



PUBLIC DISCLOSURE

DECEMBER 14, 2009

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**THUNDER BANK
RSSD# 2451**

**102 NORTH MAIN
SYLVAN GROVE, KANSAS 67481**

**Federal Reserve Bank of Kansas City
1 Memorial Drive
Kansas City, Missouri 64198**

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.

TABLE OF CONTENTS

Institution's CRA Rating	2
Scope of Examination.....	2
Description of Institution	3
Description of the Bank's Assessment Area	3
Conclusions with Respect to Performance Criteria.....	5
Glossary	9

INSTITUTION'S CRA RATING: *This institution is rated **Satisfactory***

Thunder Bank (the bank) has a satisfactory record of helping to meet the credit needs of its entire assessment area (AA), including low- and moderate-income (LMI) borrowers, in a manner consistent with its resources, operating philosophy, and the credit needs of the community.

The bank's loan-to-deposit (LTD) ratio indicated a more than reasonable effort to extend credit and a majority of the bank's lending activity occurred inside the AA. In addition, the bank's lending to businesses and farms of different revenue sizes and borrowers of different income levels was reasonable.

SCOPE OF EXAMINATION

The bank's Community Reinvestment Act (CRA) performance was evaluated using the Federal Financial Institutions Examinations Council (FFIEC) Interagency Small Bank Examination Procedures. Three of the five criteria used in evaluating small bank lending performance were relevant to this review and are as follows:

- LTD Ratio
- Lending Inside the AA
- Lending to Businesses and Farms of Different Revenue Sizes and Borrowers of Different Income Levels

Two of the five criteria normally used to evaluate small bank performance were not evaluated at this examination. An analysis of loans in geographies of different income levels was not conducted because all of the geographies in the bank's AA are middle-income. The bank's responsiveness to complaints under the CRA was not evaluated because the bank has not received any such complaints.

The examination evaluated the bank's performance in the criteria articulated above in the context of demographic information of the area in which the bank operates. Conclusions regarding the three performance criteria were based on data compiled from the bank's major product lines, which were small business, small farm, and residential real estate loans. The major product lines were determined through discussions with bank management, a review of the Report of Condition and Income (Call Report), and a review of the number of loan originations since the bank's last CRA examination dated December 6, 2004. The CRA examination reviewed 56 residential real estate loan originations between April 1, 2009 and September 30, 2009, 39 small farm loan originations between September 30, 2008 and September 30, 2009, and 42 small business loan originations between December 6, 2004 and September 30, 2009. To augment the evaluation, interviews with members of the community were conducted to discuss local economic conditions and ascertain the community's credit needs.

DESCRIPTION OF INSTITUTION

The bank is a full-service financial institution located in Sylvan Grove, Kansas, a small rural community of approximately 286 residents in Lincoln County, Kansas. The bank also has a limited service branch located in Hunter, Kansas in Mitchell County. Hunter is located approximately 18 miles north of Sylvan Grove and is a rural community of only 77 residents. The bank's offices and services are readily accessible to all communities in the AA.

The most recent deposit market share data available from the Federal Deposit Insurance Corporation (FDIC) indicates the bank is ranked tenth out of 19 banks that operate in the AA. The bank has the ability to meet the credit needs of its defined AA based on its asset size, financial condition, and credit products offered. According to the September 30, 2009 Call Report, the bank's total assets equaled \$38.2 million, with \$29.4 million in gross loans. As illustrated in Table 1, commercial, agricultural, and real estate loans represent a majority of the dollar volume of the bank's portfolio. The bank also originates residential real estate loans to be sold on the secondary market, which is not accounted for in the bank's loan portfolio.

Loan Type	Amount (\$000)	Percent of Total
Commercial	10,261	34.9
Agricultural	9,632	32.7
Real Estate	7,841	26.6
Consumer	906	3.1
Other	800	2.7
Total Gross Loans	29,440	100.0

The bank received an outstanding rating at its previous CRA evaluation conducted by the Federal Reserve Bank of Kansas City on December 6, 2004.

DESCRIPTION OF THE BANK'S ASSESSMENT AREA

Four counties in north central Kansas comprise the bank's only AA; Ellsworth, Lincoln, Mitchell, and Russell. A total of seven census tracts are located in the AA, with two tracts each in Mitchell, Ellsworth, and Russell Counties, and one tract in Lincoln County. Of the seven census tracts in the AA, all are designated as middle-income geographies. The bank is centrally located within the boundaries of its AA, making it generally accessible to all communities in the area.

