



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

March 3, 2003

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Community National Bank
Charter Number 21389**

**14 North Lincoln
Chanute, KS 66720**

**Office of the Comptroller of the Currency
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.

Major factors supporting this rating are:

- Community National Bank's record of lending within its assessment areas is excellent. The bank originated a majority of its loans to borrowers inside its assessment areas.
- The bank's loan-to-deposit (LTD) ratio is good.
- Loan distribution reflects a good penetration among individuals of different income levels, including low- and moderate-income, and a satisfactory penetration among business of different sizes.
- The geographic distribution of residential real estate loans is excellent and for commercial and consumer loans, distribution is adequate.

DESCRIPTION OF INSTITUTION

Community National Bank (CNB) is a \$397 million bank headquartered in Chanute, Kansas. CNB is owned by Community Bancshares of Chanute, Inc. (CBC), a one-bank holding company. Since its last CRA evaluation in 1999, the bank's asset size increased from \$94 million to \$397 million. In December 1999, CBC merged with Edna Bancshares, a \$65 million holding company of the First State Bank of Edna. During 2001, CNB opened three new branch offices in Parsons, Pittsburg, and Burns; acquired the branch offices and some of the deposits of Commercial Federal, F.S.B. in Fredonia and Iola; and merged the three offices of the First State Bank of Edna located in Edna, Cherryvale, and Neodesha into CNB. This activity resulted in an increase of \$100 million in assets. In 2002, CNB opened two new branch offices in Caney and Coffeyville and acquired a branch office and deposits of Intrust Bank, NA in Eureka resulting in an increase of \$24 million in assets. CNB operates 20 full service branches and 24 ATMs in sixteen markets in the state of Kansas. The main office is located in Chanute.

CNB's primary business focus is residential real estate and commercial lending. As of December 31, 2002 the bank reported net loans of \$309 million or 78 percent of total assets. The loan portfolio is comprised of 36 percent residential real estate, 33 percent commercial and industrial, 16 percent agriculture, 13 percent consumer, and 2 percent other loans.

There are no legal or financial limitations that impede the bank's ability to meet the credit needs of its communities. CNB was rated "Satisfactory" in the last Performance Evaluation dated January 4, 1999.

DESCRIPTION OF ASSESSMENT AREAS

CNB has two assessment areas (AAs), both of which meet the requirements of the regulation and do not arbitrarily exclude any low- or moderate-income areas.

AA #1: Allen, Crawford, Greenwood, Labette, Montgomery, Neosho, Wilson, and Woodson Counties (Non-Metropolitan Statistical Area Counties Combined)

AA #1 is comprised of eight contiguous counties in southeast Kansas. The AA is a non-Metropolitan Statistical Area (non-MSA). The AA contains 52 Block Numbering Areas (BNAs) of which 12 (23 percent) are moderate-, 36 (69 percent) are middle-, and three (6 percent) are upper- income. One BNA (2 percent) is identified as not having an income designation. There are no low-income tracts in the AA.

The 1990 median family income for the AA was \$28,067 and the 2002-updated statewide non-MSA median family income is \$44,200. The 1990 census population of the AA is 152,002, with low-, moderate-, middle- and upper- income families representing 21 percent, 20 percent, 24 percent, and 35 percent, respectively. Household income levels for low-, moderate-, middle-, and upper-income is 28 percent, 17 percent, 19 percent, and 36 percent, respectively. Nineteen percent of the AA population resides in the moderate-income tracts, 72 percent in the middle-income tracts, and nine percent in the upper-income tracts. Approximately 63 percent of the housing units in the AA are owner-occupied and 24 percent of the housing units are rental-occupied.

Economic conditions in the AA are stable. As of December 31, 2002, the Bureau of Labor Statistics reports the combined unemployment rate in the AA was 4.14 percent. By county the unemployment rates are: Allen – 3 percent, Crawford – 3.9 percent, Greenwood – 5.4 percent, Labette – 4.3 percent, Montgomery – 4.3 percent, Neosho – 3.3 percent, Wilson – 2.7 percent, and Woodson – 7.5 percent. This compares with the unemployment rate for the State of Kansas of 4.2 percent and a national rate of 6 percent for the same time period. Major employers in the AA include NuWa Industries, Inc., Monarch Cement, Superior Industries, International, Inc., Pittsburg State University, local hospitals, local school districts, and city governments.

CNB operates 17 branch offices in this AA. Five branches (29 percent) are located in moderate-income, and 12 (71 percent) are in middle-income BNAs. The main office in Chanute is in a middle-income BNA. There are 19 ATMs in the AA, 10 of which accept deposits. ATM distribution within the AA is 26 percent in moderate-income tracts and 74 percent in middle-income tracts. There are 39 other financial institutions operating in the AA. CNB identified eleven financial institutions as its primary competition in the AA, however only four are considered similarly situated based on asset size, markets served, business focus, and branch structure.

