

## **PUBLIC DISCLOSURE**

**July 18, 2007**

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

**The Wellsville Bank  
Certificate Number: 17923**

**112 W Sixth Street  
P.O. Box 308  
Wellsville, Kansas 66092-0308**

**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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## INSTITUTION RATING

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

The Wellsville Bank has demonstrated a satisfactory commitment to community reinvestment that is supported by the following conclusions.

- A majority of the commercial and residential real estate loans originated by the bank are within the bank's assessment area reflecting a reasonable commitment to meeting the credit needs of the assessment area.
- An analysis of commercial and residential real estate loans demonstrates a reasonable penetration among businesses of different sizes and to borrowers of different incomes.
- The geographic distribution of commercial and residential real estate loans reflects a reasonable dispersion of loans among the census tracts within the assessment area, considering demographic information and the location of the bank's office within the assessment area.
- The bank's average net loan-to-deposit ratio reflects a willingness to provide credit given the institution's size, financial condition, and community credit needs.

## SCOPE OF EXAMINATION

This evaluation includes a review of the bank's CRA performance since the previous evaluation dated October 1, 2002, when the bank was rated "Satisfactory" using small bank evaluation procedures. Small bank procedures were used at the current evaluation.

Conclusions with respect to the following three performance criteria, Lending in the Assessment Area; Lending to Businesses of Different Sizes and Borrowers of Different Incomes; and Geographic Distribution of Loans are based on a review of the bank's commercial and residential real estate loan portfolios. Examiners sampled commercial loans including commercial real estate and commercial and industrial loans, and residential real estate loans. Examiners did not consider agricultural loans in evaluating the bank's CRA performance as this type of lending does not significantly contribute to the overall make up of the loan portfolio. The loan sample was taken from loans originated from June 16, 2006 through June 15, 2007. During this period 26 commercial loans in the amount of \$1,730,189 were originated. A statistical sample of 14 loans totaling \$910,784 was selected for review. Also during this period, 26 residential real estate loans totaling \$1,903,075 were originated. A statistical sample of 14 loans totaling \$797,927 was selected for review.

## DESCRIPTION OF INSTITUTION

The Wellsville Bank has one office located in Wellsville, Kansas in Franklin County. Franklin County is the southwestern most portion of the Kansas City MSA. The bank operates one ATM machine located at the main bank location.

As of March 31, 2007, the institution's total assets equaled \$28,088,000, of which total loans represented \$15,710,000. The bank's largest loan products by dollar volume are commercial loans (including commercial real estate) at 39 percent and residential real estate loans at 35. A distribution of the bank's entire loan portfolio is reflected in Table 1.

<i>Table 1 – Loan Distribution as of March 31, 2007</i>		
<i>Loan Type</i>	<i>Dollar Amount (000s)</i>	<i>Percent of Total Loans (%)</i>
<i>Construction and Land Development</i>	\$846	5%
<i>Secured by Farmland</i>	\$240	2%
<i>1-4 Family Residential</i>	\$5,462	35%
<i>Multifamily (5 or more) Residential</i>	\$71	0%
<i>Commercial Real Estate</i>	\$2,883	18%
<i>Commercial and Industrial</i>	\$3,217	21%
<i>Agricultural</i>	\$353	2%
<i>Consumer</i>	\$2,122	14%
<i>Obligations of States and Political Subdivisions</i>	\$441	3%
<i>All Other</i>	\$75	0%
<i>Less Unearned Income</i>	(\$0)	0%
<i>Total Loans Net of Unearned Income</i>	\$15,710	100%

Source: March 31, 2007 Report of Condition

Wellsville Bancshares, Inc., Wellsville, Kansas, a one-bank holding company, owns the bank. The institution is not subject to any financial or legal impediments that would limit its ability to help meet the credit needs of the assessment area

## DESCRIPTION OF ASSESSMENT AREA

*The Community Reinvestment Act (CRA) requires a bank to identify one or more “assessment areas” within which its regulatory agency will evaluate the bank’s performance. Assessment areas always consist of one or more whole census tracts (tracts), which are statistical subdivisions of a county.*

The bank has defined the assessment area to include portions of three counties: Johnson and Miami Counties in the Kansas City MSA, and Douglas County in the Lawrence, Kansas MSA. The assessment area also includes all of Franklin County which is located in the Kansas City MSA. The assessment area is comprised of ten contiguous census tracts.

The 2000 U.S. Census median family income (MFI) for the Kansas City MSA is \$55,031 and the Lawrence Kansas MSA is \$53,609. This figure is utilized to categorize the census tracts located within the bank’s defined assessment area by income level. A breakdown of the census tract income levels is presented in Tables 2 and 3. The assessment area is comprised of two moderate-, seven middle-, and one upper-income census tracts. There are no low- income census tracts in the assessment area.

