

**PUBLIC DISCLOSURE**

December 16, 1996

**COMMUNITY REINVESTMENT ACT  
PERFORMANCE EVALUATION**

**UNION STATE BANK  
10-20-1060  
865759**

**P.O. BOX 518  
CLAY CENTER, KANSAS 67432**

**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 Union State Bank, Clay Center, Kansas, prepared by the Federal Reserve Bank of Kansas City, the institution's supervisory agency, as of December 16, 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:** *Satisfactory record of meeting community credit needs.*

**The bank has a satisfactory record of helping to meet the credit needs of its assessment area, including low- and moderate-income neighborhoods. The loan-to-deposit ratio is reasonable given the institution's size, financial condition, and assessment area credit needs. In addition, a substantial majority of loans are in the institution's assessment area. Furthermore, the distribution of loans among borrowers of different income levels and businesses and farms of different sizes reflects a reasonable dispersion.**

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

SMALL INSTITUTION ASSESSMENT CRITERIA	UNION 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	Analysis was not meaningful		
Response to Complaints	No complaints were received since the previous examination.		

## DESCRIPTION OF INSTITUTION

Union State Bank is located in Clay Center, Kansas, the county seat of Clay County in north central Kansas. The population of Clay Center is 4,613 as reported by the 1990 Census. The bank was established in 1901 to serve agricultural customers in and around Clay County. The bank maintains two offices. The main bank is located at Fifth Street and Lincoln Avenue, and the motor bank is at Fifth and Dexter Streets. Both offices are readily accessible to the entire assessment area. An automated teller machine (ATM) is maintained at the main bank. The bank's CRA performance was last reviewed as of June 12, 1995, when a CRA rating of "Outstanding" was assigned.

The bank has the ability to meet the credit needs of its assessment area based on its size, financial condition, and deposit and loan products. According to the bank's September 30, 1996 Consolidated Reports of Condition and Income (Call Report), the bank's assets totaled \$73,807M, of which loans were \$28,275M or about 38

percent. The bank offers a wide range of credit products in order to meet the needs of qualified applicants in the area. Based on data from the latest Call Report, the bank's loans predominately are for agricultural, commercial, and residential real estate purposes, as shown in the following loan distribution table.

<b>THE BANK'S LOAN PORTFOLIO (As of 9-30-96)</b>		
<b>Loan Type</b>	<b>Amount (\$000)</b>	<b>Percent of Total</b>
Farmland or agricultural	7,430	26.3
Commercial	6,719	23.8
Multiple and 1- to 4-family real estate	4,795	17.0
Nonfarm nonresidential	3,956	14.0
Consumer	3,008	10.6
Other	2,367	8.3
<b>TOTAL</b>	<b>28,275</b>	<b>100.0</b>

## **DESCRIPTION OF BANK'S ASSESSMENT AREA**

Union State Bank's assessment area consists of two block numbering areas (BNAs) in Clay County, Kansas. Clay County is located in north central Kansas, approximately 40 miles northwest of Manhattan. As of the 1990 Census, the assessment area had a total population of 9,158. According to Regional Employment and Income Series (REIS) data, the area's population increased slightly (2.2 percent) from 1990 to 1994.

Overall, the bank's community is a lower middle-income area with a median family income equalling about 92 percent of that for statewide rural areas. However, personal incomes of residents rose by 15 percent from 1990 to 1994. Both BNAs in the assessment area are classified middle-income. Residents age 65 or older comprise 25 percent of the assessment area population.

Area housing is highly affordable as housing values and gross monthly rents are low. Although the rental vacancy rate at 12 percent is comparable to the state nonmetropolitan area rate of 11.9 percent, it is significantly higher than the state

vacancy rate of 9.5 percent. A high percentage of the area housing stock (56 percent) was built before 1950. Compared to other rural areas of the state, the age of housing stock in the bank assessment area is older, potentially giving rise to demand for home improvement loans.

Manufacturing, government, and construction industries have undergone the largest growth in Clay County. In addition, agriculture plays an important part in the community. However, farm employment decreased 6.5 percent from 1990 to 1994. Recently, farm conditions appear to be stabilizing in the area. The employment outlook for the assessment area appears to be better than for other nonmetropolitan areas in the state. Overall, the assessment area has sustained moderate economic growth in recent years.