We conducted one community contact in this AA with the Assistant City Manager of the City of Chanute. This contact also serves as the Director of Economic Development for the City of Chanute. Our contact believes the greatest credit needs are small business lending and first time homebuyer programs. The contact feels there is a barrier to homeownership when financial institutions require large down payments for home loans, forcing consumers to turn to alternative or out of area lending sources. The contact feels small business lending needs are being met by local financial institutions and

complimented CNB on its willingness to work with businesses in the area.

AA #2: Butler County and Block Numbering Area (BNA) 9898 of Marion County

AA #2 is comprised of Butler County and BNA 9898 of Marion County. Butler County is part of the Wichita Metropolitan Statistical Area (MSA) and is contiguous to BNA 9898 in Marion County, a non-MSA county. For analysis purposes we evaluated these areas together because BNA 9898 does not substantially extend beyond the MSA boundary. The AA contains 11 census tracts in Butler County and one BNA in Marion County; one census tract (8 percent) is moderate- and 11 census tracts (92 percent) are middle-income. There are no low-income tracts in the AA.

The 1990 median family income for the AA was \$35,276 and the 2002-updated statewide MSA family income is \$57,767. The 1990 census population of the AA is 55,106 with low-, moderate-, middle- and upper- income families representing 17 percent, 20 percent, 26 percent, and 37 percent, respectively. Household income levels for low-, moderate-, middle-, and upper-income is 21 percent, 17 percent, 21 percent, and 41 percent, respectively. Eight percent of the AA population resides in the moderate-income tract and 92 percent reside in the middle-income tract. Approximately 69 percent of the housing units in the AA are owner-occupied and 25 percent of the housing units are rental-occupied.

Economic conditions in the AA are generally stable. As of December 31, 2002, the Bureau of Labor Statistics reports the unemployment rate in Butler County was 5.1 percent and in Marion County was 2.4 percent, compared to the state and national unemployment rates for the same time period of 4.2 percent and 6 percent respectively. Major employers in the AA include Pioneer Balloon Company, the El Dorado Correctional Center, and Century Plastics, Inc. Many residents of this AA also commute to Wichita for employment.

CNB operates three branch offices and five ATMs, three of which accept deposits, in this AA. All the branches and ATMs are located in middle-income tracts. There are 24 other financial institutions operating in the AA. CNB identified four financial institutions as its primary competition in the AA, however, only two are considered similarly situated based on asset size, markets served, business focus, and branch structure.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

We evaluated the bank's performance by sampling 20 loans of each type in both AAs: residential real estate (home purchase, home improvement, and home refinance), commercial, and consumer loans. Our sample period focused on loans originated in calendar years 2001 and 2002. We gave more weight to the bank's performance in AA #1 because this is where the majority of branches (85 percent) are located and where a majority of the loans (88 percent) originated.

We determined the primary product types using bank prepared reports of loans originated since the previous CRA evaluation. The primary product types by number of loans are consumer (48 percent), residential real estate (21 percent) and commercial (16 percent). The primary product types by dollar volume are residential real estate (34 percent) and commercial (31 percent).

Loan-to-Deposit Ratio

CNB's loan-to-deposit (LTD) ratio is good. The quarterly average LTD ratio is 89 percent and has not substantially changed since the last CRA evaluation. As of December 31, 2002, the bank's LTD ratio is 91 percent. CNB ranks seventh among 14 competitive financial institutions operating in the bank's AAs. The quarterly average LTD ratio among competitive banks ranges from 54 percent to 148 percent.

Competitive banks vary in size and financial capacity, however, given the rural markets in which CNB operates, and the limited number of financial institutions in each market, they are in direct competition with all of these banks for deposit and loan demand. For contextual information, only six institutions in the AAs are considered similarly situated based on size, markets served, business focus, and branch structure. The quarterly LTD ratio for the similarly situated banks ranges from 54 percent to 92 percent. CNB's quarterly LTD ratio ranks second among these institutions.

Lending in Assessment Area

The bank's record of lending within its AAs is excellent. The bank originated a majority of its loans to borrowers inside its AAs. OCC Examiners tested an internally generated report that sorted loans originated since the last CRA evaluation by city and state. This enabled us to determine loans made to borrowers inside versus outside the AA. Based on this information, we found 90 percent by number and 87 percent by dollar amount of loans originated to borrowers in the AAs.

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

Loan distribution reflects a good penetration among individuals of different income levels, including low- and moderate-income, and a satisfactory penetration among businesses of different sizes. Refer to page 9 for the facts and data used to evaluate the borrower distribution of loans.

