

## **PUBLIC DISCLOSURE**

January 21, 1997

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

UNION STATE BANK  
10-20-0250

P.O. BOX 928  
ARKANSAS CITY, KANSAS 67005

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 prepared by Federal Reserve Bank of Kansas City, the institution's supervisory agency, as of January 21, 1997. 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. The loan-to-deposit ratio is reasonable given the bank's size, financial condition, and assessment area credit needs. In addition, a majority of loans are within the bank's assessment area. Furthermore, the distribution of loans among borrowers of different income levels and businesses and farms of various sizes reflects 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 PRIOR EXAMINATION.		

**DESCRIPTION OF INSTITUTION**

Union State Bank is located in Arkansas City, Kansas, a city with a population of 12,762 according to the 1990 United States Census. Its southern border is the Kansas and Oklahoma state line. The bank’s main office at 127 South Summit and branch office at 1339 North First Street, Arkansas City, and branch office in Dexter, Kansas are readily accessible to the community. The branch office in Dexter is approximately 25 miles northeast of Arkansas City. As a new state member bank, this is the bank’s first CRA examination by the Federal Reserve. The bank’s prior CRA examination was performed by the Federal Deposit Insurance Corporation on June 6, 1994. A satisfactory rating was assigned at that time.

The bank has the ability to meet the credit needs of its assessment area based on its financial condition, size, and credit products. According to the bank’s September 30, 1996 Consolidated Reports of Condition and Income (Call Report), the bank’s assets totaled \$51,416M, of which loans comprised \$28,838 or 56 percent. Although the bank offers a variety of loan products to meet community credit needs, the bank is primarily a commercial and real estate lender, as shown in the following loan distribution table.

<b>UNION STATE BANK'S LOAN PORTFOLIO</b>		
<b>Loan Type</b>	<b>Amount (\$000)</b>	<b>Percent of Total</b>
Commercial	9,289	32
Multiple & 1- to 4 Family Real Estate	8,916	31
Farmland or Agricultural	3,802	13
Nonfarm Nonresidential	3,514	12
Consumer	2,873	10
Credit Cards	356	1
Other	88	<1
TOTAL	28,838	100

**DESCRIPTION OF UNION STATE BANK'S ASSESSMENT AREA**

The bank's assessment area is Cowley County in rural, south central Kansas. It is comprised of eleven block numbering areas (BNAs), eight are middle-income and three are upper-income. The middle-income BNAs are located within inner-city Arkansas City, the area north of Winfield, and the eastern half of the assessment area. More than 73 percent of the population resides in the middle-income BNAs. Although there are no low- or moderate-income BNAs in the assessment area, two BNAs contain a higher concentration of low- and moderate-income families and households than other assessment area BNAs. According to the 1990 Census, the total population for the area is 36,915 with upper-income families comprising the largest percentage at 44 percent. Regional Employment and Income Series (REIS) data report that the population increased slightly from 1990 to 1994. Additional assessment area characteristics are summarized in the following table.

<b>BANK ASSESSMENT AREA CHARACTERISTICS</b>	
<b>Tract Summary</b>	
Total Number of BNAs	11
Number of Middle-Income BNAs	8
Number of Upper-Income BNAs	3

<b>Income Summary</b>	
Median Family Income	\$31,109
Percent Low-Income Families	16
Percent Moderate-Income Families	17
Percent Middle-Income Families	23
Percent Upper-Income Families	44
<b>Unemployment Summary</b>	
Labor Force Population (Assessment Area)	17,443
Percent Unemployment (Assessment Area)	5.2
Percent Unemployment (State)	4.6
<b>Miscellaneous Information</b>	
Total Population	36,915
Percentage of Households Below Poverty	11.6
Percentage of Housing Units Vacant	9.8

