

# **PUBLIC DISCLOSURE**

**October 4, 1999**

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**State Bank of Axtell, Kansas  
Certificate Number: 17477**

**413 Maple Street  
Axtell, Kansas 66403**

**Federal Deposit Insurance Corporation**

**2345 Grand Avenue, Suite 1500  
Kansas City, Missouri 64108**

**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.**

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## 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 **State Bank of Axtell, Kansas, Axtell, Kansas**, prepared by the **Federal Deposit Insurance Corporation**, the institution's supervisory agency, as of **October 4, 1999**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 345.*

## INSTITUTION RATING

**INSTITUTION'S CRA RATING:** This institution is rated Satisfactory.

The bank's CRA performance depicts a satisfactory practice of providing for the credit needs of its assessment area. The following supports this rating:

- A substantial majority of the institution's agricultural loan originations since the previous evaluation are within the bank's assessment area.
- An analysis of agricultural loan originations reveals a reasonable penetration among farms of different sizes based on gross annual revenue.
- The bank maintains an excellent geographic distribution of lending throughout the bank's assessment area.
- The average net loan-to-deposit ratio reflects a reasonable responsiveness to the credit needs of the assessment area given the institution's size, financial condition, and community credit needs.

## DESCRIPTION OF INSTITUTION

State Bank of Axtell, Kansas, (State Bank of Axtell) is a full-service financial institution offering a broad range of lending products from its sole office in Axtell, Kansas. Based on the Report of Condition and Income as of June 30, 1999, the bank's total assets equaled \$17,360,000, of which total loans represented \$10,680,000. The institution's primary business focus is agricultural lending which represents 47 percent of total loans, consisting of \$1,204,000 in farmland and \$3,802,000 in agricultural production. Commercial, 1-4 family residential real estate, and consumer loans comprise the remainder of the bank's total loans, representing 26 percent, 18 percent, and 9 percent, respectively.

Axtell Agency, Inc., a one-bank holding company, owns a majority of the outstanding shares of bank stock. The bank is not subject to any financial or legal impediments that would impede its ability to meet the credit needs of the assessment area.

## DESCRIPTION OF ASSESSMENT AREA

*The Community Reinvestment Act (CRA) of 1977 (12 U.S.C. 2901), as amended, requires a bank to identify one or more "assessment areas" within which its regulatory agency will evaluate the bank's performance. In most cases, an institution's assessment area will be the cities, counties, or some other political subdivision in which its branches are located and a substantial portion of its loans are made. Assessment areas always consist of one or more whole block numbering areas (BNAs) or census tracts, which are statistical subdivisions of a county. BNAs are usually used for non-metropolitan areas, while census tracts are used in metropolitan areas. BNAs and census tracts are commonly referred to as geographies.*

The bank's assessment area includes Marshall and Nemaha Counties in Kansas, and Pawnee County in Nebraska. Marshall County consists of moderate-income BNA 9791 and middle-income BNAs 9792, 9793, and 9794. Nemaha County consists of three middle-income BNAs, 9801, 9802, and 9803, and Pawnee County consists of one middle-income BNA, 9978. According to the 1990 U.S. Census, the defined assessment area has a population of 25,468, with Marshall, Nemaha, and Pawnee Counties having populations of 11,705, 10,446, and 3,317, respectively. The community of Axtell (population 432) is in Marshall County BNA 9791.

Bank management indicated that the local economy is stable; although, the largely agricultural area has been adversely affected recently by low crop and livestock prices. Many farm incomes are supplemented by nonfarm employment. The largest employer in Axtell is the school district. Businesses include the bank, grocery and hardware stores, a lumberyard, and a grain elevator. The Kansas Department of Human Resources estimated the August 1999, unemployment rate for Marshall and Nemaha Counties at 2.4 percent and 2.6 percent, respectively. The Nebraska Department of Labor estimated the August 1999, unemployment rate for Pawnee County at 3.0 percent. The August 1999, unemployment rate for the State of Kansas and the State of Nebraska

was 3.2 percent and 2.4 percent, respectively.

