

PUBLIC DISCLOSURE

March 4, 1996

**COMMUNITY REINVESTMENT ACT
PERFORMANCE EVALUATION**

**The St. Marys State Bank
10-20-4990
315357**

**602 W. Bertrand
St. Marys, Kansas 66536**

**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 St. Marys State Bank prepared by the Federal Reserve Bank of Kansas City, the institution's supervisory agency, as of March 4, 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 low- and moderate-income households. The loan-to-deposit ratio is reasonable given the institution's size, financial condition, and assessment area credit needs. In addition, a majority of the bank's loans are within its assessment area. 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 St. Marys State Bank with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	The Saint Marys State 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 St. Marys State Bank is located in St. Marys, Kansas, which had a population of 1,791 according to 1990 Census data. The bank’s office at 602 W. Bertrand and its drive-up facility at 702 W. Bertrand are readily accessible to the entire community. The bank has the ability to meet the credit needs of its defined assessment area based on the bank’s size, financial condition, and resources. According to the bank’s December 31, 1995 Consolidated Reports of Condition and Income (ACall Report®), the bank’s assets totaled \$37,594M, of which loans totaled \$22,717M or 60.4 percent. Although the bank offers a variety of loan products to help meet the credit needs throughout its assessment area, the bank is primarily a commercial lender.

The bank’s December 31, 1995 Call Report reflected the following loan distribution.

LOAN TYPE	AMOUNT (\$000)	PERCENT OF TOTAL LOANS
Commercial	\$5,814	26
Secured by 1-4 family residential	5,706	25
Agricultural	5,002	22
Secured by farmland	2,386	10
Consumer	1,816	8
Secured by nonfarm nonresidential properties	1,202	5
Construction and land development	463	2
Obligations of states and political subdivisions in the United States	241	1
Secured by multifamily residential properties	60	<1
Other	27	<1
Totals	\$22,717	100

DESCRIPTION OF ST. MARYS STATE BANK-S ASSESSMENT AREA

The assessment area of St. Marys State Bank is comprised of two Block Numbering Areas (BNAs®). One BNA, or geography, is in Pottawatomie County and contains the city of St. Marys, Kansas. The second BNA is south of St. Marys in Wabaunsee County. Both are middle-income BNAs and, overall, the assessment area is an upper middle-income area with little economic or demographic diversity.

According to 1990 census data, approximately 44 percent of families and 48 percent of households in the assessment area are upper-income. Per capita personal income rose steadily at an average annual rate of 2.7 percent from 1990 to 1993. In 1990 over 21 percent of the assessment area's total population was age 60 years and over. Community contacts indicated that the average age of residents within St. Marys is currently 32 years and that the city's population has grown at a faster pace than the assessment area. Other characteristics of the assessment area, based on 1990 census data, are summarized in the following table.

ASSESSMENT AREA CHARACTERISTICS	
Population Summary	
Total Population	7,082
Minority Population	241
Percent Minority Population	3.4
Income Summary	
Median Household Income	\$26,504
Percent Low-Income Households	18.5
Percent Moderate-Income Households	15.2
Percent Middle-Income Households	17.9
Percent Upper-Income Households	48.4
Labor Summary	
Percent Unemployed	3.3

Unemployment is relatively low within the assessment area compared to statewide. Manufacturing, construction, and agricultural services showed the most significant growth from 1990 to 1993. In 1992 the bank's assessment area contained 474 business establishments with fewer than 50 employees and 10 establishments that employed more than 50 people. Farm proprietors employed 1,615 persons in 1992 and 1,589 in 1993. Almost 87 percent of all business establishments in the assessment area, as well as the larger employers, are located in the Pottawatomie County BNA.