<i>Table 2 - Kansas City MSA Census Tract Income Levels</i>		
<i>Census Tract Income Level</i>	<i>Percent of MFI</i>	<i>2000 MFI \$55,031</i>
<i>Low</i>	< 50%	< \$27,516
<i>Moderate</i>	50% to < 80%	\$27,516 to < \$44,025
<i>Middle</i>	80% to <120%	\$44,025 to < \$66,037
<i>Upper</i>	120% and over	\$66,037 and over

Source: 2000 U.S. Census

<i>Table 3 - Lawrence, Kansas MSA Census Tract Income Levels</i>		
<i>Census Tract Income Level</i>	<i>Percent of MFI</i>	<i>2000 MFI \$53,609</i>
<i>Low</i>	< 50%	< \$26,805
<i>Moderate</i>	50% to < 80%	\$26,805 to < \$42,887
<i>Middle</i>	80% to <120%	\$42,887 to < \$64,331
<i>Upper</i>	120% and over	\$64,331 and over

Source: 2000 U.S. Census

D&B business data for 2005 indicates that 1,765 of the 2,824 business in the assessment area reported gross annual revenues. Ninety four percent of the businesses had revenues of \$1 million or less. Further, 55 percent had revenues less than \$100,000, 25 percent had revenues of \$100,000 to less than \$250,000, 10 percent had revenues of \$250,000 to less than \$500,000, and 4 percent had revenues of \$500,000 to less than \$1 million.

The following demographic data is based on the 2000 Census. The assessment area population consists of 43,042 persons who make up 11,817 families. Of these families, 19 percent are considered low-income, 22 percent moderate-, 28 percent middle-, and 31 percent upper-income. There are 16,923 housing units; 71 percent of these units are owner-occupied, 23 percent are rental units, and 6 percent are vacant. The median housing value in 2000 was \$94,574 and the median housing age was 31 years.

The Department of Labor indicates that the unemployment rate for the State of Kansas has increased slightly from 4.1 to 4.3 from May 2006 to May 2007. The unemployment rate for the Kansas City MSA has remained steady for the same time period at 4.6. Also during the same time period, the unemployment rate for the Lawrence Kansas MSA has increased from 3.2 to 3.6.

The assessment area, while part of the Kansas City and Lawrence Kansas MSAs, is very rural in nature. Large area employers include the school district with an estimated payroll of 110 to 120 individuals and Central Fiber with an estimated payroll of 60 persons. Most area residents commute to Johnson County with no concentration in any one particular industry. Bank management indicated that they have no strong local competitor and estimated they continue to bank approximately 25 to 30 percent of the current market. Management stated that the bank's business focus includes commercial and residential real estate lending, consistent with the area's credit needs. Additionally, they indicated that they have very few farm customers.

In conjunction with this evaluation, examiners reviewed three recent contacts with representatives from area economic development agencies serving the assessment area. The purpose of the contacts was to obtain a profile of the community, identify community development opportunities, identify community credit needs, and assess perceptions of local financial institutions. The contacts' opinion is that the community's greatest credit needs include small business loans. The contacts concluded that local banks are receptive to the credit needs of small businesses and that the area has substantial resources available to help small businesses develop and grow.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Conclusions with respect to the following three performance criteria, *Lending in Assessment Area, Lending among Businesses of Different Sizes and Borrowers of Different Incomes, and Geographic Distribution of Loans* are based on a review of the institution's loan portfolio. This analysis used a sample of commercial and residential loans. Refer to the *Scope of Examination* topical heading for additional information on the sampling procedures used.

### a) Lending in Assessment Area

A majority of the sampled loans originated by the bank are within the bank's assessment area, reflecting a reasonable commitment to meeting the needs of the assessment area.

#### Commercial Loans

A total of 14 commercial loans were sampled. Of this total, 12, or 86 percent, were originated within the assessment area. The 12 loans inside the assessment area represented \$856,514 or 94 percent of the dollar volume.

#### Residential Real Estate

A total of 14 residential real estate loans were sampled. Of this total, 10, or 71 percent, were originated within the assessment area. The 10 loans inside the assessment area represented \$476,000 or 60 percent of the dollar volume.

### b) Lending among Businesses of Different Sizes and Borrowers of Different Income

#### Lending to Businesses of Different Sizes – Commercial Loans

Table 4 shows the distribution of the commercial loans sampled among businesses of varying sizes based on gross annual revenue levels. Table 4 also shows the number and percentage of businesses located in the assessment area based on 2005 D&B business demographic data. Only those loans originated with the assessment area are included in the analysis.

