



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

September 13, 2002

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The Downs National Bank
Charter Number 11318**

**800 North Morgan Avenue
Downs, KS 67437**

**Comptroller of the Currency
Kansas City North
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.

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INSTITUTION'S CRA RATING

This institution is rated Satisfactory.

The major factors supporting the institution's rating are:

- The bank's record of lending to agricultural borrowers of different sizes and to borrowers of different income levels is good.
- The geographic distribution of loans in moderate-income geographies within the bank's assessment area is satisfactory.
- A substantial majority of loans are to borrowers in the bank's assessment area.
- The average quarterly loan-to-deposit ratio is reasonable.

DESCRIPTION OF INSTITUTION

Downs National Bank (DNB) is a \$16 million dollar bank located in Downs, Kansas. The bank operates their office in Osborne County. The bank has no branches or automated teller machines (ATMs). DNB is owned by Downs Bancshares, Inc., a one-bank holding company. The bank offers conventional financial products and services and primarily caters to consumers and agricultural businesses.

The bank's primary lending focus is real estate and agricultural products. As of June 30, 2002, Uniform Bank Performance Report (UBPR) real estate loans account for 56 percent of the bank's net loans and leases, with agricultural loans representing 25 percent of the bank's loan portfolio. The remainder of the portfolio is comprised of 10 percent consumer and 9 percent commercial loans.

As of June 30, 2002, the bank's assets totaled \$16 million, with Tier 1 Capital of \$1.5 million. Net loans and leases comprise 52 percent, or \$8.5 million of total assets. Outstanding loans are comprised of \$4.7 million real estate loans, \$2.1 million agricultural operating loans, \$896 thousand consumer loans, and \$825 thousand in commercial loans.

There are no financial, legal, or other factors that impede the bank's ability to help meet the credit needs of its assessment area. DNB received a Satisfactory rating in its last CRA evaluation dated February 23, 1998.

DESCRIPTION OF ASSESSMENT AREA

DNB's assessment area (AA) consists of six contiguous Block Numbering Areas (BNAs): BNAs 9741 and 9742 in Osborne County; BNAs 9757 and 9758 in Smith County; BNA 9767 in Mitchell County; and BNA 9762 in Jewell County. The bank is located in BNA 9741 in Osborne County. The AA is a non-metropolitan statistical area. Two BNAs (33 percent) are moderate-income and four (67 percent) are middle-income tracts. There are no low- or upper-income tracts in this AA. The AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income geographies.

1990 United States Census Data reflects a weighted average median family income of \$23,810 for the AA. The 2002-updated State of Kansas non-MSA median family income is \$44,200. Total family income as a percent of the non-MSA median is comprised as follows: low-income 22 percent, moderate-income 25 percent, middle-income 27 percent, and upper-income 27 percent. There is one other financial institution located in Downs and nineteen other financial institutions throughout the four county area. Most of the financial institutions are larger than DNB.

Local economic conditions are good. Agricultural activities provide the mainstay of the local economy, but commercial businesses within the AA provide some diversification. The largest employers in the AA include RC Pork, Osborne Industries, Inc., and Unified School District 272. 1990 United States Census Data reflects a total population of 13,725 in the AA. The unemployment rate as of June 2002 for the State of Kansas is 4.6 percent and the US rate is 5.9 percent. The unemployment rate for Osborne County is 2.2 percent, Smith County is 1.1 percent, Mitchell County is 2.2 percent, and Jewell County is 2.0 percent.

Two community contacts were made during this review. Agricultural loans continue to be a primary need due to the rural demographics. The contacts stated that local financial institutions were effectively meeting credit needs in the area and provide strong community support.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The bank's loan to deposit ratio (LTD) is reasonable. The average quarterly LTD ratio from March 31, 1998 through June 30, 2002 is 59 percent. We compared the bank's LTD ratio to ten similarly sized community banks with an agricultural business focus in the four county area, including the bank's AA. Ratios for these banks ranged from 45 percent to 104 percent. DNB's average LTD ratio ranked sixth among the ten institutions reviewed.

