

PUBLIC DISCLOSURE

March 29, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Farmers National Bank
Charter Number 11933**

**759 State Street
Phillipsburg, Kansas 67661**

**Office of the Comptroller of the Currency
Kansas City Field Office
6700 Antioch Road, Suite 450
Merriam, Kansas 66204-1200**

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.

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 CRA performance of **Farmers National Bank, Phillipsburg, Kansas, (FmNB)** prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **March 29, 1999**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 C.F.R. Part 25.*

Institution's CRA Rating: This institution is rated **Satisfactory**.

FmNB's overall CRA rating is based on the following factors:

- C FmNB has a reasonable record of lending to farms in the lower revenue categories within its assessment area. The bank's record of lending to low- and moderate-income families and individuals is also reasonable.
- C The geographic distribution of loans originated by the bank reflects reasonable dispersion throughout the assessment area.
- C FmNB's quarterly average loan-to-deposit ratio for the last ten quarters is reasonable at 66 percent.
- C A majority of the bank's loan originations are extended to borrowers living within the assessment area.

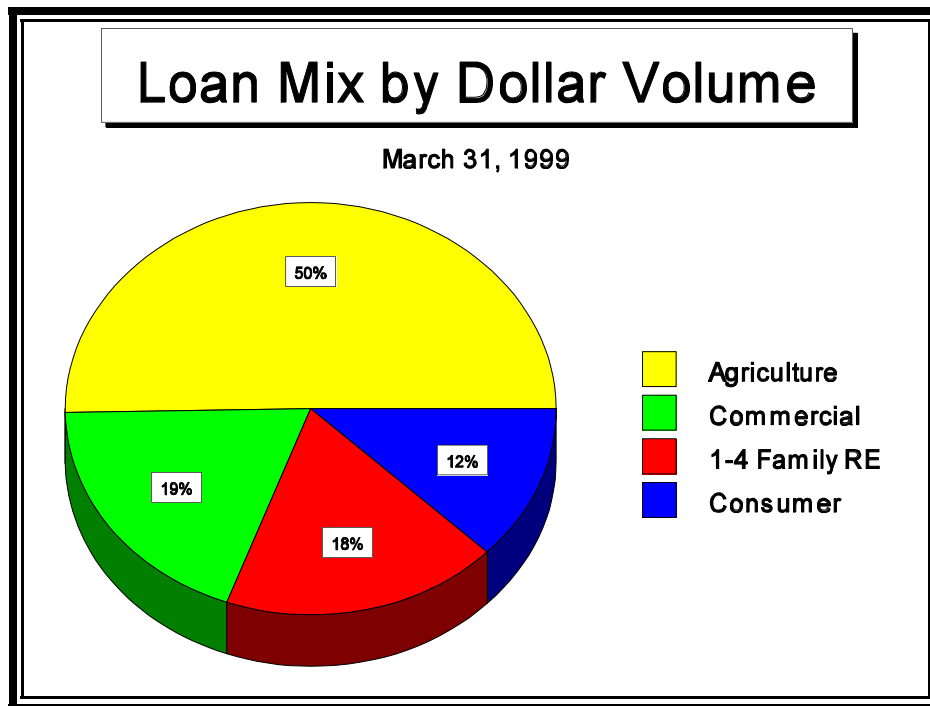
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DESCRIPTION OF INSTITUTION

FmNB is a \$58 million institution based in Phillipsburg, Kansas, the seat of Phillips County. The bank is closely held by a few residents of the surrounding area. No legal constraints, financial conditions, or other factors inhibit the bank’s ability to help meet the credit needs of its assessment area. The bank has three full service branches located in Agra, Kensington, and Logan. The institution received a rating of “Satisfactory Record of Meeting Community Credit Needs” at its last CRA examination dated August 23, 1996.