<i>Table 4 – Distribution of Business Loans by Gross Annual Business Revenue</i>						
<i>Gross Annual Revenue</i>	<i>Number and Percentage of Businesses in the Bank's Assessment Area</i>		<i>Number of Loans</i>	<i>Percent of Total Number of Loans</i>	<i>Dollar Amount of Loans</i>	<i>Percent of Dollar Amount of Loans</i>
< \$100,000	96 2	55%	4	33%	\$73,428	8%
\$100,000 to < \$250,000	43 8	25%	2	17%	\$51,730	6%
\$250,000 to < \$500,000	17 6	10%	0	0%	\$0	0%
\$500,000 to < \$1 million	79	4%	3	25%	\$168,406	20%
≥ \$1 million	11 0	6%	3	25%	\$562,950	66%
Total	1,7 65	100%	12	100%	\$856,514	100%

Source: 2005 D&B Data and Bank Data. 1,059 businesses in the assessment area did not report revenues.

The bank distribution of commercial loans to businesses of different sizes is considered reasonable. The bank, by dollar, has extended 75 percent of total loans to businesses earning gross revenues less than \$1,000,000. In comparison, the assessment area demographics indicate that 94 percent of area businesses earn gross revenues less than \$1,000,000. This is still considered a reasonable match between the bank's lending pattern and assessment area demographics. For example, although 55 percent of the businesses had gross revenues less than \$100,000 compared to the bank extending 33 percent of loans in this category, the comparison is still reasonable as many small businesses have limited borrowing needs.

#### Lending to Borrowers of Different Incomes - Residential Real Estate

Residential real estate borrower income levels are based on the 2006 and 2007 U.S. Department of Housing and Urban Development (HUD) MFI estimates for the both the Kansas City and Lawrence MSAs (Metropolitan Statistical Area). These estimates are shown in Table 5 and 6.

<i>Table 5 – Borrower Income Levels –2006 Median Family Incomes</i>			
<i>Borrower Income Levels</i>	<i>Percent of Median Family Income (MFI)</i>	<i>2006 Kansas City MSA Estimated Median Family Income \$67,600</i>	<i>2006 Lawrence MSA Estimated Median Family Income \$64,700</i>
Low	< 50%	<\$33,800	<\$32,350
Moderate	50% to < 80%	\$33,800 to <\$54,080	\$32,350 - \$51,760
Middle	80% to < 120%	\$54,080 to < \$81,120	\$51,760 - \$77,640
Upper	120% and over	\$81,120 >	\$77,640 >

Source: 2006 HUD Estimated MFIs.

<i>Table 6 – Borrower Income Levels –2007 Median Family Incomes</i>			
<i>Borrower Income Levels</i>	<i>Percent of Median Family Income (MFI)</i>	<i>2007 Kansas City MSA Estimated Median Family Income \$65,700</i>	<i>2007 Lawrence MSA Estimated Median Family Income \$61,500</i>
Low	< 50%	<\$32,850	<30,750
Moderate	50% to < 80%	\$32,850 to <\$52,560	\$30,750 - \$49,200
Middle	80% to < 120%	\$52,560 to < \$78,840	\$49,200 - \$73,800
Upper	120% and over	\$78,840 >	\$73,800 >

Source: 2007 HUD Estimated MFIs.

Table 7 shows the distribution of residential real estate loans among borrowers of different income levels inside the bank’s assessment area. In addition, the table includes the percentage of assessment area families within each income level. Only those loans originated in the assessment area are included in the analysis.

*Table 7 – Distribution of Loans by Borrower Income Level*

Borrower Income Level	Percent of Assessment Area Families	Number of Loans	Percent of Total Number of Loans	Dollar Amount of Loans	Percent of Dollar Amount of Loans
Low	19%	6	60%	\$230,192	48%
Moderate	22%	4	40%	\$245,808	52%
Middle	28%	0	0%	0	0%
Upper	31%	0	0%	0	0%
TOTALS	100%	10	100%	\$476,000	100%

Source: 2000 U.S. Census

The bank displays an excellent record of lending to low- and moderate-income families within the assessment area. The bank’s level of lending by number of loans (60 percent) to low-income individuals far exceeds the percentage of assessment area families (19 percent) in the bank’s assessment area. The amount by dollar (48 percent) also exceeds area demographics. The level of lending, by number of loans and dollar amount, to moderate-income individuals also exceeds area demographics. Based on the statistical sample, the bank has not extended any financing to middle- or upper-income individuals located within the bank’s assessment area. The absence of lending to families of these income levels is considered an anomaly as previous evaluations of the bank’s distribution of lending have found an equal dispersion among families of different income levels. Overall, the bank’s lending to families of different income levels is considered reasonable.

**c) Geographic Distribution of Loans**

The geographic distribution of commercial and residential real estate loans reflects a reasonable dispersion of loans among the census tracts within the assessment area, considering demographic information and the location of the bank’s offices within the assessment area.

