



## **PUBLIC DISCLOSURE**

NOVEMBER 14, 2011

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**CONDON BANK & TRUST  
RSSD# 721659**

**814 WALNUT  
COFFEYVILLE, KANSAS 67337**

**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.

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

Condon Bank and Trust (the bank) has a reasonable record of meeting the credit needs of its assessment area (AA), including low- and moderate-income (LMI) individuals, in a manner consistent with its resources, operating philosophy, and credit needs of the community it serves.

The bank's average net loan-to-deposit (NLTD) ratio indicated a reasonable effort to extend credit in the AA. In addition, a majority of the bank's lending activity occurred in the AA. The bank's geographic distribution of small business, small farm, and motor vehicle loans reflected a reasonable dispersion throughout its AA. Lastly, the bank's distribution of loans to borrowers of different income levels and businesses and farms of different revenue sizes reflected a reasonable penetration based on AA demographics.

**SCOPE OF EXAMINATION**

The bank's performance was evaluated using the Federal Financial Institutions Examination Council Interagency Small Bank Examination Procedures. Four of the five criteria used in evaluating small bank lending performance were relevant in this review:

- NLTD Ratio
- Lending inside the AA
- Lending to borrowers of different income levels and to businesses and farms of different revenue sizes
- Distribution of loans by geography

The bank's responsiveness to complaints under the Community Reinvestment Act (CRA) was not evaluated because the bank has not received any complaints regarding its CRA performance.

The examination evaluated the bank's CRA performance for the above criteria considering the bank's financial capacity, local economic conditions and demographics; including the competitive environment in which it operates. Conclusions regarding the four performance criteria were based on data compiled from the bank's major product lines, which were commercial, agricultural, and consumer loans. The major product lines were determined through discussions with bank management, a review of the bank's Report of Condition and Income (Call Report), and a review of the number of loan originations since the bank's last CRA examination in February 2006.

The bank's NLTD ratios over the most recent 16 quarters ending September 30, 2011, were averaged to minimize the effects of seasonal fluctuations. This 16-quarter average was compared to similarly situated competitors, as well as state and national peer groups. Conclusions for the remaining performance criteria were based on data compiled from a statistically-derived sample of loan files. The agricultural sample included 31 loans from a

universe of 81 loans originated between February 26, 2011 and August 25, 2011. The commercial loan sample included 26 loans from a universe of 55 loans originated between August 26, 2010 and August 25, 2011. The consumer loan sample included 26 loans from a universe of 55 loans originated between February 26, 2011 and August 25, 2011.

An interview was conducted with a member of the community during the examination to ascertain local economic conditions, community credit needs, and the responsiveness of local financial institutions in helping meet those needs. Additional community contacts previously conducted in the bank's AA by the Federal Reserve Bank of St. Louis and the Federal Deposit Insurance Corporation were also referenced.

### **DESCRIPTION OF INSTITUTION**

The bank is headquartered in Coffeyville, Kansas, a rural community located in the southeast part of the state approximately five miles from the Oklahoma-Kansas border. The bank has two locations; its main location and a drive-up facility containing one automated teller machine (ATM).

Based on its financial condition, size, and credit offerings, the bank has the ability to meet the credit needs of its AA. The bank reported total assets of \$99,775M, total loans of \$28,599M, and total deposits of \$88,109M on its September 30, 2011 Call Report. Table 1 shows the distribution of the bank's loan portfolio by product type.

<b>TABLE 1 BANK'S LOAN PORTFOLIO AS OF SEPTEMBER 30, 2011</b>		
<b>Loan Type</b>	<b>Amount (\$000)</b>	<b>Percent of Total</b>
Commercial	12,251	42.8
Real Estate	8,263	29.0
Agricultural	4,931	17.2
Consumer	3,154	11.0
<b>Total Gross Loans</b>	<b>28,599</b>	<b>100.0</b>

There were no legal, financial, or other factors that prevent the bank from meeting the credit needs of its AA. The bank's performance under the CRA was last evaluated on February 13, 2006 by the Office of the Comptroller of the Currency (OCC) at which time it was assigned a satisfactory rating.

