



PUBLIC DISCLOSURE

May 08, 2015

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The Citizens National Bank
Charter Number 10789

417 Commercial
Greenleaf, KS 66943

Office of the Comptroller of the Currency

2959 N. Rock Road, Suite 510
Wichita, KS 67226

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 Satisfactory

- The Citizens National Bank's (CNB) average loan-to-deposit (LTD) ratio of 42.01 percent reflects reasonable responsiveness to the credit needs of its assessment areas (AAs).
- A substantial majority of CNB's primary loan products were granted inside the AAs. The loan samples indicated that 92.50 percent of the number and 94.13 percent of the dollar volume of loans were granted within the AAs.
- CNB's lending performance reflects satisfactory distribution to farms and businesses of different sizes. Lending to small farms in the North Central Kansas AA reflects excellent penetration. Lending to small businesses in the Lansing/Leavenworth AA reflects reasonable penetration.
- CNB's geographical distribution of loans reflects satisfactory dispersion throughout the assessment areas. The North Central Kansas AA did not receive an assessment for its one moderate-income tract. For the Lansing/Leavenworth AA, dispersion in the low-income tracts was excellent, while dispersion in moderate-income tracts was reasonable.

SCOPE OF EXAMINATION

The Community Reinvestment Act (CRA) review period covered by this examination is from January 1, 2013, through April 21, 2015. The bank has two AAs, the North Central Kansas (NCK) AA and the Lansing/Leavenworth (LL) AA. Both of the bank's assessment areas received a full-scope review. The primary loan product in the NCK AA is agricultural loans, while the primary loan product in the LL AA is commercial loans. Our sample consisted of 20 agricultural loans from the NCK AA and 20 commercial loans from the LL AA. CNB's NCK AA held seventy-four percent of the bank's deposits and originated seventy-nine percent of the bank's loans extended during the review period. Therefore, the NCK AA will receive the most weight in the overall CRA rating.

The Office of Management and Budget (OMB) Metropolitan Area geographic boundary revisions became effective for CRA purposes on January 1, 2014. A Metropolitan Area (MA) can also be a Metropolitan Statistical Area (MSA). Based on each decennial census, OMB revises both the boundaries of those areas, and the number, delineation, and income levels of census tracts within those areas as appropriate. CNB's LL AA resides within the Kansas City, KS-MO MSA. There were no OMB boundary or census tract revisions in Leavenworth County that impact this CRA evaluation; therefore, loan activity for the review period can be combined for a single analysis. The data reflected in subsequent tables represent the entire review period.

DESCRIPTION OF INSTITUTION

CNB is a \$172 million institution owned by Padgett Agency, Inc., a one-bank holding company and insurance agency. The holding company is headquartered in Greenleaf, Kansas and had December 31, 2014 total assets of \$16 million. The bank's main office is also located in Greenleaf, Kansas. CNB has five other branches in Kansas: one each in Belleville; Clay Center; Concordia; Lansing; and Leavenworth. The Leavenworth and Concordia branches are located in low- and moderate-income census tracts, respectively. Each facility, except for the main office, offers drive-through facilities. The bank has fifteen automated teller machines throughout the two AAs. The ATM in Lansing accepts deposits.

CNB is a full-service banking institution offering a full range of agriculture, commercial, real estate, and consumer credit products. The bank participates in a loan program for beginning farmers, a first-time homebuyer program, and various Small Business Administration loan programs. On March 31, 2015, net loans represented 37.6 percent of the bank's total assets. The \$62 million loan portfolio had the following composition: agricultural loans at 41 percent; residential real estate loans at 33 percent; commercial loans at 18 percent; and consumer loans at 8 percent.

There are no legal, financial or other factors impeding the bank's ability to help meet the needs of its AA. The Office of the Comptroller of the Currency last evaluated CNB's CRA performance on November 30, 2009. The institution received an overall rating of "Satisfactory" under the Small Institution Performance Standards. The bank has not opened or closed any branches since the last examination.

DESCRIPTION OF ASSESSMENT AREA(S)

North Central Kansas AA

The NCK AA is in a non-metropolitan area located in north central Kansas. The AA consists of the counties of Clay, Cloud, Republic, and Washington. The counties are contiguous and are homogenous, rural in nature. The AA consists of 11 census tracts, one moderate-income tract and 10 middle-income tracts. Four census tracts are designated as both distressed and underserved middle-income geographies. Population loss is the reason the tracts are designated as distressed. The tracts are designated as underserved due to the remote rural location. The AA meets regulatory requirements.

