

PUBLIC DISCLOSURE

February 5, 1996

**COMMUNITY REINVESTMENT ACT
PERFORMANCE EVALUATION**

**THE KINSLEY BANK
10-20-3090**

**616 COLONY AVENUE, BOX 206
KINSLEY, KANSAS 67547**

Federal Reserve Bank of Kansas City

**925 Grand Boulevard
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 The Kinsley Bank, Kinsley, Kansas prepared by the Federal Reserve Bank of Kansas City, the institution's supervisory agency, as of February 5, 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 entire assessment area, including low- and moderate-income neighborhoods. The loan-to-deposit ratio is reasonable given the nature of the economy, the institution's size and financial condition, and the assessment area's credit needs and demands. In addition, a substantial majority of loans are in the institution's assessment area. Furthermore, the geographic distribution of loans and the distribution among borrowers of different income levels and businesses of different sizes are reasonable.

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

SMALL INSTITUTION ASSESSMENT CRITERIA	The Kinsley Bank 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 Kinsley Bank is located in Kinsley, Kansas, a town which has a population of 1,875 and is the county seat of Edwards County. The bank has the ability to meet the credit needs of its defined assessment area based on its size, financial condition, and resources. According to the bank's September 30, 1995 Consolidated Reports of Condition and Income (ACall Report®), the bank's assets totaled \$31,643M, of which loans constituted \$11,492M or 36 percent. As depicted below in the loan distribution table, the bank is primarily an agricultural lender; however, the bank does offer a variety of loan products to help meet the credit

needs of its assessment area.

The bank's September 30, 1995 Call Report reflected the following loan distribution:

LOAN TYPE	AMOUNT (\$000)	PERCENT of TOTAL LOANS
Agricultural	4,600	40.0
Commercial	4,202	36.6
Consumer	855	7.4
Secured by 1- to 4-family residential	229	2.0
Secured by farmland	717	6.2
Other real estate	134	1.2
Other	755	6.6
TOTAL	11,492	100.00

The bank's office at 616 Colony Avenue in Kinsley and its credit services are readily accessible to the entire community.

DESCRIPTION OF EDWARDS COUNTY

The Kinsley Bank's assessment area is all of Edwards County which is comprised of two Block Numbering Areas (BNAs). Both BNAs were identified as middle-income tracts; however, low- and moderate-income households can be found throughout the county. Other characteristics of the county based on the 1990 census are summarized in the following tables.

Population Summary	
Total Population	3,787
Minority Population	235
Percent Minority Population	6.2

Income Summary	
Median Household Income	\$21,916
Percent Low-Income Households	18.8
Percent Moderate-Income Households	19.6
Percent Middle-Income Households	21.1
Percent Upper-Income Households	40.5

Miscellaneous Information	
Percent of Households Below Poverty	12.8
Percent Unemployment	3.6

MAJOR EMPLOYERS IN EDWARDS COUNTY (Information from the Edwards County Economic Development Directory)	
EMPLOYER	EMPLOYEES
Cross Manufacturing	188
Edwards County Hospital	87
Unified School District #347	82
Medicalodge	65
Edwards County	47
Unified School District #502	34

Agriculture is an important industry in the county, although future prospects appear to be mixed according to one community contact. Growth of the wheat crop is

far below normal due to the lack of rain. Cattle prices have been at low levels as well. The contact stated that the agricultural situation has reduced the demand for new loans and may cause farmers to become delinquent on their existing loan payments. Finally, the contact mentioned that a large company from outside the region may build a local plant for a hog breeding operation, which could be a major economic stimulus to Edwards County. A decision by the company is expected by early Spring 1996.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Various factors were considered in evaluating the bank's CRA performance. Those factors included: a review of the bank's level of lending in relation to its deposits and other comparable financial institutions; penetration of loan originations inside and outside the bank's defined assessment area; and the bank's lending to borrowers of different income levels and to businesses and farms of different sizes. Community leaders were contacted to ascertain the community credit needs, as well as to confirm the bank's awareness of the needs and that the products and services provided by the bank met those needs. The bank has not received a complaint since the last examination; therefore, an evaluation of the institution's response to substantiated complaints about its performance in meeting assessment area credit needs was not conducted. The investment and service tests were not included in the evaluation of the bank's performance.

The bank's adjusted loan-to-deposit ratio (calculated using the 12-month period ended September 30, 1995) of 44 percent is lower than that of the bank's peer group and of other comparable area financial institutions. The adjusted loan-to-deposit ratio for the bank's peer group over the same 12-month period was 61 percent. The bank's peer group consists of all insured commercial banks having assets between \$25MM and \$50MM with one banking office and located in a nonmetropolitan area. An analysis of five neighboring banks of similar size and resources showed loan-to-deposit ratios ranging from 42 percent to about 67 percent. The Kinsley Bank's loan-to-deposit ratio reflects a slowdown of credit demand, adjustment of the loan portfolio for bad debts, and the loss of loan and deposit relationships to area competitors. The bank's loan-to-deposit ratio is reasonable given the nature of the area economy, the institution's size and financial condition, and the assessment area's credit needs and demands.

A substantial majority of the bank's lending occurs inside its assessment area. This is based on a sample of loans reviewed during the examination. The table below illustrates the percentage of loans located within the bank's assessment area by the three major loan types (agricultural, commercial, and residential mortgage) within the sample.

LOANS WITHIN ASSESSMENT AREA	
Loan Type	Percentage within Assessment Area

LOANS WITHIN ASSESSMENT AREA	
Loan Type	Percentage within Assessment Area
Agricultural Loans	61
Commercial Loans	80
Residential Mortgage Loans	94
Total Loans	77

Furthermore, the distribution of loans within the sample among individuals of different income levels, and businesses and farms of different sizes is reasonable, given the demographics of the assessment area. A review of the various loan types within the sample, revealed that the bank also attained a reasonable geographic distribution of these loans within the two BNAs. The table below illustrates the percentage of loans in the various borrower income levels for the general product types within the sample. Satisfactory penetration of each borrower income level is reflected in the table.

PERCENTAGE DISTRIBUTION OF LOANS AMONG BORROWER INCOME LEVELS				
Loan Type	Income Levels¹			
	Low Income	Moderate Income	Middle Income	Upper Income
Agricultural	15.5	3.8	11.5	61.5
Commercial	6.5	16.1	12.9	64.5
Residential Mortgage	5.6	16.7	33.3	44.4
Total Loans Sampled²	9.3	12.0	17.3	58.7

¹ Agricultural and commercial data are based on personal income tax returns of borrowers.

² Numbers do not add to 100 percent because income data were not available for two agricultural borrowers.

No substantive violations of the antidiscrimination laws and regulations were identified. Furthermore, reviews of bank policies, credit applications, loans, and interview procedures revealed no prohibited practices designed to discourage loan applicants. Moreover, bank management has provided staff training to prevent violations of the antidiscrimination laws and regulations.