## **DESCRIPTION OF THE BANK'S ASSESSMENT AREA**

The bank's AA is rural in nature and consists of all tracts in Montgomery and Labette Counties in Kansas, as well as the two northern tracts in Nowata County, Oklahoma. The AA contains 5 moderate- and 18 middle-income tracts according to 2000 U.S. Census data. While the bank's AA includes portions of Kansas and Oklahoma, the demographics of the AA were compared to other rural areas of Kansas because that is the state in which the bank is headquartered and where the majority of the AA is located.

### *Population Characteristics*

The AA's population was 62,948 at the 2000 U.S. Census. According to the U.S. Department of Agriculture, the population of the AA decreased 2.9 percent between 2000 and 2010; similarly, the population of rural Kansas decreased 1.3 percent over the same time period. A community contact noted that a large flood in the city of Coffeyville in 2007 resulted in the loss of many homes. The contact indicated a portion of the population decrease experienced in Coffeyville can be specifically tied to the flood. The AA had a similar concentration of residents age 65 and over as the other nonmetropolitan areas of Kansas.

### *Income Characteristics*

According to the U.S. Department of Agriculture, for 2010, the median family income (MFI) for the AA equaled \$36,854, which was lower than the other nonmetropolitan areas of Kansas at \$41,927. Moreover, as of the 2000 U.S. Census, the percentage of low income households in the AA was higher, by 3.5 percent, than other nonmetropolitan areas of the state.

### *Employment and Economic Characteristics*

The AA's main industries consist of manufacturing, agriculture, and healthcare. The largest employers in the area include several manufacturers, such as Cessna Company and John Deere; healthcare facilities such as the regional hospital; and an Amazon.com warehouse. While the area is home to many large employers, 90.1 percent of businesses are considered small businesses. Community contacts noted that financing for smaller businesses, particularly loans for start-ups, was a credit need in the community.

U.S. Department of Labor statistics show the 2010 unemployment rate for the counties of Montgomery, Kansas; Labette, Kansas, and Nowata, Oklahoma were 10.4 percent, 9.6 percent, and 9.2 percent, respectively. The unemployment rate for other nonmetropolitan areas of Kansas was significantly lower at 5.4 percent. One community contact indicated there are employment opportunities available; however, the skill sets required for these positions are not well represented by the population. In addition, two community contacts stated some of the larger employers in the area have reduced the number of jobs available in the community due to the recession.

*Housing Characteristics*

According to the 2000 U.S. Census data, approximately 63.9 percent of housing units in the AA were owner-occupied, which was similar to the owner-occupancy rate of other rural areas of the state. In addition, the AA had similar rates of rental units, at 23.7 percent and of vacant housing units at 12.4 percent compared to other rural areas of the state. The AA's median age of housing stock was 50 years, whereas the median age of housing stock in other state nonmetropolitan areas was 45 years. Housing in the AA was more affordable than other rural areas of Kansas; the AA's affordability ratio<sup>1</sup> was 66 whereas the ratio of other rural portions of the state was only 58. One community member indicated there was an acceptable level of affordable housing available in the area, and that local banks had been proactive in developing formal programs to help find and finance loans for suitable buyers.

*Agricultural Characteristics*

According to Dunn and Bradstreet (D&B) data for 2010, all farms located in the AA reported revenues of less than \$1 million. One community member interviewed indicated conditions for livestock and crop farmers have been favorable. The main crops in the area are wheat and hay, while the majority of sold livestock are cattle and pigs. The community member also stated most farmers in the area can be considered hobby farmers; i.e., holding employment outside of farming.

Table 2 summarizes the characteristics of the bank's AA based on 2000 Census data for income and housing characteristics and 2010 D&B data business and agricultural characteristics by family and tract income categories.

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<sup>1</sup> The housing affordability ratio is calculated by dividing the median household income by the median housing value. A lower ratio reflects less affordable housing.