The 2010 U. S. Census reflects a population of 28,847 persons. The Weighted Average of HUD Updated MSA Median Family Income for 2015 is \$55,900. The AA has the following distribution for families: 19 percent low-income; 20 percent moderate-income; 24 percent middle-income; and 37 percent upper-income. Of the 12,404 households in the AA, 39 percent receive social security and 12 percent are below the poverty level. Twenty-three percent (23%) of the population is over the age of 65, and 38 percent of the population consists of civilians not in the workforce. The Weighted Average of Median Housing is \$64,636 and 65 percent of the housing units are owner occupied.

Agriculture production and related services provide the basis for the AA's economy and continue to be the main credit need in the area. As reported by the North Central Regional Planning Commission in its 2014-2019 Comprehensive Economic Development Strategy, North Central Kansas has seen reserved but promising income improvement and employment growth since the national recession. Agriculture businesses GT Manufacturing and Reinke Manufacturing each had one of their best revenue years in 2013. County and local governments, school districts, and medical facilities collectively employ the largest number of employees in the AA.

The U. S. Bureau of Labor Statistics (BLS) reports a March 2015 unemployment rate for Clay, Cloud, Republic, and Washington Counties at 4.6, 4.0, 3.1, and 3.6 percent, respectively. These rates are near or below the March 2015 unemployment rate for Kansas at 4.2 percent.

Lansing/Leavenworth AA

The LL AA is comprised of ten out of the fifteen census tracts in Leavenworth County. Leavenworth County lies within the Kansas City Metropolitan Statistical Area; however, CNB's AA consists of the cities of Leavenworth and Lansing, located adjacent to one another, and their surrounding geographies. The LL AA consists of one low-, four moderate-, three middle-, and two upper-income census tracts. The AA complies with the regulation and does not arbitrarily exclude any low- or moderate-income areas.

The 2010 U. S. Census reflects a population of 45,000 persons. The Weighted Average of HUD Updated MSA Median Family Income for 2015 is \$73,300. The AA has the following distribution for families: 21 percent low-income; 16 percent moderate-income; 21 percent middle-income; and 42 percent upper-income. Of the 16,367 households in the AA, 27 percent receive social security and 11 percent are below the poverty level. Twelve percent (12%) of the population is over the age of 65, and 40 percent of the population consists of civilians not in the workforce. The Weighted Average of Median Housing is \$136,951 and 61 percent of the housing units are owner occupied.

Lansing and Leavenworth are considered an outer-ring suburb of the Kansas City, KS-MO MSA. The Kansas City area provides many employment opportunities with a reasonable commuting distance of approximately 44 miles to downtown. Lansing and Leavenworth employers with more than 500 employees include the U. S. Government through Fort Leavenworth and the Veterans Administration Eastern Kansas Health Care System, Leavenworth Public Schools, Lansing Correctional Facility, and Northrop Grumman. Other large employers are Walmart Supercenter, Hallmark Cards, Cubic Defense Applications Group, and various county and local governments, school districts, and medical facilities.

The U. S. Bureau of Labor Statistics (BLS) reports a March 2015 unemployment rate for Leavenworth County at 4.8 percent. The AA has a slightly higher rate when compared to the March 2015 Kansas unemployment rate of 4.2 percent, but a more favorable unemployment rate than the Kansas City MSA at 5.4 percent for the same month.

Examiners contacted local community leaders/professionals and relied on previous interviews to evaluate the overall lending needs in the communities served by CNB. All contacts agreed that affordable housing was a significant need in their communities. Contacts in the NCK AA also

noted infrastructure and agriculture lending needs. In the more metropolitan communities of Lansing and Leavenworth, loans to small businesses were identified as a lending need. Both AAs have active economic development groups that facilitate the match-up of available programs with interested borrowers. Banks in the AAs support the development programs and as well as other lending needs in the communities.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

CNB's LTD ratio is rated satisfactory. We consider CNB's LTD reasonable based on performance criteria and due to a high level of competition. The bank's average LTD ratio from January 1, 2010 to December 31, 2014 was 42.01 percent, with a range from 34.13 percent to 46.55 percent. The average LTD ratio for all other institutions in both AAs was 71.76 percent, with a range from 40.96 percent to 104.64 percent. CNB originates loans for the secondary market and provides deposit services for local public entities. When these factors are incorporated, the bank's current LTD is approximately 57 percent. Additionally, the bank's conservative lending culture does not endorse the purchase of loans originated outside the bank.

As of June 30, 2014, CNB ranked third in the NCK AA with a deposit share of 12.62 percent. The NCK AA has 17 other banks with 29 locations serving 28,000 persons. Although not included in the numerical LTD ratio analysis, Farm Credit Services is a significant competitor for agricultural loans, the bank's primary product in the NCK AA. Additionally, lending volume for agricultural loans is trending downward due to improving financial conditions for some farmers.

Competition in the LL AA is also strong. As of June 30, 2014, CNB ranked ninth, or last, with a deposit share of 3.70 percent. There are eight other banks with 26 locations serving 45,000 persons in Leavenworth County.

