

# **PUBLIC DISCLOSURE**

**November 13, 2007**

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**The Miners State Bank of Frontenac  
FDIC Certificate Number: 15099**

**242 East McKay  
Frontenac, Kansas 66763**

**Federal Deposit Insurance Corporation  
2345 Grand Boulevard, Suite 1200  
Kansas City, Missouri 64108**

**NOTE:** This document is an evaluation of this 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. 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.

**TABLE OF CONTENTS**

I. Institution’s CRA Rating .....1

II. Scope of Evaluation .....2

III. Description of Institution .....2

IV. Description of Assessment Area.....4

V. Conclusions with Respect to Performance Tests .....6

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

The bank's overall performance is reasonable in relation to the performance criteria discussed below.

**The Lending Test is rated: Satisfactory.**

- The bank's average net loan-to-deposit (NLTD) ratio, a key measure of the bank's overall level of lending, is reasonable given the institution's asset size and the credit needs of the assessment area. The bank's NLTD ratio has averaged 51 percent since the prior CRA Performance Evaluation dated November 7, 2002.
- A majority of the loans sampled were made within the assessment area, illustrating a commitment to meeting the credit needs of the local community. Examiners reviewed residential real estate and commercial loans since they represent a significant majority of the bank's outstanding loan portfolio and are the bank's primary lending focus. During the review period selected for these two loan categories, 97 percent of the number and 98 percent of the dollar volume of loans in the sample were originated within the assessment area.
- The bank's overall geographic distribution of lending also reflects a reasonable dispersion throughout the assessment area. The loan distribution also appears reasonable when considering the bank's office location and the demographic composition of the assessment area.
- Given the demographics of the assessment area, the bank's overall borrower profile performance is considered reasonable. Loan samples reveal a reasonable lending performance regarding individuals of different income levels and businesses of different sizes.

In addition to the factors discussed above, there have been no complaints regarding the bank's CRA performance. Furthermore, examiners identified no substantive fair lending concerns during this evaluation.

## **SCOPE OF EVALUATION**

This CRA evaluation was conducted using Small Bank Evaluation Procedures. The evaluation covers the bank's CRA performance since their previous CRA evaluation dated November 7, 2002, through November 13, 2007, the date of this evaluation. Particular emphasis was placed on the bank's residential real estate and commercial loan products as these product types represent a majority of the bank's outstanding loan portfolio and are the bank's primary lending focus. Agricultural and consumer loans were not reviewed as these products represent a smaller portion of the total loan mix and are not a primary focus of the bank's lending strategy.

## **DESCRIPTION OF INSTITUTION**

The Miners State Bank of Frontenac is a financial institution with \$39,479,000 in total assets as of June 30, 2007. The bank operates from its sole office in Frontenac, Kansas located in Crawford County in southeast Kansas.

The bank extends commercial, residential real estate, consumer, and agricultural loans. As of June 30, 2007, the bank had net loans of \$14,176,000 and total deposits of \$27,820,000, resulting in a net loan-to-deposit ratio of 51 percent. On the following page, Table 1 depicts the bank's loan mix and shows a strong residential real estate lending focus. One-to-four family residential real estate loans represent 66 percent of the dollar volume of the outstanding portfolio, while commercial and commercial real estate loans account for 20 percent. In addition, consumer loans represent 7 percent of the remainder of the portfolio, while agricultural loans represent only 1 percent. Since commercial and residential real estate loans are the bank's most prevalent categories, examiners focused on these product lines for evaluation purposes.

