



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

March 19, 2002

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Farmers National Bank of Kansas
Charter Number 23191**

**Main Street
Walnut, Kansas 66780**

**Comptroller of the Currency
Assistant Deputy Comptroller - Kansas City South
1710 East 32nd Street Fountainside Plaza, Suite H
Joplin, Missouri 64804**

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.

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 Community Reinvestment Act (CRA) performance of Farmers National Bank, Walnut, Kansas prepared by the Office of the Comptroller of the Currency (OCC), the institution's supervisory agency, as of December 31, 2001. 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.

Farmers National Bank is helping to meet the credit needs of its assessment area.

- A substantial majority of loans are made in the bank's assessment area.
- The bank's loan-to-deposit ratio is good and increasing. The bank's loan-to-deposit ratio since the last CRA examination ranks it in the middle of other banks in the assessment area. The ratio has shown steady increases, with the latest quarterly ratio being the highest ratio of the banks in the assessment area, and well above other peer banks on a national basis.
- The distribution of borrowers reflects good penetration of loans to low- and moderate-income borrowers and loans to small farmers.
- The bank has received no consumer complaints related to CRA performance or consumer regulations.

DESCRIPTION OF INSTITUTION

Farmers National Bank is located in Walnut, Kansas. The bank has \$18 million in total assets, of which loans were \$16 million (90% of total assets) according to the December 31, 2001 Report of Condition. The bank is 77% owned by Kanbanc, Inc. a multi-bank holding company located in Overland Park, Kansas. Kanbanc, Inc. controls a total of 4 banks with assets totaling \$67 million. Farmers National Bank's main office is in Walnut, Kansas and its branches are in Hepler and St. Paul, Kansas. All are full service offices with drive up facilities, and the St. Paul branch has an ATM. The bank offers a variety of loan products including agricultural, residential real estate, consumer, and commercial loans.

Based on the volume of loans originated during the evaluation period, agriculture and residential real estate loans were the primary products selected for our sample of the bank's loan portfolio. Examiners reached their conclusions from a sample of these types of loans, which originated from January 1998 to March 2002. The bank was rated satisfactory at its last CRA Examination conducted on October 30, 1997. There are no legal impediments or other factors, including the financial condition of the bank, which hinder the bank's ability to help meet the credit needs of the community.

The following table shows a breakdown of the bank's loan portfolio from the most recent quarterly Report of Condition. The breakdown is by dollar amount only, since the bank does not maintain sufficient information by type of loans to determine the number of loans originated in this period.

| Loan Portfolio as of December 31, 2001 Report of Condition | | |
|---|--------------------------|--------------------|
| Loan Type | Dollar Amount (\$000) | Percent |
| Real Estate ⁽¹⁾ - 1-4 family home loans - 39% of total loans. | 8,105 | 51% ⁽¹⁾ |
| Agriculture | 3,564 | 22% |
| Commercial | 2,585 | 16% |
| Installment/ Consumer | 1,678 | 11% |
| TOTAL | 15,932 | 100% |

DESCRIPTION OF ASSESSMENT AREA

The bank's assessment area (AA) consists of Crawford and Neosho Counties in Kansas. The AA meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income geographies. The bank's competitors include several other independently owned banks and branches of several mid-sized or large banks in the AA.

The following table summarizes key demographic information about the bank's AA.

| ENTIRE ASSESSMENT AREA | | CENSUS TRACT INFORMATION |
|------------------------------|--------|--|
| Crawford and Neosho Counties | | 16 Census Tracts - 3 moderate-income (19% of AA) - 12 middle-income (75% of AA) - 1 upper-income (6% of AA) |
| Population | 52,603 | |
| Families | 14,087 | - 21% low-income - 19% moderate-income - 25% middle-income - 35% upper-income |
| Households | 21,357 | Owner Occupied Housing 61% |

*Data Source - 1990 U.S. Census *HUD - U.S. Department of Housing and Urban Development*

The \$28,067 weighted average of the stated MSA statewide 1990 census median family income was updated to \$43,200 in 2001. The median housing value is \$30,089. Approximately 19% of the total households fall below the poverty level income.

Agriculture, government employment including educational jobs, small manufacturers, and retail businesses are the primary employers in the AA. Major employers in the AA are: local school districts, Pittsburg State University, numerous small farming operations (Beachner Farms including their grain sales and storage companies is the largest of the farming operations in the area), local medical facilities (Mt. Carmel in Pittsburg, Parsons Hospital, Neosho Memorial Hospital in Chanute, and other medical clinics in Girard and Erie), some manufacturing companies (Ash Grove Cement, Hi-Lo Cabinets, and NuWa RV manufacturing in Chanute; Superior wheels, Politron plastics, and Sugarcreek Meat Processing in Pittsburg), and service companies. The unemployment rates are 4.7% for Crawford County and 5.8% for Neosho County which compares to 4.7% for the State of Kansas.

Examiners interviewed two community contacts to discuss the needs of the community for credit and other banking services. The community contacts are both employed by government offices, with one from each of the counties. The contacts believed the local banks are providing for the credit needs of consumers in the AA. The contacts indicated the economic conditions in the area are good. Housing for the low- or moderate-income workers is available and generally affordable. Investors are providing for the current housing needs of these workers. Both of the contacts identified cost and availability of childcare for working parents as an increasing concern. Local community development opportunities are very limited in the AA.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

Farmers National Bank's loan-to-deposit (LTD) ratio is good and improving. The bank's quarterly average LTD ratio since the last CRA Examination is 81%, and has been steadily increasing. The latest quarterly LTD ratio is 95%, and, is the highest among the similarly situated banks in the AA. The quarterly average LTD ratio of the national peer group of banks is 65%.