Lending in Assessment Area

The bank's record of lending within the combined AAs is outstanding. A substantial majority of loans and other lending-related activities are in CNB's assessment areas. CNB originated 92.50 percent of the number and 94.13 percent of the dollars from the loan sample within its AAs.

Lending in the North Central and Leavenworth/Lansing AAs										
Type of Loan	Number of Loans					Dollars of Loans (000's)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Agricultural Loans	19	95.00%	1	5.00%	20	\$1,185	95.49%	\$56	4.51%	\$1,241
Commercial Loans	18	90.00%	2	10.00%	20	\$1,604	93.15%	\$118	6.85%	\$1,722
Totals	37	92.50%	3	7.50%	40	\$2,789	94.13%	\$174	5.87%	\$2,963

Source: Agriculture and business loan samples

Lending to Farms and Businesses of Different Sizes

CNB's rating for borrower distribution is satisfactory. The distribution of loans reflects, given the demographics of the assessment areas, reasonable penetration among farms and businesses of different sizes.

North Central Kansas AA

The NCK AA record of lending to small farms is outstanding. The distribution of loans for agricultural borrowers reflects excellent penetration to small farms. The table below reflects that 100 percent of agriculture loans in the sample were extended to farms with gross revenues of \$1 million or less.

Borrower Distribution to Farms in North Central AA				
Farm Revenues (or Sales)	<= \$1,000,000	> \$1,000,000	Unavailable	Total
% of AA Farms	98.44%	1.07%	0.49%	100.00%
% of Bank Loans in AA by #	100.00%	0.00%	0.00%	100.00%
% of Bank Loans in AA by \$	100.00%	0.00%	0.00%	100.00%

Source: 2010 U. S. Census; Agriculture loan sample

Lansing/Leavenworth AA

Lending to small businesses in the LL AA is satisfactory. The distribution of loans for commercial borrowers reflects reasonable penetration to small businesses. The table below reflects that 65 percent of the number and 82.40 percent of the dollar amount of commercial loans in the sample were extended to businesses with gross revenues of \$1 million or less.

Borrower Distribution to Businesses in Lansing/Leavenworth AA				
Business Revenues (or Sales)	<= \$1,000,000	> \$1,000,000	Unavailable	Total
% of AA Businesses	75.34%	3.53%	21.13%	100.00%
% of Bank Loans in AA by #	65.00%	25.00%	10.00%	100.00%
% of Bank Loans in AA by \$	82.40%	15.08%	2.51%	100.00%

Source: 2010 U. S. Census; Business loan sample

Geographic Distribution of Loans

CNB’s overall performance for lending to farms and businesses located in low- and moderate-income census tracts is satisfactory. The geographic distribution of loans reflects reasonable dispersion throughout the assessment areas.

North Central Kansas AA

The absence of an agricultural loan in the sample from the AA’s one moderate-income census tract did not detract from the bank’s overall conclusion on the geographic distribution of loans. The moderate-income tract encompasses the western half of the City of Concordia. The agricultural area in this tract is considered small when compared to other census tracts within the AA. Based on census data, only 2.04 percent of farms in the AA are located in this census tract.

Geographic Distribution of Agricultural Loans in North Central AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Farms	% of Number of Loans	% of AA Farms	% of Number of Loans	% of AA Farms	% of Number of Loans	% of AA Farms	% of Number of Loans
% of Total	0%	0.00%	2.04%	0.00%	97.96%	100.00%	0.00%	0.00%

Source: 2010 U. S. Census; Agriculture loan sample

Lansing/Leavenworth AA

CNB’s lending to businesses in low- and moderate-income tracts in the LL AA is satisfactory.

The geographic distribution of loans reflects excellent dispersion in low-income tracts. The bank extended 30 percent of the number of loans originated during the evaluation period to businesses located in low-income tracts. This level significantly exceeds the demographic data of 18.51 percent.

The distribution of loan reflects reasonable dispersion in moderate-income tracts. The bank extended 20 percent of the number of loans originated to businesses located in moderate-income tracts. This level is below the demographic data of 32.85 percent.

Geographic Distribution of Commercial Loans in Lansing/Leavenworth								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
% of Total	18.51%	30.00%	32.85%	20.00%	22.22%	20.00%	26.43%	30.00%

Source: 2010 U. S. Census; Business loan sample

Responses to Complaints

CNB has not received any CRA-related complaints since the prior CRA examination.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. 25.28(c), or 12 C.F.R. 195.28(c), in determining a national bank’s (bank) or Federal savings association’s (FSA) CRA rating, respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or FSA, or in any AA by an affiliate whose loans have been considered as part of the bank’s or FSA’s lending performance.

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.