Overall, the bank's AA was considered middle-income in 2000, with a median family income of \$41,167, which was very similar to the statewide rural median family income of \$41,490. The area contained a slightly higher concentration of moderate-income families and a slightly lower

concentration of low-income families than in statewide rural areas as a whole. As of the 2000 Census data, the AA included 6,642 households that constituted families, of which 16.6 percent were designated as low-income, 19.7 percent were moderate-income, 26.3 percent were middle-income, and 37.4 percent were upper-income. Families below the poverty level in the area equaled 6.8 percent in 2000, compared to 8.2 percent statewide. However, 2007 data shows that every AA county has experienced an increase in the number of families below the poverty level.

According to 2000 Census data, the total population of the AA was 24,405. The population of the AA decreased 7.2 percent from 2000 to 2007 with every AA county losing population over that time period. In addition to the declining population, according to the 2000 Census data the AA contained a large elderly population, with 22.2 percent of area residents over 65 years of age, compared to 16.9 percent for statewide rural areas. Declining population trends along with a large elderly AA population may negatively impact credit demand.

The bank's AA economy is strongly tied to agriculture with wheat, hay, sorghum, and cattle as its primary farm products. Two community members contacted to determine credit needs and economic conditions of the bank's AA indicated that the agriculture sector is performing well as crop yields are up although input costs are escalating. The AA overall had a low unemployment rate in 2008 of 3.7 percent, compared to the statewide rural unemployment rate of 4.4 percent.

According to 2000 Census data, the housing stock in the bank's AA was generally comparable to statewide rural areas. However, the AA's housing affordability ratio¹ of 68.0 percent is above the statewide rural average of 58.0 percent, indicating that homes are more affordable in the bank's AA. This is due to the lower median housing value in the AA of \$46,801, compared to the statewide rural average of \$57,883. The lower median housing value can be partially attributable to an older housing stock in the AA, which has a median housing age of 55 years, compared to the statewide rural average of 45 years. The less expensive housing is indicative of the age and size of the housing stock. One community contact indicated that while area homes are affordable, income limitations and credit issues of applicants have prevented them from obtaining home loans.

¹ The affordability ratio is calculated by dividing the Median Household Income by the Median Housing Value. The higher the ratio, the more affordable the housing.

Other AA characteristics, based on the 2000 Census data and 2008 Dun & Bradstreet (D&B) data, are summarized below in Table 2.

TABLE 2 BANK'S ASSESSMENT AREA DEMOGRAPHICS								
Income Categories	Tract Distribution		Families by Tract Income		Families < Poverty Level as % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low-income	0	0.0	0	0.0	0	0.0	1,104	16.6
Moderate-income	0	0.0	0	0.0	0	0.0	1,306	19.7
Middle-income	7	100.0	6,642	100.0	451	6.8	1,749	26.3
Upper-income	0	0.0	0	0.0	0	0.0	2,483	37.4
Total AA	7	100.0	6,642	100.0	451	6.8	6,642	100.0
	Housing Units by Tract	Housing Type by Tract						
		Owner-occupied			Rental		Vacant	
		#	% by tract	% by unit	#	% by unit	#	% by unit
Middle-income	12,292	7,720	100.0	62.8	2,347	19.1	2,225	18.1
Total AA	12,292	7,720	100.0	62.8	2,347	19.1	2,225	18.1
	Total Businesses by Tract	Businesses by Tract & Revenue Size						
		Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported		
		#	%	#	%	#	%	
Middle-income	1,396	100.0	1,231	100.0	96	100.0	69	100.0
Total AA	1,396	100.0	1,231	100.0	96	100.0	69	100.0
Percentage of Total Businesses:			88.2		6.9		4.9	
	Total Farms by Tract	Farms by Tract & Revenue Size						
		Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported		
		#	%	#	%	#	%	
Middle-income	489	100.0	486	100.0	3	100.0	0	0.0
Total AA	489	100.0	486	100.0	3	100.0	0	0.0
Percentage of Total Farms:			99.4		0.6		0.0	
Family and household information based on 2000 U.S. Census data. Business and farm information based on 2008 D&B data.								

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The bank's most recent eight-quarter average LTD ratio of 105.6 percent is considered more than reasonable based on the institution's size, financial condition, local economic conditions, credit needs of the AA, and the LTD ratios of competing institutions and peer groups. During the 20-quarter period since the previous CRA evaluation, the bank's LTD ratio averaged 115.6 percent.