**TABLE 2  
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	3,521	20.3
Moderate-income	5	21.7	2,509	14.4	308	12.3	3,542	20.4
Middle-income	18	78.3	14,867	85.6	1,269	8.5	4,425	25.4
Upper-income	0	0.0	0	0.0	0	0.0	5,888	33.9
<b>Total Assessment Area</b>	<b>23</b>	<b>100.0</b>	<b>17,376</b>	<b>100.0</b>	<b>1,577</b>	<b>9.1</b>	<b>17,376</b>	<b>100.0</b>
	Housing Units by Tract	Housing Type by Tract						
		Owner-occupied			Rental		Vacant	
		#	% by tract	% by unit	#	% by unit	#	% by unit
Moderate-income	4,878	2,709	14.5	55.5	1,337	27.4	832	17.1
Middle-income	24,312	15,929	85.5	65.5	5,584	23.0	2,799	11.5
<b>Total Assessment Area</b>	<b>29,190</b>	<b>18,638</b>	<b>100.0</b>	<b>63.9</b>	<b>6,921</b>	<b>23.7</b>	<b>3,631</b>	<b>12.4</b>
	Total Businesses by Tract	Businesses by Tract & Revenue Size						
		Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported		
	#	%	#	%	#	%	#	%
Moderate-income	439	15.7	389	15.4	26	20.2	24	16.2
Middle-income	2,363	84.3	2,136	84.6	103	79.8	124	83.8
<b>Total Assessment Area</b>	<b>2,802</b>	<b>100.0</b>	<b>2,525</b>	<b>100.0</b>	<b>129</b>	<b>100.0</b>	<b>148</b>	<b>100.0</b>
<b>Percentage of Total Businesses:</b>			<b>90.1</b>		<b>4.6</b>		<b>5.3</b>	
	Total Farms by Tract	Farms by Tract & Revenue Size						
		Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported		
	#	%	#	%	#	%	#	%
Moderate-income	18	6.9	18	6.9	0	0.0	0	0.0
Middle-income	242	93.1	242	93.1	0	0.0	0	0.0
<b>Total Assessment Area</b>	<b>260</b>	<b>100.0</b>	<b>260</b>	<b>100.0</b>	<b>0</b>	<b>0.0</b>	<b>0</b>	<b>0.0</b>
<b>Percentage of Total Farms:</b>			<b>100.0</b>		<b>0.0</b>		<b>0.0</b>	

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

### Net Loan to Deposit Ratio

The bank's NLTD is considered reasonable based on the institution's size, financial condition, the credit needs of its AA, and the NLTD ratios of similarly situated institutions and the bank's state and national peer groups. The bank's NLTD ratio averaged 43.0 percent in the last 16 quarters. The bank's NLTD ratio is lower than the averages of three similarly situated competitor banks, which ranged from 60.1 percent to 100.2 percent. In addition, the bank's NLTD ratio was lower than its state and national peer group averages of 73.9 percent and 76.1 percent, respectively.

The bank's low NLTD is explained by its holdings of public deposits and its static customer base. Public deposits (\$20,221M on the September 30, 2011 Call Report) constitute a significant portion of the bank's total deposits. Instead of being available for credit, these funds must be pledged against securities. If the public deposits are excluded, the NLTD ratio increases to 57 percent. In addition, the declining population in the AA has led to a static customer base for the bank.

### Lending Inside the Assessment Areas

The bank is originating the majority of its loans, 74.7 percent overall, within its AA. The bank originated 77.4 percent of its small farm loans, 61.5 percent of its small business loans, and 84.6 percent of its consumer loans inside its AA as depicted in Table 3. The remaining conclusions are based only on the loans originated inside the AA.



