



PUBLIC DISCLOSURE

MAY 18, 2009

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**CITIZENS STATE BANK
RSSD# 328151**

**201 STARR AVENUE
MILTONVALE, KANSAS 67466**

**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	4
Glossary	7

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

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

CSB's loan-to-deposit ratio (LTD) ratio indicated a reasonable effort to extend credit in a competitive lending market. In addition, a substantial majority of the bank's lending activity occurred inside its AA. The bank's distribution of loans among borrowers of different income levels and farms of different revenue sizes was also considered reasonable.

SCOPE OF EXAMINATION

The performance of CSB was assessed using the Federal Financial Institutions Examinations Council's (FFIEC) Examination Procedures for Small Institutions. The following three of the five criteria used in evaluating small bank lending performance were relevant to this review:

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

Two criteria were not relevant to this examination. Because the bank's AA is comprised of all middle-income census tracts, an analysis of loans to geographies of different income levels was not applicable. The bank's responsiveness to complaints under the Community Reinvestment Act (CRA) was also not evaluated because the bank has not received any complaints regarding its CRA performance.

The analysis of CSB's CRA performance considered the bank's financial capacity, local economic conditions and demographics, including the competitive environment in which it operates. CSB's net average LTD ratios since the last CRA examination and over the most recent eight quarters ending December 31, 2008, were averaged to minimize the effects of seasonal fluctuations. CSB's eight-quarter average was then compared to four area competitor banks. Conclusions for the remaining performance criteria were based on data compiled from a statistically-derived sample of loan files for each major product line, agricultural loans, and 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 in May 2005. The agricultural loan sample consisted of 26 loans selected from a universe of 55 loan originations between September 19, 2008 and March 18, 2009, and the real estate loan sample consisted of 23 loans selected from a universe of 43 loan originations between August 22, 2005 and March 18, 2009.

Two members of the community were also interviewed to ascertain community credit needs and the responsiveness of local financial institutions in helping to meet those needs.

DESCRIPTION OF INSTITUTION

CSB is headquartered in Miltonvale, Kansas, a rural community located in the north central part of the state. The bank’s only location is its main office and it does not have a drive-up window or maintain any automated teller machines (ATMs).

Based on its financial condition, size, and credit offerings, the bank has the ability to meet the credit needs of its AA. The bank holds a dominant position in this market and caters to the agriculture and consumer lending needs of the area. As of the March 31, 2009 Call Report, the bank reported total assets of \$29,854,000, total loans of \$13,551,000, and total deposits of \$26,764,000. Table 1 indicates the distribution of the bank’s loan portfolio by product type.

TABLE 1 BANK'S LOAN PORTFOLIO		
Loan Type	Amount (\$000)	Percent of Total
Agricultural	8,626	63.7
Commercial	1,115	8.2
Consumer	512	3.8
Real Estate	3,295	24.3
Other	3	0.0
Total Gross Loans	13,551	100.0

There were no legal, financial, or other factors that significantly hindered the bank's ability to meet the credit needs of its AA. The bank’s performance under the CRA was last evaluated at the May 16, 2005 examination at which time it also was assigned a satisfactory rating.

DESCRIPTION OF THE BANK'S ASSESSMENT AREA

Miltonvale, Kansas, is a town located approximately 25 miles southeast of Concordia, Kansas, 57 miles west of Manhattan, Kansas, and 52 miles north of Salina, Kansas. The bank’s AA is comprised of 8 middle-income census tracts located in Cloud, Clay, and Ottawa Counties. Miltonvale is in an area of Kansas that is predominately rural in nature and consists mainly of farm and ranchland operations. As such, the local economy is relatively volatile and dependent upon factors such as annual weather conditions, market prices, and government paid farm subsidies. According to Dun & Bradstreet (D&B) data for 2008, the AA had 441 farms, of which 437 reported revenues under \$1 million.

The bank's AA is homogeneous with a 97.4 percent white, non-Hispanic population. The population of the AA was 25,253 based on the 2000 Census, which represents a slight decrease of 2.2 percent since the 1990 Census. However, the state population increased by 8.5 percent for the same time period. The AA contains a large elderly population with 21.0 percent of its residents aged 65 or older compared to 13.25 percent for the state of Kansas and 2.2 percent of the population living in nursing homes, according to 2000 Census data. Forty seven percent of Miltonvale's households receive Social Security income and 6.0 percent received public assistance income, according to 2000 Census data. The AA also has a strong need for housing rehabilitation, with median age of housing stock of 56 years and median value of \$52,032 compared to 34 years and \$81,000 respectively for the state.

Table 2 summarizes the characteristics of the bank's AA based on 2000 Census and 2008 D&B data.

