



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## **PUBLIC DISCLOSURE**

November 19, 2007

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

The First National Bank of Sedan  
Charter Number: 3855

101 West Main Street  
Sedan, KS 67361

Office of the 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 Sedan's average quarterly loan-to-deposit ratio is adequate. The bank's average quarterly loan-to-deposit ratio is 40% compared to 64% for similarly situated banks in and adjacent to the assessment area.

A majority of the bank's primary loan products were granted to borrowers located in the assessment area. The loan sample indicates that 93% of the number and 78% of the dollar volume of loans were granted in the assessment area.

The First National Bank of Sedan's level of lending to farms of different sizes and residential real estate borrowers of different incomes is good. The lending level to farms of different sizes is adequate, as 90 of the loans were granted to farms with annual revenues less than \$1 million. The lending level to residential real estate borrowers of different incomes is excellent, as 39% and 36% of the loans were granted to low- and moderate-income borrowers, respectively.

### **SCOPE OF EXAMINATION**

We performed a full-scope evaluation of The First Nation Bank of Sedan's assessment area using small bank Community Reinvestment Act procedures.

### **DESCRIPTION OF INSTITUTION**

The First National Bank of Sedan (FNB) is a \$41 million bank located in Sedan, Kansas. The bank has no branches. FNB has one automated teller machine located at the main office. The bank does not operate under a holding company. There have been no changes in the bank's corporate structure.

FNB is a full-service bank offering a variety of loan products. As of September 30, 2007, net loans represented 42% of the bank's total assets. The bank's \$17 million loan portfolio has the following composition: 54% agricultural, 17% residential real estate, 13% commercial, 7% consumer, and 9% other real estate. The bank has not changed any existing loan products, or offered any new products since the previous CRA examination. Examiners determined the primary loan products, based on the number and dollar volume granted during the previous two calendars and year-to-date 2007, are agricultural loans and residential real estate loans.

FNB's financial condition, size, and local economic conditions allow it to help meet the credit needs of its assessment area. Examiners assigned a "Satisfactory" rating at the June 9, 2003, CRA examination.

### **DESCRIPTION OF ASSESSMENT AREA**

The bank's assessment area (AA) consists of Chautauqua County, Kansas. The AA consists of one middle-income census tract. The AA is not in a Metropolitan Statistical area. There are no low-, moderate- or upper-income census tracts in the AA. The AA complies with the regulation and does not arbitrarily exclude any low-income areas.

The 2000 U.S. Census population of the AA was 4,359. The Kansas state-wide non-MSA median income for 2007 is \$47,900. The income distribution for families in the AA is 24% low-

income, 27% moderate-income, 25% middle-income, and 24% upper-income. Of the 2,169 households in the AA, 46% receive social security, 13% have income below the poverty level, and 5% receive public assistance. Thirty-eight percent (38%) of the population is not in the work force, and 24% is over the age of 65.

The median housing value is \$34,100, and 68% of the housing units are owner occupied. The local economy has improved slightly since the last CRA review, and is holding steady. Agriculture is a dominant economic force in the area. The local economy has benefited from increased cattle and oil prices. Major employers are Unified School District 286, Sedan Floral, Inc., Sedan City Hospital, and Pleasant Valley Manor. These employers provide employment diversity and stability in the local economy. The Kansas unemployment rate for October 2007 is 3.8% compared to 4.7% nationwide.

One other bank, with \$38 million in assets, provides competition in the AA. With 73% of the area's deposits, FNB ranks first in deposit market share.

Examiners contacted one community professional in the AA. The contact identified agricultural loans and residential real estate loans as two of the community's primary credit needs. The contact stated that area financial institutions are meeting these needs.

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

### **Loan-to-Deposit Ratio**

The bank's lending level is adequate. FNB's average quarterly loan-to-deposit ratio (LTD) is 40%. Examiners compared this ratio to that of similarly situated banks in and adjacent to the AA. For peer banks, examiners analyzed the ratios of a group of three banks over the same time period. The quarterly average LTD ratio for this group is 64%. The quarterly average ratios for the peer banks range from 49% to 80%.

While FNB's quarterly average LTD ratio is below that of the similarly situated banks, it is still considered adequate. FNB is one of two banks with offices in the AA and is the only bank that is locally owned and operating entirely within the AA. FNB management stated loan demand is low. The AA has not been attractive for industries due to a declining, aging population. U.S. Census Data indicates 24% of the population is over age 65. Also, a large percentage (38%) of the population is out of the workforce.

### **Lending in Assessment Area**

FNB's lending in the AA is good, as it extends a majority of its primary loan products to borrowers located in the AA. Specifically, we found that FNB made 93% of the number and 78% of the dollar amount of loans in the AA. The sample included 40 loans originated, purchased, or committed during 2005, 2006, and year-to-date 2007. The loan sample included 20 loans of each of the two primary loan products.

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

Lending to farms of different sizes and residential real estate borrowers of different incomes is good. To assess the bank’s performance, examiners selected a sample of 20 agricultural loans and 20 residential real estate loans. These products represent the majority of loans originated from January 1, 2005, to year-to-date 2007.

The level of lending to farms of different sizes is adequate. The agricultural loan sample indicates 90% of the number and 91% of the dollar volume were granted to farms with revenues less than or equal to \$1 million. The agricultural demographic data shows that 98% of farms in the AA have revenues less than or equal to \$1 million.

<b>Borrower Distribution of Loans to Farms in AA</b>				
Farm Revenues	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Farms	98%	2%	0%	100%
% of Bank Loans in AA by #	90%	0%	10%	100%
% of Bank Loans in AA by \$	91%	0%	9%	100%

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

The level of lending to residential real estate borrowers of different incomes is excellent. The residential real estate loan sample indicates lending to low-income borrowers is excellent at 39% of the sample, compared to family-income demographics of 24%. Lending levels to moderate-income borrowers is also excellent at 36%, compared to the demographic data showing the percentage of moderate AA households at 27%.

<b>Borrower Distribution of Residential Real Estate Loans in AA</b>								
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
1-4 Family Residential RE	24%	39%	27%	36%	25%	23%	24%	2%

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

**Geographic Distribution of Loans**

An analysis of the distribution of credit within the assessment area would not be meaningful since the AA contains only a middle-income tract.

**Responses to Complaints**

The bank has not received any CRA related complaints since the previous 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 the credit needs of the community.