Commercial Lending

Table 8 shows the distribution of the commercial loan sample among the different tracts in the assessment area. In addition, the table includes the percentage of assessment area businesses located in each tract income category. Only those loans that were originated within the assessment area are included in the analysis.

<i>Table 8 – Geographic Distribution of Commercial Loans</i>					
<i>Census Tract Income Designation</i>	<i>% of Assessment Area Businesses Within Each Category</i>	<i>Number of Loans</i>	<i>Percent of Total Number of Loans</i>	<i>Dollar Amount of Loans</i>	<i>Percent of Dollar Amount of Loans</i>
Moderate	23%	0	0%	\$0	0%
Middle	69%	11	92%	\$826,456	96%
Upper	8%	1	8%	\$30,058	4%
Total	100%	12	100%	\$856,514	100%

Source: U.S. Census Data and bank data. There are no low-income tracts within the assessment area.

The Wellsville Bank’s distribution of commercial loans in middle- and upper-income geographies is consistent with the distribution of businesses within the assessment area. This distribution is considered reasonable. By number, the bank has extended 92 percent of loans to middle-income geographies and 8 percent to upper-income geographies. In comparison, 69 percent of assessment area businesses are located in middle-income geographies and 8 percent in upper-income geographies. Businesses located in moderate-income geographies comprise 23 percent of total assessment area businesses; however, based on loan sampling, the bank has not extended any commercial loans to businesses located in these census tracts. The moderate-income census tracts are located in the southern portion of the bank’s assessment area in Ottawa, Kansas. Additionally, one bank is headquartered in Ottawa and four other banks have branch locations within this community. As such, the bank’s absence of lending in this area is reasonable.

Residential Real Estate

Table 9 shows the distribution of residential real estate loans among the different geographies in the assessment area. In addition, the tables include the percentage of housing units within each geographic designation based on the 2000 Census data. Only those loans originated within the assessment area are included in the analysis.

<i>Table 9 – Distribution of Residential Real Estate Loans by Census Tract Income Category</i>					
Census Tract Income Category	Percent of Assessment Area families	Number of Loans	Percent of Total Number of Loans	Dollar Amount of Loans	Percent of Dollar Amount of Loans
Moderate	17%	0	0%	\$0	0%
Middle	74%	10	100%	\$476,000	100%
Upper	9%	0	0%	\$0	0%
<b>TOTALS</b>	100%	10	100%	\$476,000	100%

Source: 2000 U.S. Census and 2006 HMDA LAR. There are no low-income tracts in the bank's assessment area.

The bank's residential real estate lending distribution to the different income geographies within the assessment area is considered reasonable. Although all of the bank's loans were originated in middle-income census tracts, this is considered reasonable given the percentage of families located in the various geographies and the location of the bank's facility. Also a strong contributing factor is the location of the moderate- and upper-income census tracts on the exterior edges of the bank's defined assessment area.

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

The bank's average net loan-to-deposit ratio (ratio) reflects a good willingness to provide credit given the institution's size, financial condition, and community credit needs. The bank's average net loan-to-deposit ratio, based on 18 quarters since the previous evaluation, is 60 percent. The ratio at the prior evaluation was 61 percent. The ratio reached a high of 68 percent on March 31, 2006, and was at a low of 54 percent on June 30, 2005. To evaluate the reasonableness of the bank's ratio, examiners compared it to the ratio of similarly situated banks (banks with similar asset size, structure, loan portfolio mix, or area served). Management concurred with the similarly situated banks listed in Table 10.

<i>Table 10- Similarly Situated Banks</i>					
Bank Name	Branches	Total Assets (000s)	Total Deposits (000s)	Net Loans (000s)	Average Net Loan to Deposit Ratio
The Wellsville Bank Wellsville, Kansas	0	\$28,088	\$25,713	\$15,531	60%
Mid-America Bank Baldwin City, Kansas	0	\$45,569	\$41,531	\$39,595	97%
The Baldwin State Bank Baldwin City, Kansas	1	\$57,197	\$50,287	\$32,294	59%
Citizens State Bank Paola, Kansas	1	\$49,769	\$36,553	\$25,321	87%
The State Bank of Spring Hill Spring Hill, Kansas	0	\$40,107	\$32,810	\$14,273	44%

Source: March 31, 2007, Report of Condition and Report of Condition data over the previous 18 quarters. Banks are listed in alphabetical order by city.

The above table indicates that The Wellsville Bank's ratio is in line with that of similarly situated lenders.

### **FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW**

The bank has a generally strong record of complying with the laws relating to discrimination and other illegal credit practices inconsistent with helping to meet community credit needs. No substantive violations were noted and no evidence of discriminatory or other illegal credit practices were evident.

Neither the bank, nor the Federal Deposit Insurance Corporation, has received a CRA-related complaint since the previous evaluation.