The bank's LTD ratio exceeded that of five similarly situated competitor banks, whose average LTD ratios ranged from 56.3 percent to 94.7 percent over the same eight-quarter period. The bank's LTD ratio also exceeded that of its state and national peer groups, which equaled 92.9 percent and 65.4 percent, respectively. The bank's peer group consists of all insured commercial banks having assets less than \$100 million located in a nonmetropolitan area.

**TABLE 3
SUMMARY OF LENDING PERFORMANCE**

Lending within the Assessment Area								
	Inside AA				Outside AA			
	#	%	\$(000)	%	#	%	\$(000)	%
Residential Real Estate	20	35.7	1,783	27.8	36	64.3	4,640	72.2
Small Business	24	57.1	2,503	29.7	18	42.9	5,922	70.3
Small Farm	35	89.7	3,077	90.2	4	10.3	335	9.8
TOTAL	79	57.7	7,363	40.3	58	42.3	10,897	59.7
Distribution by Borrower Income Level and Revenue Size of Business and Farms								
	% of Bank Loans*				% of Families			
	Low	Moderate	Middle	Upper	Low	Moderate	Middle	Upper
Residential Real Estate	15.0	20.0	15.0	40.0	16.6	19.7	26.3	37.4
	% of Bank Loans				% of Small Businesses			
Small Business	91.7				88.2			
	% of Bank Loans				% of Small Farms			
Small Farms	91.4				99.4			

* Total percentage of bank residential real estate loans does not add up to 100 percent because borrower incomes were unknown for some loans.

Lending in the Bank's Assessment Area

The bank's performance in the lending test is considered reasonable. As indicated in Table 3, a majority of the bank's small business and small farm loans were originated inside the bank's AA. Although the percentage of residential real estate lending within the AA is considered low, weakened AA credit demand combined with the bank's business strategy to target more populous areas support the level of residential real estate lending in the AA. A review of all 56 real estate loans in the sample reflects the bank is making a number of real estate loans (17) in adjoining counties which is consistent with their plan. One community contact familiar with the residential real estate market indicated there are a number of AA homes on the market; however, potential buyers are limited and those that are applying do not qualify based on income or credit quality issues.

Distribution of Lending Among Borrowers of Different Income Levels and to Businesses and Farms of Different Revenue Sizes

The bank's lending to small businesses is strong while lending to small farms and the distribution of residential real estate loans to borrowers of different income levels is considered reasonable.

Residential Real Estate Loans

The bank's distribution of real estate loans to borrowers of different income levels is reasonable. As Table 3 illustrates, the bank's percentage of loans made to each income level was compared to the percentage of families in the AA that were designated in the 2000 Census as low-, moderate-, middle-, and upper-income.

The bank made 35.0 percent of its residential loans to LMI borrowers compared to 36.3 percent of LMI families living in the AA. As shown in Table 3, 15.0 percent of the residential loan sample was to low-income borrowers and 20.0 percent were to moderate-income borrowers, compared to 16.6 percent and 19.7 percent of families in the AA, respectively. Although the bank's lending to LMI borrowers was slightly below the comparable demographic figure, 6.8 percent of AA families live in poverty making it more difficult for a bank to originate large dollar home loans to low-income borrowers.

To further support the bank's commitment of originating real estate loans to LMI borrowers, the bank provides flexible lending practices through its participation in government-insured loan programs. The bank offers consumer real estate loans through the United States Department of Agriculture Guaranteed Rural Housing Program (GRHP) and has originated 76 loans totaling \$4.6 million since becoming an approved lender on January 1, 2008. The GRHP is designed to help LMI individuals in rural areas purchase or refinance a home. To be eligible, applicants must have an adjusted annual household income that does not exceed the moderate-income limit established for the area.

Small Business Loans

The bank's distribution of commercial loans by revenue size is strong. Under the CRA, small businesses are defined as those operations with gross annual revenues of \$1 million or less. A review of the 24 commercial loans originated within the bank's AA revealed that 91.7 percent were extended to small businesses, which compares favorably to the 88.2 percent of small businesses located in the AA. In addition, 70.8 percent of the commercial loans sampled were for loan amounts less than or equal to \$100,000, indicating the bank's willingness and commitment to provide credit to small businesses. Furthermore, the bank offers government guaranteed Small Business Administration (SBA) loans to further meet the credit needs of small businesses. The bank has originated two SBA loans totaling \$527,500 since the last examination.

