AA.

**AA #2** consists of Clay, Clark, Comanche, Edwards, Ford, Hodgeman, Kiowa, and Woodson counties, with branches located in Yates Center, Clay Center, Bucklin, and Offerle. Hodgeman, Ford, Clark, Edwards, Kiowa, and Comanche are contiguous counties. While not all of the counties are contiguous, the branches serve communities with similar markets and offer similar primary products. Primary loan types by dollar volume and number consist of agricultural loans and consumer installment loans respectively. AA #2 has 16 census tracts with a designation of two moderate income, 12 middle income, and two upper income. There are no low-income tracts in the AA.

**AA #3** consists only of Jackson County with a branch located Holton. This branch is analyzed separately as it is located in the Topeka MSA. Primary loan types by dollar volume and number consist of agricultural loans and consumer installment loans respectively. AA #3 has three census tracts, all of which are middle income.

## CONCLUSIONS ABOUT PERFORMANCE CRITERIA

The Lending Test is rated: Outstanding

The Community Development Test is rated: Outstanding

We used a combination of bank and examiner generated loan/demographic reports to evaluate the bank's performance. Primary loan types by number consist of consumer installment in all AAs, and commercial/industrial and agricultural loans by dollar volume depending on the AA. This is consistent with the bank's business strategy.

### Lending Test

#### Geographic Distribution Of Loans

GNB's geographic distribution of credit reflects excellent penetration throughout AA #1 and AA #2 based on our sample of 20 originations of each primary loan type for the respective AA. We did not perform a geographic distribution analysis in AA #3 as it would not be meaningful, as all census tracts in this AA are middle income. There are no low income tracts in any of the three AAs.

The following table provides a summary of the geographic distribution of bank's loan originations for the respective AA.

GEOGRAPHIC DISTRIBUTION		
Loan Type	AA #1	AA #2
<b>Consumer / Instalment</b>	Exceeds demographics in moderate income tracts	Reasonable to demographics *
Number	20%	5%
Dollar	9%	3%
Demographics	13%	15%
<b>Commercial / Industrial</b>	Exceeds demographics in moderate income tracts	
Number	15%	
Dollar	21%	
Demographics	18%	
<b>Farm</b>		Exceeds demographics
Number		30%
Dollar		38%
Demographics		9%

\* Given that 18 percent of households in those tracts are below the poverty level.

Lending To Borrowers Of Different Incomes And To Businesses Or Farms Of Different Sizes

GNB's level of lending to businesses and farms of different sizes and to borrowers of different income levels is satisfactory in all three AAs based on our sample of 20 originations of each primary loan type for the respective AA.

<b>BORROWERS OF DIFFERENT INCOMES OR SIZES</b>			
<b>Loan Type</b>	<b>AA #1</b>	<b>AA #2</b>	<b>AA#3</b>
<b>Consumer / Instalment</b>	Exceeds demographics	Comparable to exceeds demographics	Exceeds demographics
Low Income Tract-Number	45%	20%	40%
Demographics	27%	21%	16%
Moderate Income Tract-Number	30%	40%	20%
Demographics	17%	18%	15%
<b>Commercial / Industrial &lt; \$1 million</b>	Exceeds demographics		
Number	75%		
Dollar	53%		
Demographics	57%		
<b>Farm &lt; \$1 million</b>		Comparable to demographics	Comparable to demographics
Number		90%	100%
Dollar		89%	100%
Demographics		94%	99%

While not a primary product, during the evaluation period, the bank originated 302 home mortgage loans totaling \$46 million. In 2003, the bank's distribution of home mortgage loans by borrower income level for loans to low-income borrowers exceeds area demographics for home improvement loans to low-income borrowers and for home purchase and refinancing to moderate-income borrowers. In 2004 and 2005, the bank's distribution of home mortgage loans by borrower income level for loans to low-and moderate-income borrowers met or exceeded area demographic information for all three loan types.