<b>Table 1 - Loan Distribution</b>		
<b>Loan Type</b>	<b>Dollar Amount (000s)</b>	<b>Percent of Total Loans (%)</b>
Construction and Land Development	\$9	1%
Secured by Farmland	\$0	0%
1-4 Family Residential	\$9,438	66%
Multi-Family (5 or more) Residential	\$0	0%
Commercial	\$1,620	11%
<b>Total Real Estate Loans</b>	<b>\$11,067</b>	<b>78%</b>
Commercial and Industrial	\$1,298	9%
Agricultural	\$138	1%
Consumer	\$1,037	7%
Other	\$6	*
Lease Financing Receivables	\$717	5%
<b>Total Loans</b>	<b>\$14,263</b>	<b>100%</b>

Source: Report of Condition date 6/30/07. \* Less than 1 percent

Aside from statutory lending limits, The Miners State Bank of Frontenac has no legal or financial impediments that would prevent it from meeting the credit needs of its assessment area. The bank operates in a competitive environment due to its close proximity to Pittsburg, Kansas, where a wide array of loan products is available from other area financial institutions. In addition to subject bank, Frontenac is home to a branch facility of Community National Bank, Chanute, Kansas. The Miners State Bank of Frontenac received a CRA rating of “Satisfactory” at its prior CRA Evaluation dated November 7, 2002.

## DESCRIPTION OF THE ASSESSMENT AREA

*The Community Reinvestment Act of 1977, as amended, requires banks to identify one or more assessment areas (AAs) within which its regulatory agency will evaluate the bank's performance. The area(s) defined by the bank must include its main office, branches, and other deposit-taking remote service facilities, as well as the surrounding geographies in which the bank has originated or purchased a substantial portion of its loans. The assessment area must always consist of one or more whole geographies normally identified as census tracts (CTs). These CTs represent statistical subdivisions of a county.*

**How Median Family Income Is Used Throughout This Analysis:** The 2000 Median Family Income (MFI) figure was \$41,637 for the non-metropolitan areas of Kansas which includes Crawford County. This income figure is used to determine the income level for each geography located outside the metropolitan areas for this evaluation in conjunction with Criterion 3 (Geographic Distribution Analysis).

Based on the 2006 and 2007 estimates by the Department of Housing and Urban Development (HUD), the adjusted MFI figure for the non-metropolitan areas of Kansas were \$49,800 and \$47,900; respectively. These adjusted figures are used to determine the income levels of residential real estate borrowers in conjunction with Criterion 4 (Borrower Profile Analysis).

**Definition of Income Groups:**

<i>Low income -</i>	Less than 50 percent of the MFI for the non-metropolitan areas of Kansas.
<i>Moderate income -</i>	50 percent to less than 80 percent of the MFI for the non-metropolitan areas of Kansas.
<i>Middle income -</i>	80 percent to less than 120 percent of the MFI for the non-metropolitan areas of Kansas.
<i>Upper income -</i>	120 percent or higher of the MFI for the non-metropolitan areas of Kansas.

The Miners State Bank of Frontenac has established an assessment area in southeast Kansas that includes all of Crawford County, which encompasses a total of eleven CTs. Specifically, the assessment area includes two moderate-income CTs, eight middle-income CTs, and one upper-income CT.

Based on 2000 Census data, the total population of the assessment area is 38,242. This population is comprised of 9,503 households that are families, of which 1,984, or 21 percent, are low-income; 1,919, or 20 percent, are moderate-income; 2,253, or 24 percent, are middle-income; and 3,347, or 35 percent, are upper-income. Census data for 2000 also reveals that 9 percent of the assessment area's families have incomes below the poverty level. "Poverty level" is an established dollar threshold rather than a percentage-based calculation of the median family income. Specifically, for a family of four, the 2000 poverty level threshold was \$17,603; therefore, a family earning less than \$17,603 was below the poverty level. The U.S. Department of Health and Human Services lists the poverty level threshold in 2006 for a family of four as \$20,794. This figure is determined on a national basis and is not adjusted regionally.

In an effort to determine community credit needs, examiners conducted an interview with an individual who is familiar with the bank's assessment area to obtain a profile of the bank's assessment area, identify community development opportunities, and assess opportunities for participation by local financial institutions. The contact, as well as bank management,

categorized the area economy as stable and indicated that real estate loans were the most prevalent credit need. The contact also stated that the area is well banked and the local financial institutions are meeting the banking needs of the community, including business and residential loan needs. No unmet needs could be identified.

