



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

October 27, 2003

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

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

**601 Morton
Elkhart, Kansas 67950**

**Comptroller of the Currency
ADC-Arizona & New Mexico
9633 South 48th Street Suite 265
Phoenix, Arizona 85044**

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.

INSTITUTION'S CRA RATING

This institution is rated Outstanding.

First National Bank of Elkhart's (FNBE) lending performance reflects an outstanding response to community credit needs. This conclusion is based on the following results.

- The loan-to-deposit (LTD) ratio is more than reasonable given the bank's size, financial condition and assessment area (AA) credit needs.
- The bank originated a substantial majority of loans inside its AA.
- Lending activities represent an excellent penetration of loans to businesses and farms of different sizes.

DESCRIPTION OF INSTITUTION

As of June 30, 2003, FNBE was a \$45 million community bank located in Morton County in Elkhart, Kansas. Morton County is in the far southwest corner of the state, bordering Oklahoma and Colorado. FNBE operates out of a main office in Elkhart and one branch in Rolla, Kansas. The bank has not closed any branch offices during the evaluation period. The bank is a subsidiary of Elkhart Financial Company, a bank holding company that is a subsidiary of Kansas Bank Corporation, a 3-bank holding company of Johnson, Kansas. The other two banks are First National Bank of Liberal and First National Bank of Syracuse.

The bank's primary lending focus is small business and small farm loans. In terms of dollars, commercial and commercial real estate loans represent 15% of the bank's total loan portfolio, and agricultural and farmland loans represent 50% as of December 31, 2002.

There are no financial or legal impediments that hinder the bank's ability to help meet the credit needs of the AA. The bank was previously rated Outstanding as of March 21, 1997.

DESCRIPTION OF ASSESSMENT AREA

FNBE has designated four census tracts (CT) as its AA. The CT's are in Kansas (9646, which is all of Morton County), Colorado (9846, which is in Baca County), and Oklahoma (9510 and 9501, which are in Texas and Cimarron Counties, respectively). All four are middle-income tracts. According to the Bureau of Labor Statistics, the unemployment rates for the four counties as of December 31, 2002 were 2.5% Morton, 3.0% Baca, 3.1% Texas, and 2.1% Cimarron.

Competition for financial services is strong. The June 30, 2002 FDIC Deposit Market Share Report shows 16 financial institutions competed for \$592 million of insured deposits. The nature of the competition includes other community and regional banks. Half of the other competitors have significant presences and access to other loans and deposits outside the local market.

Of these 16 financial institutions, the bank considers nine of them to be close competitors, due to similar size of institution, geographic proximity, and line of business. These are the banks that will be used to evaluate the bank's LTD ratio.

During this examination, we contacted one community leader in the area to discuss economic conditions and credit needs. The contact was a regional governmental official who identified the primary credit needs as agricultural loans due to the rural demographics of southwestern Kansas. The contact stated that local financial institutions through all counties in the area are very supportive in meeting those credit needs.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

The evaluation period for this CRA examination focuses on the prior two years (2001-2002) except for the LTD ratio which is calculated through June 2003. We looked at both the dollar amount of loans and the number of loans originated. An evaluation of the originations showed FNBE's primary products to be commercial and agricultural loans, which is representative of the bank's business strategy.

Loan Originations for Evaluation Period	Percentage of Dollar Amount of Loans	Percentage of Number of Loans
Commercial Loan Originations as a % of Total Originations	19%	14%
Agricultural Loan Originations as a % of Total Originations	55%	22%
Total	74%	36%

Source: Loan Originations for evaluation period

After identifying the primary product, we took a random sample of 20 loans, and used them to determine the ratio of loans inside the AA. To evaluate the geographic and borrower distribution of loans, loans outside the AA were discarded and additional loans were then selected to fill in the sample of 20. Based on these samples, the bank's initial evaluation of its CRA performance in meeting the credit needs of the community is Outstanding, as supported below.

Loan-to-Deposit Ratio

The bank's average quarterly LTD ratio of 83% is more than reasonable given the bank's size, financial condition, and AA credit needs. It exceeds the standard for satisfactory performance. Uniform Bank Performance Reports from the fourth quarter 2000 through the second quarter 2003 were used to compare FNBE with nine similarly situated banks. The only bank with a higher LTD ratio than FNBE is significantly larger and has offices in other marketplaces from which to draw its loans and deposits.

Bank	Average Quarterly LTD Ratio
FNBE	83%
9 other financial institutions average LTD ratios	69%
Highest LTD ratio in range of other institutions	86%
Lowest LTD ratio in range of other institutions	52%

Source: Uniform Bank Performance Report

Lending in Assessment Area

A substantial majority of the number and dollar amount of loans in the loan sample are inside the bank's AA. This exceeds the standards for satisfactory performance. Refer to the table below.

Lending in Morton County and 3 Census Tracts in Colorado and Oklahoma AA										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$000	%	\$000	%	
Agriculture	19	95%	1	5%	20	\$2735	99%	\$32	1%	\$2767
Business	19	95%	1	5%	20	\$308	89%	\$37	11%	\$345
Totals	38	95%	2	5%	40	\$3043	98%	\$69	2%	\$3112

Source: sample of loans

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

Given the demographics of the AA, the distribution of loans originated reflects an excellent penetration among businesses and farms of different sizes. The bank exceeds both the business and farm demographic for loans to borrowers with revenues of \$1 million or less by percent of dollar amount and percent of number of loans. Refer to the two tables below.

Borrower Distribution of Loans to Businesses in Morton County and 3 Census Tracts in Colorado and Oklahoma AA		
Business Revenues (or Sales)	≤ \$1,000,000	> \$1,000,000
% of AA Businesses*	65%	4%
% of Bank Loans in AA by #	85%	10%
% of Bank Loans in AA by % \$	74%	24%

Source: Loan sample; Dunn & Bradstreet data. *31% of AA businesses did not report revenue data.

Loan sample has 2% by dollar amount and 5% by number of loans of unknown revenues for businesses (a CD secured loan where financial statements were not requested).

Borrower Distribution of Loans to Farms in Morton County and 3 Census Tracts in Colorado and Oklahoma AA		
Farm Revenues (or Sales)	≤ \$1,000,000	> \$1,000,000
% of AA Farms*	92%	7%
% of Bank Loans in AA by #	95%	0%
% of Bank Loans in AA by % \$	100%	0%

*Source: Loan sample; Dunn & Bradstreet data. *1% of AA farms did not report revenue data.*

Loan sample has 0% by dollar amount and 5% by number of loans of unknown revenues for farms (a very small CD secured loan where financial statements were not requested).

Geographic Distribution of Loans

An analysis of the geographic distribution of credit within the bank’s AA by income level would not be meaningful because the AA only consists of middle-income census tracts.

Responses to Complaints

FNBE has not received any CRA related complaints since our last examination.

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of illegal discrimination or other illegal credit practices.