MAJOR EMPLOYERS WITHIN THE ASSESSMENT AREA	
Employer	Number of Employees
Jeffrey Energy	450
Unified School District	

MAJOR EMPLOYERS WITHIN THE ASSESSMENT AREA	
#321	160
Custom Wood Products, Inc.	125
Farmers Union Co-op	40
St. Marys Marble	35
Keating Electric	30
Bayer Stone	23

Housing in the assessment area appears to be very affordable. For instance, less than 17 percent of the assessment area residents have rent payments greater than 30 percent of their income. In contrast, about 33 percent of the residents statewide have rent payments at that level. The housing stock consists primarily of 1- to 4-family housing units, which constitute 88 percent of total housing units, while mobile home units account for 9 percent. The median age of houses in the area is 39 years. Currently, St. Marys is experiencing a housing shortage and, as a result, real estate prices are strong. Three housing development projects are underway in the \$80M price range.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Several factors were considered in evaluating the bank's CRA performance. The factors include: 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 in an effort to confirm that the bank was aware of the needs and that the products and services provided by the bank met those needs. The bank has not received a consumer complaint since the last examination. In addition, the CRA evaluation does not include an assessment of the bank's performance under the investment and services tests.

The bank's adjusted loan-to-deposit ratio (calculated using the 12 months prior to September 30, 1995) of 75 percent is higher than its peer group and other comparable area financial institutions. The adjusted loan-to-deposit ratio for the

bank's peer group during the same 12-month period was 65 percent. The bank's peer group consists of all insured commercial banks having assets between \$25MM and \$50MM with two or more banking offices and located in a nonmetropolitan area. An analysis of four neighboring banks having similar size and resources showed loan-to-deposit ratios ranging from 39 to 74 percent. The loan-to-deposit ratio of St. Marys State Bank reflects the bank's effort to meet credit demand within its assessment area and is reasonable considering its size, area economic conditions, and local demand for credit.

Based on a sample of loans reviewed during the examination, a majority of the bank's lending occurs inside its assessment area. The principal types of loans originated by the bank and the percentages of each within its assessment area is as follows: agricultural, 76 percent; commercial, 62 percent; and residential mortgage, 66 percent. Of all loans sampled, 68 percent were within the bank's assessment area.

Furthermore, the distribution of loans in the sample among individuals of different income levels and businesses and farms of different sizes is reasonable, given the demographics of the assessment area. The table below illustrates the percentage of borrowers within the various income levels in the residential mortgage loan sample. This distribution of loans by borrower income levels is representative of the overall distribution of household income within the assessment area.

LOANS BY BORROWER INCOME LEVELS	
Residential Mortgage Loans	
Income Levels (Percent of median)	Percentage of Loans
Low-Income (<50%)	16

LOANS BY BORROWER INCOME LEVELS	
Residential Mortgage Loans	
Moderate-Income (50 - 80%)	12
Middle-Income (80 - 120%)	25
Upper-Income (>120%)	47
Total	100

Furthermore, an analysis of the distribution of commercial and agricultural loans was conducted by loan size as a proxy for revenue of the borrower, since the income or revenue levels were generally unavailable in the commercial and agricultural loan samples. However, discussions with bank management determined that all of the 42 agricultural borrowers and 30 of the 37 commercial borrowers have gross annual revenues of less than \$1MM. Generally, loan size will correlate with the size of a business or farm borrower and, consequently, was used as a proxy for borrower income in this examination. The following table indicates the distribution by loan amount provided to commercial and agricultural borrowers. The ranges of loan amounts were chosen based upon discussions with the loan officers, the general economy, and the rural nature of the area.

DISTRIBUTION OF LOANS	
Commercial Loans	
Loan Amount	Percent of Loans
\$0 to \$10,000	32
\$10,001 to \$25,000	27
\$25,001 to \$100,000	22
Over \$100,000	19
Total	100

Agricultural Loans	

Loan Amount	Percent of Loans
\$0 to \$10,000	48
\$10,001 to \$25,000	28
\$25,001 to \$50,000	10
Over \$50,000	14
Total	100

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 fair lending laws and regulations.