The 1990 U.S. Census determined the non-metropolitan median family income (MFI) for the State of Kansas to be \$28,067 and the non-metropolitan MFI for the State of Nebraska to be \$27,623. Geographies in non-metropolitan areas are categorized as low-, moderate-, middle-, or upper-income based on the geography MFI compared to the state non-metropolitan MFI. Table 1 below defines each income category and displays the corresponding income level based on the 1990 non-metropolitan MFI for the States of Kansas and Nebraska.

**Table 1**  
*Definition of Income Categories*

<b>Income Categories</b>	<b>Percent of MFI</b>	<b>1990 Non-Metro MFI for Kansas \$28,067</b>	<b>1990 Non-Metro MFI for Nebraska \$27,623</b>
Low-Income	less than 50%	less than \$14,034	less than \$13,812
Moderate-Income	50% to < 80%	\$14,034 to < \$22,454	\$13,812 to < \$22,098
Middle-Income	80% to < 120%	\$22,454 to < \$33,680	\$22,098 to < \$33,148
Upper-Income	120% and greater	\$33,680 and greater	\$33,148 and greater

Based on these income categories, Table 2 summarizes the geographies in the bank’s assessment area by income category and displays the population residing within them.

**Table 2**  
*Breakdown of Geographies and Population for Assessment Area*

<b>INCOME CATEGORIES</b>	<b>Number of Geographies</b>	<b>Percent of Geographies</b>	<b>Assessment Area Population</b>	<b>Percent of Population</b>
Low-Income	0	0%	0	0%
Moderate-Income	1	13%	2,905	11%
Middle-Income	7	87%	22,563	89%
Upper-Income	0	0%	0	0%
Total	8	100%	25,468	100%

As shown, 13 percent of the geographies in the assessment area are categorized as moderate-income and 11 percent of the assessment area population lives in a moderate-income geography. U.S. Census data further indicates that there are 11,262 housing units in the assessment area; 71 percent are owner-occupied, 19 percent are rental units, and 10 percent are vacant. The median housing value is \$27,467 and the median housing age is over 60 years.

Based on the 1997 Census of Agriculture, there are 1,518 full-time farm operators in the assessment area. The number of full-time farms decreased 18 percent in Marshall County, from 748 farms in 1992 to 612 farms in 1997; decreased 16 percent in Nemaha County, from 758 farms in 1992 to 634 farms in 1997; and decreased 14 percent in Pawnee County, from 318 farms in 1992 to 272 farms in 1997. Additionally, the census indicates that there are 855 farm operators in the assessment area who have a principal occupation other than farming. In 1997, the size of the average farm in Marshall, Nemaha, and Pawnee Counties, was 558 acres, 415 acres, and 517 acres, respectively. Table 3 below shows the number of farms in the assessment area by gross annual revenue.

**Table 3**  
***Farms by Gross Annual Revenue***

<b>Gross Annual Revenue Based on Gross Sales</b>	<b>Number of Farms in the Assessment Area</b>	<b>Percentage of Farms in the Assessment Area</b>
Less than \$50,000	1,418	60%
\$50,000 to \$99,999	409	17%
\$100,000 or more	546	23%
Total Farms	2,373	100%

Data Source: 1997 Census of Agriculture

Management indicated that the bank's major competitors include three banks in Seneca, Kansas, two banks in Marysville, Kansas, and banks located in Beattie, Frankfort, Summerfield, and Vermillion, Kansas. Farm Credit Services is also a major competitor for agricultural loans.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

The conclusions with respect to the following three performance criteria, **Lending in Assessment Area**, **Lending to Farms of Different Sizes**, and **Geographic Distribution of Loans**, are based on a sampling of the institution's loan portfolio. Since the institution's major lending emphasis is agricultural lending, a sample of the institution's agricultural loans originated in the previous six months was reviewed to evaluate the bank's CRA performance. The sample consisted of 37 loans totaling \$689,300 from a universe of 169 loans totaling \$3,489,700.