Residential Real Estate Lending

CNB has a good record of making residential real estate loans to borrowers of different income levels. Performance is strongest in home purchase lending to moderate-income borrowers where the bank exceeds the demographics in both AAs. Lending to low-income borrowers in both AAs is lower than demographics but considered adequate given the family poverty rates of 12 percent in AA #1 and 6 percent in AA #2. Home improvement lending is stronger in AA #1 where performance to moderate-income borrowers exceeds the demographics; however lending to low-income borrowers is much lower than demographics. In AA #2, home improvement lending is lower than demographics to both low- and moderate-income borrowers. Home refinance lending performance in AA #1 to both low- and moderate-income borrowers is adequate. Performance in AA #2 is poor to low-income borrowers and good to moderate-income borrowers. Although CNB does not specifically offer a first time homebuyer program, lending activity demonstrates good performance and a willingness to work with borrowers of all income levels to achieve homeownership.

Commercial Lending

CNB has a satisfactory record of lending to businesses of different sizes in both AAs. Commercial lending in AA #1 to businesses with revenues of less than \$1 million is less than percentage of businesses in the AA who report revenues of less than \$1 million; in AA #2 performance exceeds the percentage of businesses with revenues of less than \$1 million. Small business lending is a fundamental credit need in both AAs.

Consumer Lending

The distribution of consumer loans by borrower income level is good. In AA #1, the percentage of loans to moderate-income borrowers exceeds the demographics. The percentage of loans to low-income borrowers is lower than demographics but is considered good given the household poverty rate of 17 percent in this AA. Lending performance to low- and moderate-income borrowers in AA #2 is excellent and exceeds AA demographics.

Geographic Distribution of Loans

The overall geographic distribution of loans is good. For residential real estate loans the distribution is excellent, for commercial and consumer loans, the distribution is adequate. There are no low-income tracts in either AA. AA #1 has 12 moderate-income tracts, and AA #2 has one moderate-income tract. The geographic distribution of loans by dollar volume in AA #1 shows 19 percent of loans to borrowers in moderate-income tracts, 73 percent to middle-income tracts, and 8 percent in upper-income tracts. In AA #2, the distribution of loans by dollar volume shows 4 percent in the moderate-income tract and 96 percent in the middle-income tracts. Refer to page 10 for the facts and data used to evaluate the geographic distribution of loans.

Our geographic distribution analysis included a review for any unexplained lending gaps in the AAs, particularly in the moderate-income tracts. We performed this analysis using maps and reports showing the bank's lending activity in each tract. Our analysis found CNB achieved penetration in all tracts of both AAs.

Residential Real Estate Lending

The geographic distribution of residential real estate loans in the moderate-income tracts is excellent in AA #1 and exceeds the demographics for home purchase and home improvement loans. The distribution for home refinance loans is good and is slightly lower than demographics. The geographic distribution of residential real estate loans in the moderate-income tract of AA #2 for home purchase and home improvement loans is slightly higher than the demographics. The bank did not originate any home refinance loans in the moderate-income tract of this AA.

Commercial Lending

The geographic distribution of small loans to businesses is adequate. CNB's performance is adequate in AA #1 where the percentage of loans in the moderate-income tracts is somewhat lower than the demographics. In AA #2, performance is poor, with no penetration in the moderate-income tract.

Consumer Lending

The geographic distribution of consumer loans is adequate. The percentage of loans in the moderate-income tracts in AA #1 matches the demographics, and in AA #2 is slightly lower than the demographics.

Community Development Activities

A bank officer serves as the chairman of the Chanute Restoration and Development Corporation (CRD), a non-profit organization dedicated to buying and selling dilapidated buildings in the central business district of downtown Chanute. CRD renovates properties for resale to small business owners, oftentimes at a loss, to promote small business development in the downtown area. During the evaluation period, CNB originated five loans totaling \$269,000 to four borrowers on nine properties sold by CRD.

In October 2000, CNB originated a \$2.5 million loan to an organization to construct affordable housing units targeted to low- and moderate-income families in the city of El Dorado. The maximum income requirement for this project was 60 percent of the area median income level set by the Department of Housing and Urban Development. The construction project, completed in three phases, resulted in 140 new housing units. Low- and moderate-income families occupy approximately 75 percent of the units.

Responses to Complaints

The bank has not received any CRA related complaints during this evaluation period.

Fair Lending Review

An analysis of calendar years 1999 through 2001 public comments, consumer complaint information, and reportable Home Mortgage Disclosure Act activity 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.