FmNB’s net loans total \$33 million as of March 31, 1999, and represent 56 percent of its total assets. The bank’s primary credit products by dollar volume are loans for agricultural purposes. By number, the primary credit products are loans for various consumer purposes. Since the bank’s last CRA examination, loan volume has increased approximately \$6 million. The growth has primarily resulted from an increase in agricultural loans. The following table shows the bank’s loan portfolio composition as a percentage of gross loans:



Bank*Farmers National Bank***DESCRIPTION OF ASSESSMENT AREA**

FmNB has designated all of Phillips and Smith Counties as its assessment area (AA). This designation meets the requirements of the CRA regulation and does not arbitrarily exclude any low- or moderate-income geographies. FmNB has three locations in Phillips County and one location in Smith County. Competition in Phillips County includes the head office of two other banks, a branch of a savings bank, and a branch of a credit union. Competition in Smith County consists of the head office of three banks. The Federal Land Bank provides additional competition for agricultural loans.

Total population of the AA, based on 1990 U.S. Census information, is 11,668. The assessment area is divided into six block numbering areas (BNAs): 9751, 9752, and 9753 are located in Phillips County, and BNAs 9756, 9757, and 9758 are located in Smith County. FmNB's main office is located in BNA 9753, with one branch each in BNAs 9751, 9752, and 9757. Four of the BNAs in the assessment area are designated as middle-income tracts based on their respective family income levels. BNAs 9756 and 9757, located in Smith County, are designated as moderate-income areas. Based on 1990 U.S. Census data, 16 percent of the 4,853 households within the AA are below poverty level. The Census data also reports the median housing value for the AA as \$23,228. The median year built for housing is 1946 within the AA. Additional information regarding the bank's assessment area is included in the table below.

| 1990 Demographic Information on the Assessment Area | | | | | |
|--|--------------------|----------------------|---|---------------------|--------------------------|
| BNA and City | Income Designation | Median Family Income | Income as % of 1990 MSA Median \$28,068 | Total Housing Units | % Owner-Occupied Housing |
| 9751 (Agra, Kirwin, Glade) | Middle | \$23,565 | 84% | 810 | 66% |
| 9752 (Logan, Long Island) | Middle | \$23,859 | 85% | 940 | 65% |
| 9753 (Phillipsburg) | Middle | \$28,842 | 103% | 1,514 | 61% |
| 9756 (Lebanon) | Moderate | \$21,449 | 76% | 625 | 62% |
| 9757 (Kensington, Gaylord) | Moderate | \$21,419 | 76% | 862 | 66% |
| 9758 (Smith Center) | Middle | \$23,925 | 85% | 1,128 | 68% |

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| 1990 Demographic Information on the Assessment Area | | | | | |
|--|---|----------|-----|-------|-----|
| AA Totals | — | \$24,480 | 87% | 5,879 | 64% |

DESCRIPTION OF ASSESSMENT AREA - Continued

The assessment area includes 3,310 families. Approximately 23 percent of the families are designated as low-income, 23 percent are moderate-income, 25 percent are middle-income, and 29 percent are upper-income. Income designations are based on median family income levels as a percentage of the 1998 non-metropolitan updated median family income figure of \$38,200. The median family income figure is estimated by the Department of Housing and Urban Development on an annual basis.

The local economy is heavily dependent on agriculture. Major agricultural products include cattle, wheat, and milo. Commercial lending activity offers some diversification to area banks' loan portfolios. Major employers in the AA include Tamko Asphalt Products, Phillips County Hospital, Kyle Railroad, Peterson Industries, and various local governmental entities. According to the Kansas Department of Human Resources, the February 1999 preliminary unemployment rate for Phillips County was 2.6 percent, and 1.9 percent for Smith County.

We contacted one individual within the community to discuss local credit needs and the performance of financial institutions in the area. This individual works with an economic development agency. Through our community contact, we confirmed the primary credit needs of the area as agricultural and loans for various consumer purposes. Our contact identified no unmet credit needs in the assessment area.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Lending to Farms of Different Revenue Sizes and Borrowers of Different Income Levels

Our review determined the bank's primary credit products to be loans for agricultural and various consumer purposes. These areas were also identified as credit needs within the assessment area. Therefore, we focused our analysis on the bank's lending performance with respect to these credit products.

