



SMALL BANK

Comptroller of the Currency
Administrator of National Banks
Washington, DC 20219

PUBLIC DISCLOSURE

May 14, 2007

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The First National Bank of Southern Kansas
Charter Number 5559**

**100 North Ohio
Mount Hope, KS 67108**

**Comptroller of the Currency
Wichita Field Office
3450 North Rock Road Suite 505
Wichita, KS 67226**

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.

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

- The First National Bank of Southern Kansas' average quarterly loan-to-deposit ratio is reasonable. The average quarterly loan-to-deposit ratio since the last Community Reinvestment Act (CRA) examination is 77%, compared to 82% for the eighteen other similarly situated banks with locations in the Assessment Area.
- A majority of The First National Bank of Southern Kansas' primary loan products have been granted in the assessment area. The loan sample indicates 63% of the loans by number and 62% by dollar volume were granted to borrowers within the assessment area.
- The First National Bank of Southern Kansas demonstrated good lending levels to businesses of different sizes and borrowers of different incomes. The commercial loan sample indicated 75% of the loans by number were granted to businesses with annual revenues less than one million dollars. Real estate lending to borrowers of different incomes was also excellent as the bank granted 15% of the number of loans in the sample to low-income borrowers, and 28% to moderate-income borrowers.

DESCRIPTION OF INSTITUTION

The First National Bank of Southern Kansas (FNB) is a \$75 million bank, headquartered in Mount Hope, Kansas. In addition to the main location, FNB also has a branch in Andale, KS and a branch in Goddard, KS. The bank is 100% owned by Mount Hope Bancshares, Inc., a \$81 million one-bank holding company. The bank has four Automated Teller Machines (ATM). Deposit taking ATMs are located at the Andale and Goddard branches. Cash dispensing ATMs are located at the main branch in Mount Hope and at White's Foodliner IGA grocery store in Goddard.

FNB is a full-service bank offering a variety of loans. Net loans represent 58% of the bank's total assets. As of March 31, 2007, the bank's \$44 million loan portfolio had the following composition: 55% real estate, 35% commercial, 6% individual, and 4% agricultural.

The bank's primary lending products, by number and dollar amount, granted since the last CRA examination were commercial loans and 1-4 family owner occupied residential real estate loans.

The bank's financial condition, size, local economic conditions, and other factors allow it to meet the credit needs of its assessment area. We assigned a "Satisfactory" rating at the November 14, 2002 CRA examination.

DESCRIPTION OF ASSESSMENT AREA

FNB has one assessment area (AA) consisting of portions of Sedgwick, Reno, and Harvey Counties in Kansas. The portion of the bank's AA in Sedgwick County is located in the Wichita Metropolitan Statistical Area (MSA). The AA complies with the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income areas. The AA is comprised of fourteen middle-income census tracts and ten upper-income census tracts. The 2000 U.S. Census population of the AA was 104,358.

The 2006 Housing and Urban Development (HUD) updated MSA median family income of the AA was \$60,250. The AA has the following income distribution for families: 9% low-income, 14% moderate-income, 25% middle-income, and 52% upper-income. Of the 37,262 households in the AA, 20% receive social security and 4% are below the poverty level. Nine percent of the population is over the age of sixty-five and 19% of the population consists of civilians not in the workforce. The median housing value is \$103,728 and 76% of the housing units are owner-occupied. The assessment area is very economically diverse as a result of the manufacturing, retail, and service industries located within the Wichita MSA, and the small, agricultural-based surrounding communities. Major employers impacting the AA include Spirit Aerosystems, Koch Industries, Cessna Aircraft, and the local school districts. The March 2007 unemployment rate was 4.1% for Kansas and the Wichita MSA.

Examiners contacted one community professional in the AA. The contact indicated that the primary credit needs of the community surrounding Mount Hope are agriculture and residential real estate loans, and that these needs are being adequately met by the local financial institution. The contact noted that FNB is very involved in the communities in which it serves.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

FNB's lending level is reasonable. The average quarterly loan-to-deposit ratio since the last CRA examination was 77%, as compared to 82% for the eighteen other similarly situated banks with locations in the AA.

Lending in Assessment Area

FNB's lending level within its AA is adequate, as it has extended a majority of its primary loans to borrowers in the AA. Specifically, we found the bank made 63% of the number and 62% of the dollar amount of loans to borrowers in the AA. The sample included twenty commercial loans that were originated, purchased, or committed this year or in the prior two years. In addition, all 1-4 Family Owner Occupied Residential Real Estate loans reported on the Home Mortgage Disclosure Act Loan Application Report (LAR) were included in the sample.

Lending to Borrowers of Different Incomes and to Businesses of Different Sizes

FNB's level of lending to borrowers of different incomes and to businesses of different sizes is

good. To assess the bank's performance, examiners selected a sample of twenty commercial loans, and all residential real estate loans reported on the LAR. These loan products represent the primary loan types originated since the last CRA examination.

The volume of lending to business of different sizes in the AA is good. The AA demographics indicate 55% of the businesses have gross annual revenues less than one million dollars. The commercial loan sample had 75% of the number and 66% dollar amount of loans granted in the AA to businesses with revenues less than one million dollars.

Borrower Distribution of Loans to Businesses in AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	55%	4%	41%	100%
% of Bank Loans in AA by #	75%	10%	15%	100%
% of Bank Loans in AA by \$	66%	27%	6%	100%

Source: Loan sample and 2006 Business Geodemographic Data

FNB's volume of lending to residential real estate borrowers of different incomes is excellent. Lending to low-income borrowers is excellent as 15% of the number of loans in the sample were granted to this group; exceeding the 9% of the total AA that is represented by low-income families. Lending to moderate-income borrowers is also excellent. The loan sample revealed the bank granted 28% of the number of loans to the moderate-income group, compared to 14% of the total families in the AA.

Borrower Distribution of Owner Occupied Residential Real Estate Loans in the AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Loan Type	9%	15%	14%	28%	25%	26%	52%	32%

Source: Loan sample and 2000 U.S. Census Data

Geographic Distribution of Loans

An analysis of the distribution of credit within the assessment area would not be meaningful, as the assessment area does not have any low- or moderate-income tracts.

Responses to Complaints

FNB has not received any CRA-related complaints since the last CRA examination.

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.