**Other Programs**

GNB helps to meet the residential real estate needs of its AAs by providing an affordable housing program for low- and moderate-income first time home buyers. During June 2005, GNB was awarded a \$400M Affordable Housing Project grant from the Federal Home Loan Bank of Topeka to provide down payment or closing costs assistance for low- and moderate-income families purchasing new homes. GNB received the grant based on a point system that looked at income targeting, use of neighborhood reinvestment and revitalization projects at the local level, needs of the rural community, and partnership with an experienced nonprofit agency. During 2005, GNB paid out \$272M in down payment and closing cost assistance (the remaining balance of the grant was paid out during the first half of 2006). The average household income of grant recipients was 38 percent of the state median household income.

Additionally working through the bank's GNB Mortgage Company subsidiary, GNB has been able to provide 102 percent loan-to-value loans to loans to low- and moderate-income families through the USDA Rural Development program.

#### Loan-to-Deposit Ratio (LTD)

GNB's LTD is excellent and reflects good responsiveness to the credit needs of its community. The quarterly average LTD ratio since the last CRA evaluation is 88.88 percent. The ratio is near the top of the seven similarly situated independent banks in the AA, and is well above the average of 79.78 percent including GNB. The average LTD ratio of similarly situated banks excluding GNB is 78.45 percent. The range of averages for the seven banks and GNB is 48.87 percent to 94.68 percent for the past 12 quarters. GNB's LTD ratio has increased each quarter over the assessment period from 83.69 percent as of March 31, 2003 to a high of 94.74 percent as of December 31, 2005.

#### Lending in Assessment Area

GNB originated or purchased a vast majority of reported loans within its AAs. For loans evaluated from 2003-2005, management originated or purchased 85 percent by number and 71 percent by dollar within its AAs.

#### Responses to Complaints

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

## **Community Development Test**

GNB's community development performance is excellent, even with the limited availability for participation. Management has responded to the community's needs through community development activities, lending, investment, and services. Community contacts and contextual research did not identify any derogatory information about the bank. GNB lenders have made community development loans and investments that provide financing and other benefits to low- and moderate-income individuals. Bank staff members offered their financial expertise and time to support organizations that provide services targeted to low- to moderate-income individuals. Community development activities totaled 14 percent of GNB's Tier one capital as of December 31, 2005.

### Community Development Loans

GNB originated 30 community development loans to 13 different borrowers for \$2,973,132 in its AAs and seven loans to three different borrowers outside the AAs for \$1,005,135. Lenders made the loans to various non-profit organizations established to provide services that target low- and moderate-income families and households, and several municipalities and school districts that primarily serve low- and moderate-income families, and Indian reservations that are typically underserved by banks.

### Qualified Investments and Donations

GNB purchased \$590M of municipal securities during the evaluation period that serve various localities in the bank's AAs. The funds raised by the bonds were used to improve schools and refinance industrial revenue bonds that primarily serve low- and moderate-income geographies and nearby Indian reservations.

During 2005, the bank donated \$8,096 to organizations that serve low- to moderate-income individuals within its AAs. Donations were made to 15 different organizations that primarily serve low- and moderate-income individuals. Management stated donations to organizations with a community development purpose during 2003 and 2004, but did not track donations prior to 2005.

### Community Development Services

The distribution of GNB's offices and service delivery systems are satisfactory and accessible to individuals of different income levels in the AAs. The bank has nine branch locations, with six having 24-hour ATM access. Bank personnel provide a satisfactory level of services at branch locations. Banking hours do not vary in a way that inconveniences individuals in its AAs, and drive-up facilities offer extended hours on Monday - Friday and are open on Saturday. Management has not closed any branches since the last examination, however the Clay Center branch moved into a newly constructed location during June 2004. There are no low-income geographies in the AAs. The Horton branch and ATM are located in a moderate-income tract, and the Holton branch is five miles from the Kickapoo Indian Reservation.

GNB offers Internet Banking, low cost electronic transfer accounts, and other alternative delivery services. However, information is not maintained to demonstrate the effectiveness or impact of these services to low- or moderate-income geographies or individuals.

Bank staff members provided their financial expertise to seven different organizations that promote community development initiatives in the AA. Three of the organizations are the United Way of Crawford County, United Way of Jackson County, and the Salvation Army. One organization facilitates housing and transportation for low- to moderate- income families, another organization provides comprehensive child development programs that serve children from birth to age five, pregnant women, and their families that are low-income. One task force is working to provide affordable housing for military families.

#### 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.

Please refer to the bank's CRA Public File for more information.