The analyses and conclusions drawn during this review are based upon data provided by the bank. Our sample was taken from loans originated between October 1, 1996 and March 31, 1999. Due to constraints of the bank's computer software, these originations include all loans that were not paid in full prior to December 1, 1998.

Agricultural Lending:

FmNB has a reasonable record of lending to farms in the lower revenue categories within its assessment area. We reviewed the revenue distribution of 20 agricultural borrowers with loan originations between October 1, 1996 and March 31, 1999. For the period under review, these borrowers originated 141 loans totaling \$3.3 million. Our agricultural loan sample represented three percent of the bank's total number of agricultural loans, and two percent of the total dollar volume of agricultural loans originated in the assessment area during this time period. The following table shows a more detailed analysis of the agricultural borrower revenue distribution.

| Agricultural Loan Customer Revenue Distribution | | |
|--|---|---|
| Sample of 20 Agricultural Loan Customers with Loan Originations Between 10/1/96 and 3/31/99 | | |
| Revenue Category | Distribution of FmNB Agricultural Loan Customers | Distribution of Farms in Assessment Area |

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| Agricultural Loan Customer Revenue Distribution | | | | |
|--|------------------|------------|--------------|------------|
| Sample of 20 Agricultural Loan Customers with Loan Originations Between 10/1/96 and 3/31/99 | | | | |
| | No. of Customers | Percentage | No. of Farms | Percentage |
| \$0 - \$99,999 | 13 | 65% | 904 | 77% |
| \$100,000 - \$249,999 | 6 | 30% | 188 | 16% |
| \$250,000 - \$499,999 | 1 | 5% | 54 | 5% |
| \$500,000 and Over | 0 | 0% | 27 | 2% |
| Totals | 20 | 100% | 1,173 | 100% |

Lending to Farms of Different Revenue Sizes and Borrowers of Different Income Levels - Continued

Based on our limited sample of agricultural borrowers, we determined that 95 percent of FmNB's farm customers had gross annual revenues of less than \$250 thousand. We compared the revenue distribution of FmNB's agricultural customers to area demographic information obtained from the 1992 Agricultural Census as compiled by the U.S. Bureau of the Census. FmNB's proportion of small farm borrowers is reasonable in relation to local agricultural demographics.

Consumer Lending:

The bank's record of lending to low- and moderate-income families and individuals is reasonable. We reviewed the family income distribution of 20 consumer loan customers in the assessment area with loan originations between October 1, 1996 and March 31, 1999. This sample represented two percent, by both number and dollar volume, of consumer loan originations in the assessment area during this time period. We determined the bank's record of lending to low- and moderate-income borrowers is reasonable when compared to the percentage of low- and moderate-income families in the assessment area. The following table shows the breakdown of borrower income levels for the 20 consumer loan customers in our sample.

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| Consumer Loan Customer Income Distribution | | | | |
|--|---|------------|--|------------|
| Sample of 20 Consumer Loan Customers with Loan Originations Between 10/1/96 and 3/31/99 | | | | |
| Income Designation | Distribution of FmNB's Consumer Loan Customers | | Distribution of Families in Assessment Area | |
| | No. of Customers | Percentage | No. of Families | Percentage |
| Low | 5 | 25% | 757 | 23% |
| Moderate | 5 | 25% | 768 | 23% |
| Middle | 2 | 10% | 812 | 25% |
| Upper | 8 | 40% | 973 | 29% |
| Total | 20 | 100% | 3,310 | 100% |

Geographic Distribution of Loans

The geographic distribution of loans originated by the bank reflects reasonable dispersion throughout the assessment area. We reviewed the geographic distribution of 40 agricultural and consumer loan customers in the assessment area with loan originations between October 1, 1996 and March 31, 1999. This sample represents two percent, by number and dollar volume, of these type of loan originations in the assessment area during this time period.

