

PUBLIC DISCLOSURE

October 28, 1996

**COMMUNITY REINVESTMENT ACT
PERFORMANCE EVALUATION**

THE STATE BANK
10-20-6120

823 MAIN
WINFIELD, KANSAS 67156

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.

The State Bank
October 28, 1996

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 State Bank, Winfield, Kansas, prepared by the Federal Reserve Bank of Kansas City, the institution's supervisory agency, as of October 28, 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 outstanding.*

The bank has an outstanding record of helping to meet the credit needs of its assessment area. The loan-to-deposit ratio exceeds standards for satisfactory performance given the institution's size, financial condition, and assessment area credit needs. In addition, a substantial majority of loans are within the bank's assessment area. Furthermore, the geographic distribution of loans and the distribution among borrowers of different incomes and businesses of different sizes are considered reasonable. The bank is also performing a significant amount of community development services, particularly relative to its small size and limited resources, and has taken other community development initiatives.

The State Bank
October 28, 1996

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

SMALL INSTITUTION ASSESSMENT CRITERIA	The 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 State Bank is located in Winfield, Kansas, approximately 14 miles north of the Oklahoma border and 40 miles south of Wichita, Kansas. According to the 1990 Census figures, the city of Winfield's total population is approximately 12,200. The bank's office at 928 Main Street and its drive-through facility at 12 West 9th are readily accessible to the entire community. The bank has the ability to meet the credit needs of its defined assessment area based on its financial condition, size, and product offerings. The bank's CRA performance was last reviewed as of August 28, 1995, when a rating of outstanding was assigned. According to the bank's June, 30, 1996 Consolidated Reports of Condition and Income (Call Report), the bank's assets totaled \$38,864M, of which loans totaled \$22,027M or 57 percent.

As shown below in the loan distribution table, the bank is primarily a real estate and commercial lender; however, the bank offers a variety of loan products that meet community credit needs. Some of these loan products include: commercial (including Small Business Administration (SBA) guaranteed), consumer purpose, conventional 1- to 4-family residential, Federal Housing Administration (FHA) and Veteran Administration (VA), home equity, Farmers Home Administration (FmHA), and indirect dealer loans. The bank's use of 5-year balloon loans and its offering of various competitive rates with and without points (up to two points) affords applicants great flexibility in obtaining home-purchase loans.

The bank's June 30, 1996 Call Report reflected the following loan distribution:

THE BANK'S LOAN PORTFOLIO

Loan Type	Amount (\$000)	Percent of Total
Multiple and 1- to 4-family real estate	7,397	33.58
Farmland or agricultural	2,950	13.39
Commercial	5,889	26.74
Nonfarm nonresidential	2,803	12.73

The State Bank
October 28, 1996

Consumer	2,373	10.77
Construction and land development	350	1.59
Other	265	1.20
TOTAL	22,027	100.00

DESCRIPTION OF THE STATE BANK ASSESSMENT AREA

The bank's assessment area is defined as all of Cowley County and is comprised of three upper-income and eight middle-income Block Numbering Areas (BNAs). The city of Winfield is the county seat of Cowley County. According to the 1990 Census data, the total population of the assessment area is 36,915, with upper-income families comprising the largest percentage of all households at 44.3 percent. This represents a higher percentage of upper-income families than in the Wichita MSA or the statewide nonmetropolitan area. The population of the assessment area increased at a rate of only .8 percent from 1980 to 1990. The assessment area median family income of \$31,109 is significantly higher than the median family income of \$28,068 for the statewide nonmetropolitan area.