**TABLE 3  
SUMMARY OF LENDING PERFORMANCE**

Lending within the Assessment Area									
	Inside AA				Outside AA				
	#	%	\$(000)	%	#	%	\$(000)	%	
Small Business	16	61.5	429	52.4	10	38.5	389	47.6	
Small Farm	24	77.4	399	65.6	7	22.6	209	34.4	
Consumer	22	84.6	186	78.5	4	15.4	51	21.5	
TOTAL	62	74.7	1,014	61.0	21	25.3	649	39.0	
Distribution by Income Level of Geographies									
	Number and Percentage of Bank Loans			Percentage of Small Businesses/Farms					
	#	Moderate	Middle	Moderate	Middle				
Small Business	16	12.5	87.5	15.4	84.6				
Small Farms	24	20.8	79.2	6.9	93.1				
	Number and Percentage of Bank Loans			Percentage of Households					
	#	Moderate	Middle	Moderate	Middle				
Consumer	22	45.5	54.5	15.9	84.1				
Distribution by Borrower Income Level and Revenue Size of Business and Farms									
	Number and Percentage of Bank Loans				Percentage of Small Businesses				
	#	Low	Moderate	Middle	Upper	Low	Moderate	Middle	Upper
Small Business	15		93.8				90.1		
	Number and Percentage of Bank Loans				Percentage of Small Farms				
	#	Low	Moderate	Middle	Upper	Low	Moderate	Middle	Upper
Small Farms	24		100.0				100.0		
	Number and Percentage of Bank Loans				Percentage of Households				
	#	Low	Moderate	Middle	Upper	Low	Moderate	Middle	Upper
Consumer	16	22.7	50.0	13.6	13.6	25.5	17.9	20.3	36.3

**Geographic Distribution of Loans**

The bank's distribution of loans by geographic income level reflects a reasonable record of lending to the entire AA. This criterion compared the bank's lending throughout its AA to the percentages of small farms, small businesses, and households located in each income tract level, emphasizing lending in the moderate-income tracts. The bank's lending to the moderate-income tracts for small farms and consumers significantly exceeded the applicable standard for each type of loan as shown in Table 3.

### *Small Business Lending*

The bank's level of small business lending was compared to the percentage of small businesses located in each tract. Table 3 illustrates that 12.5 percent of the bank's small business loans were made in the moderate-income tracts, which contained 15.4 percent of the AA's small businesses. The bank's geographic distribution of small business loans is considered reasonable.

### *Small Farm Lending*

The bank's level of small farm lending was compared to the percentage of small farms located in each tract. As shown in Table 3, approximately 20.8 percent of the bank's small farm loans were made in the moderate-income tracts, which contained 6.9 percent of the AA's small farms. The bank's geographic distribution of small farm loans is considered excellent.

### *Consumer Lending*

The bank's level of consumer lending was compared to the percentage of households in each tract. Approximately 45.5 percent of the bank's consumer loans went to households located in the moderate-income tracts, which accounted for only 15.9 percent of the AA total households; as depicted in Table 3. The bank's geographic distribution of consumer loans is considered excellent.

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

This criterion compared the bank's lending to borrowers of different income levels and farms and businesses of different revenue sizes to the percentages of low-, moderate-, middle-, and upper-income families, households, farms and businesses in the AA, emphasizing loans to LMI borrowers and small farms.

### *Small Business Loans*

The bank's record of lending to small businesses in its AA is reasonable. As depicted in Table 3, the bank originated 93.8 percent of its commercial loans to small businesses which make up 90.1 percent of all businesses located within the bank's AA.

### *Small Farm Loans*

The bank's record of lending to small farms in its AA is reasonable. Table 3 documents the bank originated 100 percent of its agricultural loans to small farms, which matches the number of small farms in the AA.

*Consumer Loans*

The bank's record of consumer lending to LMI families exceeded these families' representation in the AA and is excellent. Table 3 demonstrates that 22.7 percent of the bank's consumer loans were made to low-income families and 50.0 percent of its consumer loans went to moderate-income families, which represent 25.5 percent and 17.9 percent, respectively, of all families in the AA. Collectively, LMI loans accounted for 72.7 percent of the bank's consumer loans while these families comprised only 43.4 percent of AA families.

**FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW**

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