FmNB's lending performance in the moderate-income BNAs exceeds the percentage of population living in those BNAs, based on the addresses of the customers in our loan sample. The bank's lending performance, based on dollar volume, also exceeds area demographics. The following table summarizes assessment area penetration.

| Geographic Distribution of Population and Dollar Amount of Loans | | | | | | |
|--|---|------------|---|------------|---|------------|
| Sample of 40 Agriculture and Consumer Loan Customers with Loan Originations Between 10/1/96 and 3/31/99 | | | | | | |
| BNA Income Designation | Population of AA Within Each Income Designation | | Ag & Consumer Loan Customers by Dollar Amount of Loan | | Distribution of BNAs Within Each Income Designation | |
| | Population | Percentage | \$ Loan | Percentage | Number | Percentage |
| Low | 0 | 0% | \$0 | 0% | 0 | 0% |
| Moderate | 2,878 | 25% | \$161,540 | 36% | 2 | 33% |
| Middle | 8,790 | 75% | \$282,655 | 64% | 4 | 67% |
| Upper | 0 | 0% | \$0 | 0% | 0 | 0% |
| Total | 11,668 | 100% | \$444,195 | 100% | 6 | 100% |

Our loan sample revealed 40 percent of agricultural loan originations and ten percent of consumer loan originations were provided to borrowers in the moderate-income geographies of the assessment area. Although the consumer loan performance slightly lags area demographics, the penetration is reasonable given the distribution of the bank’s offices within the assessment area. Three of the bank’s four locations are in Phillips County, which does not have any areas designated as low- or moderate-income. The fourth location is within a moderate-income area in Smith County.

Loan-to-Deposit Ratio

The bank’s loan-to-deposit (LTD) ratio is reasonable. We compared FmNB’s quarterly average LTD ratio to five other financial institutions with offices in Phillips and Smith Counties. Each of the banks in our comparison had total assets of less than \$130 million and no branches in metropolitan areas. FmNB’s quarterly average LTD ratio for the past ten quarters was 66 percent. The overall quarterly average LTD ratio for the six banks in our comparison was 58 percent. Quarterly average LTD ratios ranged from 42 percent to 73 percent. FmNB’s quarterly average LTD ratio ranked third among the six banks we reviewed. Over the past ten quarters, FmNB’s net loans have increased 19 percent. This was the second largest increase among the institutions we reviewed.

Lending in the Assessment Area

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A majority of the bank's loan originations are extended to borrowers living within the assessment area. Bank personnel generated reports during the examination which showed agricultural, commercial, residential real estate, and consumer loans originated between October 1, 1996 and March 31, 1999. Based on the borrower's address, we determined which of these loan proceeds were used within the bank's assessment area. FmNB originated 863 agricultural loans totaling \$24.7 million, 308 commercial loans totaling \$9.6 million, 235 residential real estate loans totaling \$6.2 million, and 1,282 consumer loans totaling \$6.1 million during this period. We determined approximately 83 percent of these loan originations, by number, and 75 percent, by dollar volume, were to borrowers using loan proceeds within the assessment area. The table below details our analysis of the bank's record of lending in the assessment area.

| Assessment Area Analysis | | | | |
|---|--------------------|---------------------------|--------------------------|---------------------------|
| Based on 2,688 Loan Originations Between 10/1/96 and 3/31/99 | | | | |
| Type of Loan | No. of Loans in AA | Percentage of Loans in AA | \$ Volume of Loans in AA | Percentage of Loans in AA |
| Agricultural | 751 | 87% | \$18,518,078 | 75% |
| Commercial | 255 | 83% | \$6,103,104 | 64% |
| 1-4 Residential RE | 206 | 88% | \$5,442,971 | 88% |
| Consumer | 1,028 | 80% | \$4,657,662 | 77% |
| Total | 2,240 | 83% | \$34,721,815 | 75% |

Compliance with Antidiscrimination Laws and Regulations

FmNB has a satisfactory record of compliance with antidiscrimination laws and regulations. Concurrent with this CRA evaluation, we conducted a limited consumer compliance examination. This examination included a review of the bank's compliance with the Equal Credit Opportunity Act and the Fair Housing Act. Our review did not disclose substantive violations of fair lending laws or evidence of discriminatory practices.

Response to Complaints

Bank

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FmNB has not received any written complaints regarding its CRA performance since the previous examination dated August 23, 1996.