According to Regional Employment and Income Series (REIS) data, per capita personal income rose 13.7 percent from 1990 to 1994 for the assessment area, despite a net employment loss in Cowley County. This indicates that the jobs coming into the area are higher paying and underemployment may not be a widespread problem. It may also reflect a growing trend for Cowley County residents to commute to the Wichita MSA for employment. The county economy and employment rely largely on services, manufacturing, and retail industries. Additional assessment area characteristics are summarized in the following table:

BANK ASSESSMENT AREA CHARACTERISTICS	
Tract Summary	
Total Number of Tracts	11
Number of Middle-Income Tracts	8
Number of Upper-Income Tracts	3
Income Summary	
Median Family Income (Assessment Area)	\$31,109
Percent Low-Income Families	15.6
Percent Moderate-Income Families	17.3

Percent Middle-Income Families	22.8
Percent Upper-Income Families	44.3
Unemployment Summary	
Labor Force Population (Assessment Area)	17,443
Percent Unemployment (Assessment Area)	5.2
Percent Unemployment (Nonmetropolitan State)	4.3
Miscellaneous Information	
Total Population (Assessment Area)	36,915
Percentage of Households Below Poverty	11.6
Percentage of Housing Units Vacant	9.8

Unemployment was higher in the assessment area (5.2 percent) than in statewide nonmetropolitan areas (4.3 percent) despite the low labor force living in Cowley County (the county's employment base decreased by 0.2 percent between 1990 and 1994). The employment base in Cowley County shifted from primarily white and pink-collar jobs to blue-collar jobs. Service industries were most affected by the declining economy, showing a loss of 689 jobs during the period from 1990 to 1994. Farming and mining industries and the government sector also showed a decrease in jobs. Manufacturing employment, however, increased by 833 jobs, so that the total job loss in the county was minimal. Among the largest employers in the area are Rubbermaid-Winfield, Inc., General Electric, Binney & Smith, Gordon-Piatt Energy Group, Winfield State Hospital and Training Center, and Southwestern College.

Both community contacts indicated that housing costs are high, with few starter homes available and a shortage of 1- to 4-family and rental housing. The demand for rental housing is evident from the low housing unit vacancy rate of 9.8 percent for the assessment area, as compared to that of 11.9 percent for the statewide nonmetropolitan area.

The State Bank
October 28, 1996

The median age of assessment area housing stock is 38 years, as compared to 42 years in the states nonmetropolitan areas. However, a higher volume of the assessment area housing units were built prior to 1950.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Several factors were considered in evaluating the bank's CRA performance. These factors include a review of the bank's level of lending in relation to its deposits and that of other comparable institutions; penetration of loan originations inside and outside the bank's defined assessment area; the bank's record of lending to borrowers of different income levels and to businesses of various sizes; the distribution of loan originations within the bank's assessment area; and the bank's community development investments and services. In addition, two community members, a city official, and a local real estate agent were contacted to gather additional information about the community's credit needs and to confirm that the products and services offered by the bank meet those needs.

The bank's average loan-to-deposit ratio (calculated using the previous four quarterly Call Reports from September 30, 1995 to June 30, 1996) equaled 61.53 percent. Over this period of time, the bank's average loan-to-deposit ratio was higher than that of several other area banks. Three area banks' average loan-to-deposit ratios for the same period of time were in a range from 50.92 percent to 68.77 percent. The bank's ratio was the second highest of the area banks, only less than the loan-to-deposit ratio of a much larger, \$126 million total asset local competitor. The bank's ratio significantly exceeded that of an area institution of its equivalent size.

The average loan-to-deposit ratio for the bank's national peer group for the same period was 61.33 percent. The bank's national peer group consists of all insured commercial banks having assets between \$25 million and \$50 million with two or fewer banking offices, and located in a nonmetropolitan area. The bank's net loans increased 37.39 percent from \$15.7 million on December 31, 1993, to \$21.6 million on June 30, 1996. During this same period, the bank's loan-to-deposit ratio increased significantly from 49.56 percent to 65.21 percent, while the peer group ratio increased from 55.55 percent to 62.07 percent.