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							1,045	14.9
Moderate-income							1,430	20.5
Middle-income	8	100.0	6,997	100.0	436	6.2	1,807	25.8
Upper-income							2,715	38.8
Total Assessment Area	8	100.0	6,997	100.0	436	6.2	6,997	100.0
	Housing Units by Tract	Housing Type by Tract						
		Owner-occupied			Rental		Vacant	
		#	% by tract	% by unit	#	% by unit	#	% by unit
Middle-income	11,677	7,880	100.0	67.5	2,330	20.0	1,467	12.6
Total Assessment Area	11,677	7,880	100.0	67.5	2,330	20.0	1,467	12.5
	Total Farms by Tract	Farms by Tract & Revenue Size						
		Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported		
		#	%	#	%	#	%	#
Middle-income	441	100.0	437	100.0	4	100.0	0	0.0
Total Assessment Area	441	100.0	437	100.0	4	100.0	0	0.0
	Percentage of Total Farms:			99.1		0.9		0.0

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank's record of meeting the credit needs of its AA was considered satisfactory based on the lending performance in its designated AA. Data utilized for this analysis included the

bank's performance data, area demographic information, and input obtained from members of the local community.

Loan-to-Deposit Ratio

The bank's net average LTD ratio is considered reasonable in view of the bank's size, financial condition, and AA credit needs. Since the previous CRA examination, CSB's net LTD ratio averaged 46.9 percent. During this 16-quarter period, its net LTD ratios showed an increasing trend. This net LTD is below the 80.2 percent average of four peer banks located in the bank's AA and the state and national peer averages of 75.9 percent and 65.6 percent, respectively.

Although the bank's loan volume increased since the prior examination it was still below peers in the AA. This is attributed to several factors including the lower loan demand in Miltonvale where the bank has its only location. Miltonvale's loan demand is lower due to the age of the population and the number of households receiving public assistance. The peer banks to which CSB was compared were in larger towns with a greater loan demand. Additionally, the bank participates in the Kansas Agricultural Production Loan Deposit Program which requires the bank to have a large amount of pledged securities, decreasing their ability to lend. The bank currently has approximately \$2 million in this program.

Lending in the Bank's Assessment Area

This performance criterion evaluates the concentration of loans originated by the bank in its AA. Based on the sample of loans reviewed during the examination, as reflected in Table 3, a substantial majority of the bank's small farm and real estate loans are originated inside the AA. The bank's performance in this lending test is therefore considered strong.

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

This performance criterion focuses on the bank's level of lending to farms of different revenue sizes, primarily those with gross annual revenues of \$1 million or less and evaluates the bank's distribution of lending to borrowers of different income levels, particularly LMI individuals. Based on the sample of loans reviewed, CSB's distribution of loans reflects good penetration to LMI borrowers and to small farms within the AA. The analysis for agricultural loans and real estate loans focused on the number of loans originated, rather than the dollar volume, as it is considered a better indicator of the number of farms and individuals benefiting from those products. More weight was given to the small farm analysis as it is the bank's largest product, both in number of loans originated and dollar volume.

Small Farm Loans

The bank's level of lending to small farms was considered reasonable as it corresponds with the level of demographics. As shown in Table 3, 96.2 percent of the bank's agricultural loans sampled within the AA were made to farms with gross annual revenue less than \$1 million.

This closely corresponds to the 2007 D&B data for the AA, which indicates that 99.1 percent of the farms operating in the area are small farms.

Real Estate Loans

Overall, the bank made 57.2 percent of its real estate loans to LMI borrowers compared to 35.4 percent of LMI families in the AA. As shown in Table 3, 28.6 percent of the real estate loan sample was to low-income borrowers and 28.6 percent was to moderate-income borrowers, compared to 14.9 percent and 20.5 percent of families in the AA, respectively. Overall, this represented strong performance for real estate lending.

TABLE 3 SUMMARY OF LENDING PERFORMANCE								
Lending within the Assessment Area								
	Inside AA				Outside AA			
	#	%	\$(000)	%	#	%	\$(000)	%
Residential Real Estate	21	91.3	1,832	95.8	2	8.7	81	4.2
Small Farm	26	100.0	1,737	100.0	0	0.0	0	0.0
TOTAL	47	95.9	3,569	97.8	2	4.1	81	2.2
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	28.6	28.6	4.7	38.1	14.9	20.5	25.8	38.8
	% of Bank Loans				% of Small Farms			
Small Farms	96.2				99.1			

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, 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 to meet community credit needs.

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.

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.

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

Small Business Loan – A loan with an original amount of \$1 million or less that has been reported in the Consolidated Report of Condition and Income in the category "Loans secured by nonfarm nonresidential properties" or "Commercial and industrial loans."