The assessment area has a small labor force. The unemployment rate, at 5.2 percent, compares with the state overall at 4.6 percent and statewide rural areas at 4.3 percent. From 1990 to 1994, REIS data reported a decrease in the area's employment base despite population increases. As a result of recent closings of several area businesses, these figures are not projected to improve. Two major employers that closed area facilities within the past 12 months, Winfield State Hospital and Total Petroleum, laid off approximately 1,200 workers. In January 1997, Binney & Smith, a crayola manufacturer employing 345 people, also announced plans to close. Community contacts were positive about the community's ability to recover after the loss of the hospital and petroleum plant. They reported that many workers were able to obtain jobs either at General Electric in Strother Field Industrial Park, located between Arkansas City and Winfield, Kansas, or at Boeing in Wichita, Kansas. However, the community contacts are uncertain about how the economy will react with the additional loss of the Binney & Smith plant.

Housing affordability for the assessment area is more favorable than in other rural areas in Kansas. This is due primarily to the area's high median family and household incomes. The housing stock consists primarily of one- to four-family housing units with housing values less than \$60M. The median age of the housing stock is low at 38 years, compared to 42 years for statewide rural areas. According to an Arkansas City official, however, the demand for new home construction is low, with an estimated ten homes built annually.

## **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 financial 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 and farms of various sizes; and the distribution of loan originations within the bank's assessment area. In addition, two community members, including a city official and a minority and equal employment counselor, 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 loan-to-deposit ratio meets the standards for satisfactory performance given the institutions size, financial condition, and current economic conditions present in the assessment area. Based on data for the six calendar quarters beginning June 30, 1995, the bank's average loan-to-deposit ratio was 59 percent. The ratio is comparable to other area banks but is lower than the average ratio for bank's national peer group. Three banks located in Cowley County reported loan-to-deposit ratios ranging from 52 percent to 69 percent over the same time period. The average loan-to-deposit ratio for the bank's peer group over the same period was 68 percent. The bank's peer group consists of insured commercial banks having assets between \$50MM and \$100MM with three or more banking offices and located in a nonmetropolitan area.

Based on a sample of loans reviewed during the examination, a majority of the bank's lending occurs inside its assessment area. Eighty-six percent of both consumer residential real estate purchase and small business loans and 54 percent of small farm loans were originated within the assessment area. Although the percentage of small farm loans made within the assessment area is lower than the other two products, bank management indicated that several agricultural customers who live in neighboring Chautauqua County, Kansas, and nearby in Oklahoma have farming operations in Cowley County. For the total loan sample, 76 percent of the loans were within the assessment area.

The bank's distribution of home purchase loans among individuals of different income levels and loans to businesses and farms of different sizes is reasonable given the demographics of the assessment area. Of the 36 home purchase loans within the assessment area, 11 percent were to moderate-income borrowers; 22 percent were to middle-income borrowers; and 67 percent were to upper-income borrowers. Of the 36 small business loans within the assessment area, 32 were for loan amounts of \$100M or less. In addition, 17 of the 21 farm loans reviewed were for loan amounts of \$100M or less. Although the majority of home purchase loans were made to upper-income borrowers, the bank does offer a first-time homebuyers program and has recently begun accepting applications for Farmers Home Administration and Veterans Administration

loans to help meet the credit needs of all borrowers within the assessment area.

Although the majority of the bank's loans were originated in middle-income BNAs, an analysis of the geographic distribution of sampled loans by income level of BNAs was not considered meaningful since the bank's assessment area consists of only middle- and upper-income BNAs. The examiner concluded that proxies that would enable a meaningful geographic analysis were also not available.

No complaints relative to the bank's performance under the CRA have been received since the previous examination by the FDIC. The bank is in compliance with the substantive provisions of consumer laws and regulations. A review of bank policies and procedures, credit applications, loans originated, and applications denied revealed no prohibited practices designed to discourage applications. Although technical concerns related to Regulation B were identified during the examination, none of the concerns were discriminatory in nature. Management stated that additional training would be provided to ensure future compliance.