

PUBLIC DISCLOSURE

December 2, 1996

**COMMUNITY REINVESTMENT ACT
PERFORMANCE EVALUATION**

CITIZENS STATE BANK IN GALENA

10-20-1921

986056

215 East 7th Street
Galena, Kansas 66739

Federal Reserve Bank of Kansas City

925 Grand Blvd.
Kansas City, Missouri 64198

NOTE: 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.

GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the 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. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the Community Reinvestment Act (CRA) performance of Citizens Bank in Galena, Galena, Kansas, prepared by Federal Reserve Bank of Kansas City, the institution's supervisory agency, as of December 2, 1996. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 228.

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

The bank has a satisfactory record of helping to meet the credit needs of its assessment area, including moderate-income geographies. The loan-to-deposit ratio is adequate given the institution's size, financial condition, and assessment area credit needs. A substantial majority of the loans are in the institution's assessment area. Furthermore, the geographic distribution of loans and the distribution among borrowers of different income levels reflects a reasonable dispersion within the bank's assessment area.

The following table indicates the performance level of Citizens State Bank of Galena with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	Citizens State Bank of Galena PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does not Meet Standards for Satisfactory Performance
Loan-to-Deposit Ratio		X	
Lending in Assessment Area	X		
Lending to Borrowers of Different Incomes and to Businesses of Different Sizes		X	
Geographic Distribution of Loans		X	
Response to Complaints	No complaints were received since the prior examination.		

DESCRIPTION OF INSTITUTION

The bank's CRA performance was last reviewed as of July 31, 1995, when a CRA rating of **Outstanding** was assigned.

Citizens State Bank (the bank) is located in Galena, Kansas, a town with a population of 3,308 according to the 1990 Census. The bank's main office and automated teller machine (ATM) are located at 215 East 7th Street. The bank's only branch, in nearby Riverton, Kansas, is located at the intersection of 3rd and Military Streets. Citizens State Bank's locations make it reasonably accessible to most of the assessment area.

The bank has the ability to meet the credit needs of its defined assessment area

based on the institutions size, financial condition, and resources. According to the June 30, 1996 Consolidated Reports of Condition and Income (Call Report), the banks assets totaled \$17,726M, of which loans constituted \$5,709M or 32.21 percent. Total deposits were \$15,835M, with a preadjusted loan-to-deposit ratio of 37.11 percent. The preadjusted figure includes public funds on deposit.

As shown in the table below, real estate comprised the majority of the bank lending portfolio; however, the bank offers a variety of loan products in order to meet the credit needs of the assessment area. Some of the lending products offered include home purchase/construction, home refinancing, home improvement, consumer installment, single- payment, commercial, and agricultural loans.

The banks June 30, 1996 Uniform Bank Performance Report (UBPR) Report reflected the following loan distribution:

LOAN PORTFOLIO (As of June 30, 1996)		
Loan Type	Amount (\$000)	Percent of Total
Real Estate	3,818	66.9
Commercial Loans	920	16.1
Individual Loans	984	17.2
Agricultural Loans	84	1.5
Other	13	0.2
Less: Unearned Income/Allowances	(110)	(1.9)
TOTAL	5709	100.0

DESCRIPTION OF CHEROKEE COUNTY, KANSAS

Cherokee County, Kansas, located in the southeastern corner of the state, is the banks designated assessment area. The county population is 21,374, according to the 1990 Census of Population and Housing. Regional Employment and Income Series (REIS) data indicates that the area population increased by 3.8 percent from 1990 to 1994. The county has a relatively low minority population (5.3 percent)

when compared to that of the state (8.0 percent). American Indians make up the largest minority group, at 71.6 percent of the county minority population, followed by Hispanics at 21.2 percent, African-Americans at 6.9 percent, and all other racial minority groups at .3 percent.

Cherokee County is a lower middle-income area with a median family income of \$22,703 compared to \$28,068 for statewide rural areas. Of the total households in the assessment area, 31.1 percent are low-income, compared to 23.2 percent for statewide rural areas. Included in the low-income figures are below-poverty households, with 20 percent of the households living below the poverty level in the assessment area, compared to 14.5 percent for rural areas statewide.

The county's primary industries are manufacturing, services, retail trade, and transportation/ public utilities. Unemployment for Cherokee County was 7.6 percent in 1990 compared to 4.3 percent for statewide rural areas, despite a lower labor force percentage in Cherokee County (57.7 percent) than that of statewide rural areas (63.5 percent). The labor force is the percentage of a given area's population who are 16 years of age or older and eligible to work.

Two community contacts were made in order to determine the credit needs and economic conditions in Cherokee County. Both of the contacts discussed the need for more available housing in the Galena area. Despite the housing shortage expressed by the contacts, the housing affordability ratio of the area was 71.8 percent compared to 62.5 percent in other statewide rural areas, according to the 1990 Census. This is a favorable ratio considering the lower overall household income in the assessment area. In fact, home ownership was generally more affordable than renting in the assessment area. Although median gross monthly rental costs were lower in Cherokee County (\$260) than in the statewide rural areas (\$302), a significantly higher percentage (36.3 percent) of households in Cherokee County were paying over 30 percent of their gross incomes for rent, compared to 29.3 percent for statewide rural areas.

According to 1990 Census data, the median age for housing stock in the assessment area is 37 years, compared to 42 years for rural areas statewide. In contrast, nearly 50 percent of the area's homes were built before 1950, compared to 43.6 percent for statewide rural areas and 33.1 percent for Kansas overall. In addition, the median value of homes in the assessment area is significantly lower at \$26,464 than the \$36,492 and \$51,813 median values for statewide rural areas and the entire state, respectively.