Small Farm Loans

The bank's distribution of farm loans by revenue size of farm is adequate. A review of the 35 loans originated within the bank's AA shows that 32 or 91.4 percent, by number, were to farms with revenues of \$1 million or less. While bank performance slightly lags the percent of small farms in the AA (99.4 percent), it is noted that two of the three loans originated to large farms were to the same borrower. In addition, of the loans to small farms reviewed, 77.1 percent were for amounts equal to or less than \$100,000, further demonstrating the bank's commitment to meeting the credit needs of small farms in the AA.

Distribution of Lending Among Geographies of Different Income Levels

Under this criterion, the emphasis is placed on lending in LMI geographies. However, as previously stated, the bank's AA included seven census tracts, all of which were middle-income geographies. Since the geographies contained in the bank's AA are homogenous, the bank's geographic distribution of loans was not considered meaningful and was not evaluated.

FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

The bank is in compliance with the substantive provision of the antidiscrimination laws and regulations. A review of bank policies, credit applications, loans, and interview procedures revealed no prohibited practices designed to discourage loan applicants. Further, the bank has not engaged in other illegal practices inconsistent with helping meet the credit needs of the community.

GLOSSARY OF COMMON CRA TERMS

(For additional information, please see the Definitions section of Regulation BB at 12 CFR 228.12.)

Assessment Area – The geographic area(s) delineated by the bank and used in evaluating the bank's record of helping to meet the credit needs of its community. The assessment area must include the geographies where the main office, branches, and deposit-taking automated tellers machines are located. The assessment area must consist only of whole geographies, may not reflect illegal discrimination, and may not arbitrarily exclude low- or moderate-income geographies.

Census Tracts – Census tracts are small, relatively permanent geographic entities within counties delineated by a committee of local data users. Census tracts are designed to be homogenous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons and average about 4,000 inhabitants.

Community Development – Includes affordable housing (including multifamily rental housing) for low- and moderate-income individuals; community services targeted to low- and moderate-income individuals; activities that promote economic development by financing businesses or farms that have gross annual revenues of \$1 million or less; or activities that revitalize or stabilize low- or moderate-income geographies, designated distressed or underserved nonmetropolitan middle-income areas or designated disaster areas.

Community Development Loan – A loan that has community development as its primary purpose and (except in the case of a wholesale or limited-purpose bank):

1. Has not been reported or collected by the bank or an affiliate as a home mortgage, small business, small farm, or consumer loan, unless it is a multifamily dwelling loan, and
2. Benefits the bank's assessment area(s) or a broader statewide or regional area that includes the bank's assessment area(s).

Community Development Service – A service that has as its primary purpose community development, is related to the provision of financial services, has not been considered in the evaluation of the bank's retail banking services, benefits the bank's assessment area(s) or a broader statewide or regional area that includes the bank's assessment area, and has not been claimed by other affiliated institutions.

Consumer Loans – Loans to individuals for household, family, and other personal expenditures. These loans do not include real estate-secured loans.

Dun & Bradstreet Data – Data collected by Dun & Bradstreet regarding types of businesses and their respective gross annual revenues. The data can be sorted by geographies.

Geography – A census tract delineated by the U.S. Bureau of the Census in the most recent decennial census.

Income Level – Both geographies and individuals can be described in terms of their income levels. In MSAs, the level is based on the MSA median family income (**MFI**). In nonMSA areas, the level is based on the statewide, nonMSA median family income.

Low-Income – Less than 50 percent of the area median family income

Moderate-Income – At least 50 percent and less than 80 percent of the area median family income

Middle-Income – At least 80 percent and less than 120 percent of the area median family income

Upper-Income – At least 120 percent or more of the area median family income

LMI – Collectively, low- and moderate-income families or tracts.

Metropolitan Statistical Area (MSA) – The general concept of an MSA is that of a core area containing a large population nucleus, together with adjacent communities having a high degree of economic and social integration with that core. Generally, a single city with at least 50,000 inhabitants or an urbanized area with a total population of at least 100,000 would meet the definition of an MSA.

Qualified Investment – A lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

Small Business – A business with gross annual revenues of \$1 million or less.

Small Farm – A farm with gross annual revenues of \$1 million or less.

Small Loan(s) to Business(es) – A loan included in “loans to small businesses” as defined in the Consolidated Report of Condition and Income (“Call Report”). These loans have original amounts of \$1 million or less and typically are either secured by nonfarm or nonresidential real estate or are classified as commercial and industrial loans.

Small Loan(s) to Farm(s) – A loan included in “loans to small farms” as defined in the instructions for preparation of the Call Report. These loans have original amounts of \$500 thousand or less and are either secured by farmland, or are classified as loans to finance agricultural production and other loans to farmers.