The bank identified four other independent banks in the AA they consider as their primary competition in their market. They are similarly situated due to their location in the bank's AA. There are also large and mid-sized bank branches in the AA which were not included in these comparisons. The average quarterly LTD ratio of all banks in the AA, for the period since the last CRA Examination, is 77%. Farmers National Bank is ranked in the middle of the five banks compared. The highest average quarterly LTD ratio was 88% (Community National Bank) and the lowest was 62% (Exchange State Bank). Farmers National Bank was the smallest in asset size of all banks in this comparison. The average size of Farmers National Bank, since the last CRA Examination, was \$17 million average assets, and Exchange State Bank (in St. Paul), for the same period had average assets of \$45 million and is the nearest bank to Farmers NB in size and location. The asset size of the other banks in the AA ranges from the mid-\$60 million (First National Bank Girard) in assets to over \$300 million (Community National Bank). All other banks are located in larger towns and may not be providing loans to small farms as a main product.

Lending in Assessment Area

Farmers National Bank's record of lending within its assessment area is good. A substantial majority of all loans made are located in the AA. The primary credit products were determined to be residential real estate and loans to small farms. Based on our sample of loans as of December 31, 2001, and which were originated since the last CRA examination, the following table reflects lending in the AA by product line:

| Percent of Loans by Number and Dollar | | | | | | |
|---------------------------------------|----------------|-----|----------------------|-----|-------|-----|
| | Residential RE | | Loans to Small Farms | | Total | |
| | # | \$ | # | \$ | # | \$ |
| In Assessment Area | 95% | 92% | 91% | 81% | 93% | 87% |
| Out of Assessment Area | 5% | 8% | 9% | 19% | 7% | 13% |

Lending to Borrowers of Different Incomes and to Farms of Different Sizes.

Farmers National Bank's performance of lending to borrowers of different incomes and loans to small farmers is good. Examiners reviewed a sample of the bank's primary product types, 1-4 family residential real estate loans and loans to farms. Based on a sample of loans originated since the previous CRA examination dated October 30, 1997, bank management has responded favorably to the credit needs of its AA by originating loans to low- and moderate-income borrowers, as well as small farms.

The residential real estate sample includes purchase money, refinancing, and home improvement loans, as the bank did not maintain complete information to separate these loans further by category. The following table summarizes residential real estate loans made by dollar amount to each income designation within the AA.

| Sample of Residential Real Estate Loans Made | | | | | |
|--|-----------------------------|----------------------------|-------------|------------------------|-------------|
| Income Designation for Borrowers | Families by Income Category | Originations by \$ (000's) | % by Dollar | Originations by number | % by Number |
| Low | 21% | 187.5 | 27% | 7 | 35% |
| Moderate | 19% | 85.7 | 13% | 5 | 25% |
| Middle | 25% | 112.1 | 16% | 5 | 25% |
| Upper | 35% | 305.2 | 44% | 3 | 15% |
| Total | 100% | 690.5 | 100% | 20 | 100% |

The bank has extended credit to low- and moderate-income consumers in their AA. The bank's performance is above the demographics by both number and dollars to low-income individuals, and by number of loans to moderate-income individuals.

We examined the lending by the bank to small farms in its AA, and found all of the loans in the sample were made to small farms.

| Sample of Loans to Farmers | | | | |
|--|---------|----------------------|------------------------|----------------------|
| Revenue size | # in AA | % of farms in the AA | # of loans from sample | % of loans in sample |
| Farms w/ revenues less than \$1 million | 358 | 98% | 22 | 100% |
| Farms w/ revenues greater than \$1 million | 9 | 2% | 0 | 0% |
| Totals | 367 | 100% | 22 | 100% |

Geographic Distribution of Loans

The distribution of bank loans by the income level in the AA is reasonable. The bank's lending pattern shows its lending is primarily to middle-income tracts, which is the dominant income-tract category in the AA. Middle-income tracts represent 12 of the 16 tracts in the AA and are the largest geographic portion of the lending area. There are no low-income tracts in the AA, and the three moderate- and one upper-income tracts are all located in Pittsburg, Kansas. Pittsburg has branches of large and mid sized banks, as well as branches of several other community banks. The Pittsburg loan market is very competitive, and Farmers National Bank has not tried to compete in that market. The sampled loans did not contain loans from any of the tracts in Pittsburg and therefore, were all in the middle-income tracts. The population distribution in the AA shows 14% in the moderate-, 75% in middle-, and 11% in the upper-income tracts. The percentage of owner occupied housing by income tracts again reflects population in the middle-income tracts dominates house ownership

in the AA. Of the owner occupied housing in the AA, 45% is in moderate-income tracts, 66% is in the middle-income tracts, and 52% is in the upper income tract.

The geographic distribution of loans to small farms is reasonable. The sample of bank loans to small farms had 100% in the middle-income tracts by both number and dollars. The middle-income tracts contain 94% of all farmers in the AA. Four percent of the farms were located in upper- and 2% of all farms were located in the moderate-income tracts. The lack of penetration into the 6% of farms in the four non middle-income tracts is not a concern. The bank's lending patterns are representative of the location of the majority of the farms in the AA.

Record of Compliance with Antidiscrimination Laws

An analysis of any public comments, consumer complaint information, and HMDA data over the last four years was performed according to the OCC's risk based fair lending approach. Based on its analysis of the information, the OCC decided that a comprehensive fair lending examination would not need to be conducted in connection with the CRA evaluation this year. The latest comprehensive fair lending exam was performed in 1997, where no violations of the substantive provisions of the anti-discrimination laws and regulations were identified.

Response to Complaints

Farmers National Bank has not received any complaints on consumer compliance, fair lending, or its performance in helping to meet needs in the AA from the public during this evaluation period.