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

<b>BANK ASSESSMENT AREA CHARACTERISTICS</b>	
<b>Tract Summary</b>	
Total Number of Tracts	2
Number of Middle-Income Tracts	2
<b>Income Summary</b>	
Median Family Income	\$25,886
Percent Low-Income Families	19.7
Percent Moderate-Income Families	20.5
Percent Middle-Income Families	28.8
Percent Upper-Income Families	31.0
<b>Unemployment Summary</b>	
Labor Force Population (Assessment Area)	4,244
Percent Unemployment (Assessment Area)	3.8
Percent Unemployment (State)	4.6
<b>Miscellaneous Information</b>	

Total Population (Assessment Area)	9,158
Percentage of Households Below Poverty	12.0
Total Housing Units (Assessment Area)	4,138
Percentage Owner Occupied Units to Total Units	64.6
Percentage Rental Units to Total Units	23.4
Percentage Vacant Units to Total Units	12.0
Median Housing Value (Assessment Area)	\$32,617
Median Housing Value (State Nonmetropolitan Area)	\$36,492

**CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

Several factors were considered in evaluating the bank's CRA performance. A review was conducted of the bank's quarterly lending levels relative to its deposits and to those of other comparable financial institutions for the five quarters since the June 1995 examination, including through the September 30, 1996 Call Report. Lending within the bank's assessment area and lending to borrowers of different income levels were evaluated. Also, the geographic distribution of loan originations within the bank's assessment area was analyzed. In addition, two members of the community were interviewed to gather insight into credit needs of the community and the contacts' perception of the bank's ability to meet those needs.

The bank's loan-to-deposit ratio meets standards for satisfactory performance based on the institution's size, financial condition, and credit needs of the assessment area. The bank's ratio averaged 45 percent for the five quarters since the prior examination, compared to its national peer group average of 62 percent over the same time period. The national peer group includes all insured commercial banks having assets between \$50 million and \$100 million with two or less banking offices, and located in a non-metropolitan area. Other area banks' average loan-to-deposit ratios ranged between 50 and 80 percent. Although the bank's ratio is somewhat lower than that of its national peer group and other banks of similar size in the area, the ratio is reasonable given management's philosophy,

the institutions size, and assessment area credit needs.

Based on a sample of loans reviewed during the examination, a substantial majority of the banks lending occurs within its assessment area. Three loan products were reviewed in this analysis, as summarized in the following table.

<b>LOANS WITHIN THE BANKS ASSESSMENT AREA</b>	
<b>LOAN TYPE</b>	<b>PERCENTAGE</b>
Small Farm	82
Small Business	85
Home Purchase - Conventional	96
Total Loans	87

As noted earlier, 38 percent of the families in the assessment area are low- and moderate-income families. The following table shows that 50 percent of the small farm, 42 percent of the small business, and 39 percent of the consumer real estate loans were to low- and moderate-income borrowers. The distribution of loans across borrower income levels and to businesses and farms of different sizes closely parallels the demographics of the assessment area. Consequently, the distribution of sampled loans within the assessment area by income level of borrower meets the standards for satisfactory performance.

<b>DISTRIBUTION OF SAMPLED LOANS IN ASSESSMENT AREA BY INCOME LEVEL OF BORROWER</b>				
Area Median Family Income				\$25,886
<b>Income Level of Borrower</b>	<b>Percentage of Small Farm Loans Reviewed</b>	<b>Percentage of Small Business Loans Reviewed</b>	<b>Percentage of Consumer Real Estate Loans Reviewed</b>	<b>Percentage of Families in the Banks Assessment Area</b>
Low (<50 percent of median)	6	21	13	19
Moderate (50 to 80 percent of median)	44	21	26	19
Middle (80 to 120 percent)	N/A	N/A	43	24

of median)				
Upper (>120 percent of median)	N/A	N/A	17	38
Total	-	-	100	100

**Note:** N/A=Not Available. Percentages are not generated by the CRA sampling software for middle- and upper-income borrowers when using business revenue for small business and small farm loan categories.

An analysis of the geographic distribution of the sampled loans by income level of BNAs was not considered meaningful because the bank assessment area includes only middle-income geographies. As a result, 100 percent of the CRA loan sample made to borrowers within the assessment area was made in middle-income tracts. The examiner concluded that proxies that would enable a meaningful geographic analysis were also not available.

Persons in the community who were interviewed during the CRA analysis included a local government representative and a local business owner. Both community contacts indicated that the bank is a valuable resource to the community and is satisfactorily providing credit to residents of the area. They did not specify any creative loan products that would be of help to the community but did indicate that longer term loans would be beneficial.

The bank has not received any complaints relative to the CRA since the previous examination. Also, no substantive violations of the antidiscrimination laws and regulations were identified. In addition, reviews of credit applications, loan documentation, bank lending policies, and loan officer interview procedures with loan applicants revealed no prohibited practices designed to discourage applicants. Finally, the bank has developed adequate policies and procedures to monitor compliance with and provide staff training relative to antidiscrimination laws and regulations.