Data from the Bureau of Labor Statistics (U.S. Department of Labor) indicated the unemployment rate for the State of Kansas was 4.3 percent as of August 2007. As of the same date, the unemployment rate for Crawford County was 5.2 percent.

According to 2006 D&B data, the assessment area is home to 3,124 businesses (197 farms and 2,927 non-farms). D&B data also reveals only 7 percent of the assessment area's businesses have gross revenues of \$1 million or more. In addition, only 8 percent of assessment area employers have greater than 20 employees. These percentages were adjusted for the businesses that chose not to report such data. This information was used to evaluate the bank's lending to businesses under Criterion 4 (Borrower Profile Analysis). Mount Carmel Medical Center (Pittsburg, Kansas), Superior Industries International, Inc. (Pittsburg, Kansas), Strongheart Products, Inc. (Frontenac, Kansas), and Pittsburg State University (Pittsburg, Kansas) are among the largest employers operating in the bank's assessment area.

The 2000 Census data reveals the housing stock in the assessment area totals 17,221 units, with owner-occupied homes comprising 58 percent, occupied rental units comprising 32 percent, and vacant units comprising 10 percent. In 2000, the median home value in the assessment area was \$58,997, the median age of a home was 42 years, and the median gross rent level was \$449 per month. This information was considered in evaluating the bank's CRA performance relative to residential related lending.

# CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

## LENDING TEST

The Miners State Bank of Frontenac's residential real estate and commercial loans were reviewed for this analysis since these credit types are integral to the bank's business strategy and serve important community development needs. Agricultural and consumer loans were not reviewed as these products represent a smaller portion of the total loan portfolio and are not a major lending focus of the institution.

### Criterion 1: Loan to Deposit Ratio

The Miners State Bank of Frontenac's average NLTD ratio is reasonable given the bank's asset size, financial condition, and the perceived credit needs of the assessment area. For the 19 quarters from December 31, 2002, through June 30, 2007, the NLTD ratio has averaged 51 percent. The bank's NLTD ratio ranged from a low of 48 percent, as of March 31, 2004, to a high of 57 percent, as of September 30, 2006. For the aforementioned 19 quarters, net loans ranged from a low of \$14,176,000, on June 30, 2007, to a high of \$16,700,000, on December 31, 2002.

When available and relevant, the lending performance of similarly situated lenders serves as an additional method of assessing the adequacy of a bank's average NLTD. Similarly situated lenders are defined as financial institutions that are located in or near the assessment area and are comparable to the subject bank based on asset size and branching structure, market served, product offerings, and/or loan portfolio composition. The First State Bank, Arma, Kansas (total assets \$9,628,000 as of June 30, 2007), is considered to be a similarly situated institution. As shown in Table 2 below, the average NLTD for The Miners State Bank of Frontenac is weighed against the average NLTD of the identified similarly situated lender. The average NLTD for The Miners State Bank of Frontenac compares favorable for the review period, and is considered reasonable, especially considering the comments of the aforementioned community contact. The contact could not identify any unmet credit needs in the bank's assessment area.

Table 2 - LTD Data for Subject Bank and the Similarly Situated Institution		
Institution	Total Assets (000s)	Average Net LTD Ratio
The Miners State Bank of Frontenac's Frontenac, Kansas	\$39,479	51%
The First State Bank Arma, Kansas	\$9,628	45%

Source: Reports of Condition (12/31/02 thru 6/30/07)