### **a) Lending in Assessment Area**

A substantial majority of the institution's agricultural loan originations since the previous evaluation are within the bank's assessment area. Of the 37 loans sampled, 36 loans, or 97

percent, were originated within the assessment area. These 36 loans represented 99 percent of the dollar volume of sampled loans.

**Table 4**  
*Lending Inside versus Outside the Assessment Area*

	<b>Number of Loans</b>	<b>Percent of Loans</b>	<b>Amount of Loans</b>	<b>Percent of Dollars</b>
Loans Inside Assessment Area	36	97%	\$679,300	99%
Loans Outside Assessment Area	1	3%	\$ 10,000	1%
Total Loans	37	100%	\$689,300	100%

**b) Lending to Farms of Different Sizes**

An analysis of agricultural loan originations reveals a reasonable penetration among farms of different sizes based on gross annual revenue. Gross annual revenues were obtained for each of the sampled agricultural borrowers residing and/or operating within the assessment area. Thirty-nine percent of the agricultural borrowers sampled were farm operators with gross annual revenues of less than \$100,000. This compares with 1997 Census of Agriculture data reflecting that 77 percent of assessment area farms have gross annual revenues of less than \$100,000; however, given that 36 percent of total farms are operated part-time by individuals with a principal occupation other than farming, the number of true small farms is most likely overstated. Table 5 depicts the institution's lending to farms of varying revenue levels compared to the number of farms.

**Table 5**  
*Agricultural Borrowers by Gross Revenues versus Farms by Gross Revenues*

<b>Gross Annual Revenue</b>	<b>Number of Farms</b>	<b>Percent of Farms</b>	<b>Number of Borrowers</b>	<b>Percent of Borrowers</b>	<b>Amount of Dollars</b>	<b>Percent of Dollars</b>
Less than \$50,000	1,418	60%	4	11%	\$19,300	3%
\$50,000 to \$99,999	409	17%	10	28%	\$105,200	15%
\$100,000 and more	546	23%	22	61%	\$554,800	82%
Total	2,373	100%	36	100%	\$679,300	100%

**c) Geographic Distribution of Loans**

The bank maintains an excellent geographic distribution of lending throughout the bank's assessment area. As reflected in Table 6, the bank originated 19 loans within a moderate-income geography, representing 53 percent of the loans sampled. Referring to Table 2, this moderate-income geography represents 13 percent of all geographies in the bank's assessment area and

contains 11 percent of the assessment area population. As previously noted, the bank's sole facility is also located in this moderate-income geography.

**Table 6**  
*Breakdown of Loans by Geography*

<b>Income Category</b>	<b>Number</b>	<b>Percent</b>	<b>Dollar</b>	<b>Percent</b>
Low	0	0%	\$ 0	0%
Moderate	19	53%	\$143,500	21%
Middle	17	47%	\$535,800	79%
Upper	0	0%	\$ 0	0%
Total	36	100%	\$679,300	100%

**d) Loan-to-Deposit Ratio**

The average net loan-to-deposit ratio reflects an adequate responsiveness to the credit needs of the assessment area given the institution's size, financial condition, and community credit needs. The bank's average net loan-to-deposit ratio, based on the 10 quarters since the previous evaluation, is 66 percent.

Of the area competitors, three are considered similar to the bank in terms of size, asset structure, and loan products: Baileyville State Bank, Seneca, Kansas; First National Bank in Frankfort, Frankfort, Kansas; and Vermillion State Bank, Vermillion, Kansas; with average net loan-to-deposit ratios for the same period of 72 percent, 68 percent, and 64 percent, respectively.

**e) Response to CRA-Related Complaints**

No CRA-related complaints have been received by the bank or the FDIC since the previous evaluation.

**f) Compliance with Antidiscrimination Laws and Regulations**

No violations of the substantive provisions of the antidiscrimination laws and regulations were identified during this evaluation.