Borrower Distribution

HOME PURCHASE LOANS										
Assessment Area	Total Home Purchase Loans Sampled		Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers	
	#	% of Total	% Families	% of Bank Loans	% Families	% of Bank Loans	% Families	% of Bank Loans	% Families	% of Bank Loans
AA #1	20	100%	21%	15%	20%	25%	24%	10%	35%	50%
AA #2	20	100%	17%	10%	20%	35%	26%	25%	37%	30%

HOME IMPROVEMENT LOANS										
Assessment Area	Total Home Improvement Loans Sampled		Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers	
	#	% of Total	% Families	% of Bank Loans	% Families	% of Bank Loans	% Families	% of Bank Loans	% Families	% of Bank Loans
AA #1	20	100%	21%	10%	20%	30%	24%	25%	35%	35%
AA #2	20	100%	17%	5%	20%	15%	26%	45%	37%	35%

HOME REFINANCE LOANS										
Assessment Area	Total Home Refinance Loans Sampled		Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers	
	#	% of Total	% Families	% of Bank Loans	% Families	% of Bank Loans	% Families	% of Bank Loans	% Families	% of Bank Loans
AA #1	20	100%	21%	11%	20%	17%	24%	39%	35%	33%
AA #2	20	100%	17%	0%	20%	25%	26%	45%	37%	30%

COMMERCIAL LOANS									
Assessment Area	Total Commercial Loans Sampled		Businesses with Revenue of \$1 million or Less		Businesses with Revenue of \$1 million or More		Businesses with No Revenue Reported		
	#	% of Total	% of Businesses	% of Bank Loans	% of Businesses	% of Bank Loans	% of Businesses	% of Bank Loans	
AA #1	20	100%	72%	65%	4%	15%	24%	20%	
AA #2	20	100%	69%	80%	4%	15%	27%	5%	

CONSUMER LOANS										
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Assessment Area	Total Consumer Loans Sampled		Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers	
	#	% of Total	% Households	% of Bank Loans	% Households	% of Bank Loans	% Households	% of Bank Loans	% Households	% of Bank Loans
AA #1	20	100%	28%	18%	17%	29%	19%	41%	36%	12%
AA #2	20	100%	21%	26%	17%	32%	21%	32%	41%	10%

Source: The percentages of families, businesses, and households by income level of the borrower are based on the 1990 U.S. Census data.

Geographic Distribution

HOME PURCHASE LOANS										
Assessment Area	Total Home Purchase Loans Sampled		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies	
	#	% of Total	% of Owner Occ Units	% of Bank Loans	% of Owner Occ Units	% of Bank Loans	% of Owner Occ Units	% of Bank Loans	% of Owner Occ Units	% of Bank Loans
AA #1	20	100%	NA	NA	17%	20%	74%	75%	9%	5%
AA #2	20	100%	NA	NA	4%	5%	96%	95%	NA	NA

HOME IMPROVEMENT LOANS										
Assessment Area	Total Home Improvement Loans Sampled		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies	
	#	% of Total	% of Owner Occ Units	% of Bank Loans	% of Owner Occ Units	% of Bank Loans	% of Owner Occ Units	% of Bank Loans	% of Owner Occ Units	% of Bank Loans
AA #1	20	100%	NA	NA	17%	25%	74%	75%	9%	0%
AA #2	20	100%	NA	NA	4%	5%	96%	95%	NA	NA

HOME REFINANCE LOANS										
Assessment Area	Total Home Refinance Loans Sampled		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies	
	#	% of Total	% of Owner Occ Units	% of Bank Loans	% of Owner Occ Units	% of Bank Loans	% of Owner Occ Units	% of Bank Loans	% of Owner Occ Units	% of Bank Loans
AA #1	20	100%	NA	NA	17%	15%	74%	75%	9%	10%
AA #2	20	100%	NA	NA	4%	0%	96%	100%	NA	NA

COMMERCIAL LOANS										
Assessment Area	Total Commercial Loans Sampled		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies	
	#	% of Total	% Businesses	% of Bank Loans	% Businesses	% of Bank Loans	% Businesses	% of Bank Loans	% Businesses	% of Bank Loans
AA #1	20	100%	NA	NA	24%	20%	70%	80%	6%	0%
AA #2	20	100%	NA	NA	9%	0%	91%	100%	NA	NA

CONSUMER LOANS										
Assessment Area	Total Consumer Loans Sampled		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies	
	#	% of Total	% Households	% of Bank Loans	% Households	% of Bank Loans	% Households	% of Bank Loans	% Households	% of Bank Loans
AA #1	20	100%	NA	NA	20%	20%	71%	75%	9%	5%
AA #2	20	100%	NA	NA	6%	5%	94%	95%	NA	NA

Source: The percentages of owner occupied units, businesses, and households by income level of the geographies are based on the 1990 U.S. Census data.