## **Loan Review Procedures for Performance Criteria 2, 3, and 4**

The following pages discuss performance Criterion 2 (Assessment Area Concentration), Criterion 3 (Geographic Distribution Analysis), and Criterion 4 (Borrower Profile Analysis). Conclusions are based on an examination of a sample of residential real estate and commercial loans originated by the bank during the twelve month time frame preceding August 31, 2007. The analysis focused on these loan products as they represent a majority (86 percent) of the bank's loan portfolio based on dollar volume, and these products reflect the bank's primary lending focus. In addition, an analysis of these loan products will likely provide the most meaningful insight into the bank's CRA performance because of the availability of pertinent demographic data. Examples of this demographic data include the percentage of owner-occupied housing units in the assessment area by geography income level, the stratification of families in the assessment area based on gross annual income, and the stratification of commercial businesses based on gross annual revenues. The analysis of these loans was conducted within the context of the assessment area's economy, credit needs, and competition among financial institutions. Agricultural and consumer loans were not reviewed since they represent a smaller percentage of the portfolio and are not the bank's primary lending focus area.

For Criterion 4 (Borrower Profile Analysis), particular focus was given to lending to low- and moderate-income borrowers and small businesses (gross annual revenues of \$1 million or less) in the assessment area. For an explanation of how the income designation of a particular geography and of individual borrowers is determined, refer to the discussions entitled *How Median Family Income is Used Throughout This Analysis* and *Definition of Income Groups* within this evaluation.

The residential real estate loan review consisted of 55 loans totaling \$3,192,350 originated during the twelve month time frame preceding August 31, 2007, while the commercial loan review consisted of 36 loans totaling \$1,302,215 for the same time period.

In drawing conclusions for performance Criteria 2, 3 and 4, lending activity based on the number of loans, rather than on the dollar volume is emphasized as this analysis more clearly represents the bank's lending efforts. Generally, loans to lower income individuals and smaller businesses are for lesser dollar amounts than loans to higher income individuals and larger businesses. Therefore, an analysis using the dollar volume of loans may not provide a representative picture of the bank's lending efforts.

## **Criterion 2: Assessment Area Concentration**

The Miners State Bank of Frontenac's performance regarding assessment area lending is reasonable. The bank's performance was evaluated through examiner review of the residential real estate and commercial loans previously discussed. Based on the review, 97 percent of the number and 98 percent of the dollar volume of the loans were originated within the bank's assessment area which reflects a commitment to meeting local credit needs. Table 3 on the following page details the bank's record of lending within its assessment area.

**Table 3 – Assessment Area Concentration**

Loan Category or Type	Number of Loans					Dollar Volume of Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Residential Real Estate	52	95%	3	5%	55	\$3,101	58%	\$91	42%	\$3,192
Commercial	36	100%	0	0%	36	\$1,302	100%	\$0	0%	\$1,302
<b>Total</b>	<b>88</b>	<b>97%</b>	<b>3</b>	<b>3%</b>	<b>91</b>	<b>\$4,403</b>	<b>98%</b>	<b>\$91</b>	<b>2%</b>	<b>\$4,494</b>

*Source: Bank records for twelve month time frame preceding August 31, 2007.*

### **Criterion 3: Geographic Distribution Analysis**

The geographic distribution of The Miners State Bank of Frontenac’s lending reflects an overall reasonable dispersion of residential real estate and commercial loans throughout the assessment area. As mentioned previously, this analysis was performed by reviewing the geographic distribution of the bank’s residential real estate and commercial loans originated during the twelve month period preceding August 31, 2007.

#### Residential Real Estate Loans

Table 4 on the following page illustrates a reasonable dispersion of the bank’s residential real estate lending by geography income level. A majority the bank’s residential lending is centered in the assessment area’s middle-income CTs. Table 4 shows an 81 percent middle-income CT lending penetration, a 13 percent moderate-income CT lending penetration, and a 6 percent upper-income lending penetration. Table 4 also shows percentages reflecting the assessment area’s level of owner-occupied units on a geography specific basis. This information is included for comparison purposes; in that, the percentage of owner-occupied units in a particular CT can reflect potential demand for residential real estate loans in that geography. As presented in the table, 77 percent of the owner-occupied units are located in middle-income CTs, 13 percent in upper-income CT, with the remaining 10 percent located in the assessment area’s moderate-income CTs. Given these percentages, the bank’s lending disbursement throughout the assessment is considered reasonable, including lending within the moderate-income CTs.