Lending in Assessment Area

The bank's record of lending to borrowers within their AA is excellent. The bank does not track loan information by origination date. We determined the primary product types by evaluating reports that detail the number and dollar amount of outstanding loans. We sampled a total of 57 residential real estate, agriculture operating, and farmland purchase loans originated during the evaluation period. Consumer auto installment loans also represent a significant volume of lending by number, however, management does not collect and retain income information for these borrowers. Therefore, an analysis of this loan type would not provide meaningful information. The sampled loans were comprised of 20 residential real estate, 20 agriculture operating, and 17 farmland purchase credits. Lending to borrowers within the AA is calculated at 95 percent by number and 89 percent by dollar.

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

The bank's record of lending to borrowers of different income level, including low- and moderate-income borrowers, and to business of different sizes is good. We evaluated the bank's performance by sampling revenue distribution of 34 agricultural borrowers and income levels of 17 residential real estate borrowers. Our sample period focused on loans originated in the current period and the prior two years.

Agricultural revenue sampling reflects lending to borrowers with revenues of less than one million is good. Sampling results show 94 percent by number and 90 percent by dollar amount originated to borrowers with revenues of less than one million. This compares favorably to AA demographics.

<u>Agricultural Lending Distribution</u>				
<u>Loan Sample Originated January 2000 - October 2002</u>				
<u>Revenue Category</u>	<u>Loans by #</u>	<u>% of Loans by #</u>	<u>% of Loans by \$</u>	<u>% of Farms in AA</u>
<u>< 250,000</u>	32	94%	90%	94%
<u>250,000 - 500,000</u>	0	0%	0%	0%
<u>500,000 - 1,000,000</u>	0	0%	0%	0%
<u>> 1,000,000</u>	0	0%	0%	0%
<u>Revenue not reported</u>	2	6%	10%	6%
<u>Totals</u>	34	100%	100%	100%

Residential real estate loan sampling reflects lending to borrowers of different income levels is good. Sampling results demonstrate lending to low-income borrowers was 18 percent by number and 23 percent by dollar and moderate-income borrowers represented 47 percent by number and 33 percent

by dollar. Lending to low-income borrowers is near to AA demographics and to moderate-income borrowers exceeds AA demographics.

<u>Borrower Distribution Income Level</u>				
<u>Residential Real Estate Loan Sample Originated January 2000 – October 2002</u>				
<u>Borrower Income Level</u>	<u>Loans by #</u>	<u>% of Loans by #</u>	<u>% of Loans by \$</u>	<u>% of Families in AA</u>
<u>Low-income</u>	3	18%	23%	22%
<u>Moderate-income</u>	3	47%	33%	25%
<u>Middle-income</u>	8	18%	13%	27%
<u>Upper-income</u>	3	18%	31%	27%
<u>Totals</u>	17	100%	100%	100%

Geographic Distribution of Loans

The overall geographic distribution of loans reflects a reasonable penetration throughout the bank's AA. Geographic distribution performance of agricultural loans is stronger than the distribution of residential real estate loans.

Based on our sample of 34 agricultural loans the geographic distribution in moderate-income areas is reasonable compared to AA demographics.

<u>Geographic Distribution</u>			
<u>Agriculture Loans Originated January 2000 - October 2002</u>			
<u>Income Level of Tract</u>	<u>% of loans by #</u>	<u>% of loans by \$</u>	<u>% of Farms</u>
<u>Moderate-income</u>	26%	29%	37%
<u>Middle-income</u>	74%	71%	63%

Based on our sample of 17 residential real estate loans, the geographic distribution in moderate-income areas is weaker than AA demographics.

<u>Geographic Distribution</u>			
<u>Residential Real Estate Loans Originated January 2000 - October 2002</u>			
<u>Income Level of Tract</u>	<u>% of loans by #</u>	<u>% of loans by \$</u>	<u>% of Owner Occupied Units</u>

<u>Moderate-income</u>	6%	5%	22%
<u>Middle-income</u>	94%	95%	78%

Responses to Complaints

The bank has not received any written CRA related complaints during our review period of February 23, 1998 to September 13, 2002.

Fair Lending Review

An analysis of 1998 to 2002 public comments and consumer complaint 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 1997.