In addition, the bank makes a significant number of small loans. For example, in the 12-month period from October 1995 to September 1996, the bank made or renewed 1,025 loans, of which 391 loans or 38 percent were for amounts of less than \$5,000. The bank has demonstrated a willingness to extend loans throughout its assessment area and to a broad range of individual borrowers, as further evidenced by its participation in an array of governmentally-sponsored loan programs. Because of the bank's significant effort to make credit available in the assessment area and in comparison to other similarly-sized banks in the area, the bank's average loan-to-deposit ratio exceeds the standards for satisfactory performance.

Based on a sample of loans reviewed, a substantial majority of the bank's lending occurs within its assessment area. A review of these loan samples revealed that 85 percent of 1- to 4-family residential real estate loans and 67 percent of business loans were located within the assessment area. Of all of the loans sampled, 78 percent were within the assessment area. The bank's level of lending within its assessment area exceeds the standards for satisfactory performance. As previously

noted, the bank offers numerous types of credit to meet housing-related loan demand in its assessment area. Since real estate lending is the bank's primary focus and a substantial majority of its real estate loans are within the assessment area, some additional weight was given to these factors in rating the bank's performance related to lending in the assessment area.

The bank's distribution of real estate loans in the sample among individuals of different income levels and businesses and farms of different sizes meets the standards for satisfactory performance, given the demographics of the assessment area previously noted on page 4. Of the 34 real estate loans within the assessment area, 3 percent were to low-income; 19 percent to moderate-income; 15 percent to middle-income; and 63 percent to upper-income borrowers. Of the 23 business loans within the assessment area, 17 were for loan amounts of \$100,000 or less, of which 16 loans or 94 percent were to businesses with revenues of less than \$1 million. In addition, 97 percent of the entire dollar amount of business loans went to small businesses.

A review of the distribution of loans originated by the bank reflects reasonable dispersion in the bank's assessment area, considering the bank's location, area demographics, and location of competitor institutions. While the bank is located in a middle-income BNA, a greater part of the city of Winfield is in an upper-income BNA. Nonetheless, a substantial majority of the bank's loans were originated in middle-income BNAs. The bank's geographic dispersion of loans meets the standards of satisfactory performance, as indicated in the following table:

GEOGRAPHIC DISTRIBUTION OF LOANS		
Loan Type	Percentage in Middle-Income BNA	Percentage in Upper-Income BNA
Consumer Real Estate	94	6
Business	92	8

The bank requested to be evaluated for an **Outstanding** rating and, consequently, a review of the bank's performance under the investments and services tests was conducted. A qualified investment included the bank's donation

of \$250 to Habitat for Humanity to construct affordable housing for low- to moderate-income families. In addition, the bank provided an unsecured \$10,000 line of credit to the organization for the same purpose. The bank's qualified community development services included the bank officer's leadership in the following activities: (1) service on the Cowley County Economic Development Advisory Council which provides technical assistance and leadership in new business developments and enhancing existing businesses; (2) service on the Board of Directors and Finance Committee of Habitat for Humanity, and provision of financial counseling to this nonprofit agency that builds homes for lower income families; (3) provision of credit counseling to the employees of the William Newton Hospital; (4) service on an SBA organization of retired business executives providing technical assistance to potential small business owners; (5) provision of technical and financial assistance to the Community Opportunities for Growth (COG), a group organized by the Chamber of Commerce to deal with an upcoming change in Winfield's employment situation; and (6) provision of credit counseling to a minority, low-income family in order to help them qualify for affordable housing through Habitat for Humanity.

Each of these community development activities is considered to be a qualified activity under the CRA and serves to bolster the bank's overall CRA rating.

The bank is in compliance with the substantive provisions of consumer laws and regulations, although a few technical concerns pertaining to collection of monitoring information were noted. 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 law and regulations.

The combination of the bank's performance under the investments and services tests, and its other community development initiatives, further demonstrates the bank's substantial commitment and leadership in addressing affordable housing and other community and economic needs in the assessment area, particularly in view of its relatively small size and limited resources. These factors, in conjunction with the bank's lending record which exceeds satisfactory performance levels, contributed significantly to the bank's overall "Outstanding" rating.