<b>Table 4 – Distribution of Residential Real Estate Loans by CT Income Level</b>						
<b>CT Income Level</b>	<b>CTs (% of #)</b>	<b>Owner-Occupied Units (% of #)</b>	<b>Number of Loans</b>		<b>Dollar Volume of Loans (000's)</b>	
			<b>#</b>	<b>%</b>	<b>\$</b>	<b>%</b>
<b>Low</b>	0%	0%	0	0%	\$0	0%
<b>Moderate</b>	18%	10%	7	13%	\$444	14%
<b>Middle</b>	73%	77%	42	81%	\$2,228	72%
<b>Upper</b>	9%	13%	3	6%	\$429	14%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>52</b>	<b>100%</b>	<b>\$3,101</b>	<b>100%</b>

Source: U.S. Census (2000) and bank records.

### Commercial Loans

The bank's lending performance also reflects a reasonable dispersion of commercial loans. Table 5 on the following page depicts the geographic distribution of the bank's commercial lending, by both number and dollar volume, for those loans originated within the assessment area. A majority (78 percent) of the bank's commercial loans have been originated in middle-income CTs, while the remaining 22 percent of the commercial loan originations were evenly distributed in the moderate-income CTs (11 percent) and the upper-income CT (11 percent). D&B data compiled for 2006 shows 64 percent of the assessment area's businesses being located in the middle-income CTs. Although the bank's commercial lending percentage in moderate-income CTs is lower than the D&B percentage for businesses located in these geographies, the bank's lending performance is still considered reasonable. Both of the assessment area's moderate-income CTs are located in the center-city of Pittsburg, Kansas. This area is a considerable distance from the sole office of The Miners State Bank of Frontenac. Offices of several competing institutions located within the Pittsburg city limits have more visibility in the assessment area's moderate-income CTs.

<b>Table 5 – Distribution of Commercial Loans by CT Income Level</b>						
<b>CT Income Level</b>	<b>CTs (% of #)</b>	<b>D&amp;B Business Data (% of #)</b>	<b>Number of Loans</b>		<b>Dollar Volume of Loans (000's)</b>	
			<b>#</b>	<b>%</b>	<b>\$</b>	<b>%</b>
<b>Low</b>	0%	0%	0	0%	\$0	0%
<b>Moderate</b>	18%	24%	4	11%	\$90	7%
<b>Middle</b>	73%	64%	28	78%	\$1,104	85%
<b>Upper</b>	9%	12%	4	11%	\$108	8%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>36</b>	<b>100%</b>	<b>\$1,302</b>	<b>100%</b>

Source: D&B (2006) and bank records.

#### **Criterion 4: Borrower Profile Analysis**

Given the bank’s lending strategies and the demographics of the assessment area, the overall lending distribution to borrowers reflects reasonable penetration among individuals of different income levels and businesses of different sizes based on gross annual revenues. This analysis was conducted through the random selection of a sample of the 52 residential real estate and 36 commercial loans originated within the bank’s assessment area.

##### Lending to Individuals of Different Income Levels

The bank’s residential lending reflects a reasonable penetration among individuals of different income levels.<sup>1</sup>

As shown in Table 6 on the following page, the bank’s percentage of residential loans to moderate-income borrowers (26 percent) compares higher than the percentage of moderate-income families in the assessment area (20 percent), and is considered reasonable. The bank’s residential lending performance regarding low-income borrowers (11 percent) compares lower to the percentage of low-income families in the assessment area (21 percent), but is also considered reasonable. The rationale for this decision is based on the premise that lending percentages for