Characteristics of the assessment area, based on 1990 Census data, are summarized in the following table.

BANK ASSESSMENT AREA CHARACTERISTICS		
TRACT SUMMARY		
Total Number of Tracts		6
Number of Moderate-Income Tracts		2
Number of Middle-Income Tracts		4
INCOME SUMMARY		
	Assessment Area	Statewide Rural Areas
Median Family Income	\$22,703	\$28,068
Percent Below-Poverty Families	15.9	9.8
Percent Low-Income Families	26.4	17.9
Percent Moderate-Income Families	23.0	19.3
Percent Middle-Income Families	22.1	24.4
Percent Upper-Income Families	28.5	38.3
UNEMPLOYMENT SUMMARY		
Labor Force Population (Assessment Area)		9460
Percent Unemployment (Assessment Area)		7.6
Percent Unemployment (State)		4.3
MISCELLANEOUS INFORMATION		
Total Population (Assessment Area)		21,374
Percentage of Households Below Poverty		20.0
Total Housing Units (Assessment Area)		8,382
Percentage Owner Occupied Units of Total Units		68.1
Percentage Rental Units of Total Units		20.9
Percentage Vacant Units of Total Units		10.9

BANK ASSESSMENT AREA CHARACTERISTICS		
Median Housing Value:	Assessment Area	\$26,464
	Statewide Nonmetropolitan Areas	\$36,492
	State	\$51,813

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Various criteria were evaluated to determine the bank's overall CRA performance rating. These criteria include a review of the bank's level of lending in relation to its deposits and that of other comparable institutions; the level of lending within the assessment area; record of lending to borrowers of different income levels; and the distribution of loan originations within the bank's assessment area. In addition, two members of the community were interviewed to gather information pertaining to the credit needs of the community and the contacts' perception of the bank's ability to meet those needs. The two contacts were leaders in the education and service sectors, respectively, of the local area.

The bank's loan-to-deposit ratio meets the standards for satisfactory performance, based on the institution's size, financial condition, credit needs of the assessment area, and loan-to-deposit ratios of competing institutions. The bank's average loan-to-deposit ratio, calculated using the bank's Call Reports from the previous four quarters, equaled 43.44 percent. This figure was derived by dividing the bank's loan portfolio amount by the total deposit balance remaining after subtracting public funds on deposit, since Kansas Banking Law contains a provision that prohibits financial institutions from lending public funds on deposit. The adjusted figure reflects the total amount of lendable funds on deposit at the bank, thereby yielding a more representative figure for the loan-to-deposit ratio.

The bank's loan-to-deposit ratio is lower than that of other local competitors. Five area banks' loan-to-deposit ratios for the same period of time ranged from 49.43 percent to 95.36 percent. No adjustment was made for public funds on deposit at the five comparable banks since those figures were not available.

While bank management is willing to assume a reasonable level of risk associated with credit extensions, they indicated that unfavorable economic conditions in the assessment area have limited the number of acceptable loans that can be made. However, the bank has demonstrated a willingness to serve its assessment area by making all possible loans, while simultaneously addressing risk issues that affect the

bank's safety and soundness.

Based on the sample of loans reviewed, a substantial majority of the bank's lending occurs within its assessment area, including 90 percent of all loans sampled. The bank's concentration of lending within its assessment area exceeds the standards for satisfactory performance. The percentage of loans within the assessment area varies little by loan type and is summarized in the following table.

LOANS WITHIN THE BANKS ASSESSMENT AREA	
LOAN TYPE	PERCENTAGE
Real Estate	92
Consumer Installment	88
Total Loans	90

The distribution of loans across borrower income levels meets the standards for satisfactory performance. Nearly 50 percent of the families living in the assessment area are low- to moderate-income families. As shown on the table below, 39 percent of the home purchase loans and 50 percent of the consumer installment loans were made to low- and moderate- income borrowers.

PERCENTAGE OF LOANS SAMPLED BY DIFFERENT INCOME LEVELS IN THE ASSESSMENT AREA			
AREA MEDIAN INCOME:			\$22,703
Income level of Borrower	Percentage of Consumer Real Estate Loans Reviewed	Percentage of Consumer Installment Loans Reviewed	Percentage of Families in the Banks Assessment Area
Low (<50 percent of median income)	22	20	26
Moderate (50 to 80 percent of median)	17	30	23
Middle (80 to 120 percent of median)	26	27	22
Upper (>120 percent of median)	35	23	29
TOTAL	100	100	100

The final criteria used to evaluate the bank's performance under the CRA was the

geographic distribution of the loans sampled by the income level of the BNA. Of the six BNAs in the assessment area, two are moderate-income and four are middle-income geographies. There were no low-income geographies in the assessment area, and as a result, none of the sampled loans were made in a low-income tract. Of the sampled loans made in the bank assessment area, 66 percent of the consumer installment and 83 percent of the home purchase loans were made in moderate-income BNAs, and the remainder were made in the middle-income BNAs. These percentages reflect favorably on the bank since 29 percent of the assessment area's total population resides in the two moderate-income tracts, while the remaining 71 percent is located in the four middle-income BNAs. In view of this record of lending, the bank's performance under this criteria meets the standards for satisfactory performance.

The bank is in compliance with the substantive provisions of consumer laws and regulations. Reviews of bank policies, credit applications, and loans revealed no prohibited practices designed to discourage applications from protected classes. Moreover, management has provided training to staff members in order to prevent violations of the antidiscrimination laws and regulations.