<sup>1</sup>The loan distribution is determined by comparing the borrower’s income for a given year to the HUD adjusted median family income (MFI) for the non-metropolitan areas of Kansas for that same year. For 2006, the baseline for non-metropolitan areas of Kansas is \$49,800. As previously discussed on page 4, percentages of the baseline figure are then used to determine what income levels are low-, moderate-, middle-, and upper-income. For example, in 2006 a non-metropolitan borrower with an income of less than \$24,900 would be considered low-income and a borrower with an income of \$24,900 to less than \$39,840 would be considered moderate-income in this assessment area. The distribution of assessment area families by income level is based on 2000 Census data.

low-income families is not necessarily expected to be a one-to-one ratio, as the costs of buying and maintaining a home are generally more prohibitive for low-income borrowers. Based on the HUD adjusted median family incomes for 2006, the annual income for a low-income family in the non-metropolitan areas of Kansas would be \$24,900; this lower income level could make a home purchase more difficult. Furthermore, 9 percent of the families in the assessment area are below the poverty level. For comparison purposes, the poverty level for the state of Kansas is 7 percent. As previously discussed, in 2000, a family earning less than \$17,603 annually is below the poverty level. The U.S. Department of Health and Human Services lists the poverty level threshold in 2006 for a family of four as \$20,794.

<b>Table 6 – Distribution of Residential Real Estate Lending to Individuals of Different Income Levels</b>					
<b>Borrower Income Level</b>	<b>Families by Income (% of #)</b>	<b>Number of Loans</b>		<b>Dollar Volume of Loans (000s)</b>	
		<b>#</b>	<b>%</b>	<b>\$</b>	<b>%</b>
<b>Low</b>	21%	3	11%	\$61	4%
<b>Moderate</b>	20%	7	26%	\$360	24%
<b>Middle</b>	24%	1	4%	\$22	1%
<b>Upper</b>	35%	16	59%	\$1,075	71%
<b>Total</b>	<b>100%</b>	<b>27</b>	<b>100%</b>	<b>\$1,518</b>	<b>100</b>

*Source: U.S. Census (2000) and bank records for twelve month time frame preceding June 30, 2006.*

### Lending to Businesses of Different Revenue Sizes

The bank's commercial lending efforts reflect a reasonable penetration among businesses of different revenue sizes.

As shown in Table 7, the analysis revealed 100 percent of the number of commercial loans having been granted to businesses with gross annual revenues of \$1,000,000 or less. This level of lending is reasonable when compared to 2006 D & B data, which reflects 93 percent of the businesses in the assessment area reported having gross revenues of \$1,000,000 or less. In addition, the previously mentioned community contact indicated that the local financial institutions are meeting the needs of the community, including small business credit needs.

In performing the analysis of commercial lending, gross annual revenues reported on borrower tax returns or operating statements were used when available. When these documents were not available, bank personnel familiar with the borrower indicated which range most accurately reflected the borrower's gross annual revenues.

**Table 7 – Distribution of Small Business Lending among Businesses of Different Revenue Sizes**

Gross Annual Revenues (000s)	D & B Business Data (% of #)	Number of Loans		Dollar Volume of Loans (000's)	
		#	%	\$	%
≤ \$1,000	93%	24	100%	\$874	100%
>\$1,000	7%	0	0%	\$0	0%
<b>Total</b>	<b>100%</b>	<b>24</b>	<b>100%</b>	<b>\$ 874</b>	<b>100%</b>

*Source: D&B data (2006) and bank records for twelve month time frame preceding June 30, 2006.*

### **Criterion 5: Responses to CRA-Related Complaints**

The Miners State Bank of Frontenac has not received any CRA-related complaints since the prior CRA Performance Evaluation dated November 7, 2002.

### **Fair Lending or Other Illegal Credit Practices Review**

There was no evidence of discriminatory or other illegal credit practices inconsistent with the bank's performance relative to meeting the credit needs of the assessment area.