



INTERMEDIATE SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

May 18, 2009

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Farmers National Bank of Buhl
Charter Number: 11076

914 Main Street
Buhl, ID 83316

Office of the Comptroller of the Currency

SALT LAKE CITY
2795 East Cottonwood Parkway, Suite 390
Salt Lake City, UT 84121-7036

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 Lending Test is rated: Satisfactory.

The Community Development Test is rated: Satisfactory.

The major factors supporting the institution's rating are as follows:

- Farmer's National Bank of Buhl's (FNBB) loan-to-deposit ratio indicates a reasonable responsiveness to area credit needs.
- A substantial majority of the bank's loan originations are made within its assessment area (AA).
- The distribution of loans to borrowers of different incomes and to businesses of different sizes is reasonable.
- The geographic distribution of loans reflects reasonable dispersion throughout its AAs.
- The bank's community development performance demonstrates satisfactory responsiveness to community development needs in its AAs through qualified investments and community development services.

Scope of Examination

We evaluated FNBB's Community Reinvestment Act performance under the Lending and Community Development Tests. The evaluation covers the period from the date of the previous CRA Examination, November 22, 2005, through May 18, 2009.

In evaluating the bank's lending performance we reviewed lending data for two of the bank's primary loan products. Accordingly, for the AA (refer to the Description of Assessment Area section below), we reviewed a sample of commercial loans and agricultural loans originated during the period of January 1, 2007, through May 18, 2009. The Community Development Test covered community development loans, investments and services during the entire evaluation period. We reviewed the bank's community development loans, investments, and services based on information provided by the bank. We used only those that met the regulatory definition for community development in our analysis of the Community Development Test. We used the most recent available demographic data for the Lending and Community Development Tests.

Description of Institution

FNBB is owned by Farmers Bancorporation, Inc., a locally owned single bank holding company. The bank is headquartered in Buhl, Idaho, which is located in the south

central portion of Idaho. In addition to the bank’s headquarters office, FNBB operates five retail branches in neighboring communities and six automated teller machines (ATMs). The bank has three branches in the city of Twin Falls, one branch in the city of Jerome, and one branch in the city of Wendell. FNBB offers a wide range of credit products within its AA including consumer, commercial, and real estate loan products. The bank’s primary lending focus is on agriculture and business lending as the local economy is dependent on agriculture. As of March 31, 2009, FNBB reported \$396MM in total assets, \$280MM in total loans, \$343MM in total deposits, and \$52MM in equity capital. Total loans represented 71% of total assets. The loan portfolio composition is as follows:

Table 1 - LOAN PORTFOLIO COMPOSITION March 31, 2009	% of Outstanding Dollars
Real Estate Loans	
1-4 Family Residential Properties Secured by First Liens	8%
Farmland	9%
Non-farm Non-residential Properties	17%
Construction, Land Development, Other	18%
Agricultural Loans	22%
Commercial Loans	21%
Consumer Loans	5%
Total	100%

Source: Consolidated Report of Condition for March 31, 2009

FNBB received a Satisfactory rating at the last CRA examination on November 22, 2005. As of the date of this evaluation, there were no legal, financial, regulatory, or other factors impeding the bank’s ability to meet the credit needs of its AA.

Description of Assessment Area

FNBB designated one AA, which meets the requirements of the regulation and does not arbitrarily exclude any LMI areas. The bank's AA includes all of Twin Falls County, the southern part of Gooding County, and the majority of Jerome County. The AA coincides with the boundaries of a contiguous political subdivision and the counties are not part of any Metropolitan Statistical Area (MSA). The AA consists of 21 census tracts (CTs), of which there are 3 moderate-income CTs, 16 middle-income CTs, and 2 upper-income CTs.

We contacted one local economic development organization during the evaluation. The contact indicated local financial institutions are doing an adequate job in meeting the credit needs of the community. The contact stated that there is a lack of low-income housing and funding for downtown revitalization efforts in Twin Falls. The contact indicated that the local economy has seen a drastic increase in unemployment over the last two years.

The U.S. Bureau of Labor Statistics estimates the following unemployment rates for the bank's AA as of March 2009: Jerome County 6.7%, Gooding County 5.9%, and Twin Falls County 6.0%. For 2008, the U.S. Department of Housing and Urban Development (HUD) estimates the non-metropolitan median income for Idaho at \$48,800. Based on deposit market share totals, FNBB's primary competition in the AA comes from branches of two large national banks, two state chartered community banks, and one federal savings bank. Various other branches of large national banks, state chartered community banks, federal savings banks, and credit unions also compete in the area.

Conclusions with Respect to Performance Tests

LENDING TEST

FNBB's overall performance under the Lending Test is satisfactory. The bank's loan-to-deposit (LTD) ratio and borrower distribution are reasonable, and a substantial majority of loans are inside the AA.

Loan-to-Deposit Ratio

FNBB's LTD ratio is reasonable given the institution's size, financial condition, and credit needs of the AA. FNBB's average quarterly LTD ratio for all quarters since the prior CRA public evaluation dated November 22, 2005, is 80 percent. To achieve a comparison with similarly situated banks, we identified banks operating in Ada, Bonneville, and Oneida Counties that had similar total assets as FNBB. These banks had LTD ratios during the same time period averaging 90 percent. This lending activity reasonably compares to the similarly situated banks' LTD ratios.

Providing further support that FNBB's lending levels are reasonable is FNBB's deposit market share in the AA. As of June 2009, Federal Deposit Insurance Corporation's

(FDIC) Summary of Deposits Report shows FNBB ranked first in the AA with a deposit market share of 22 percent.

Lending in Assessment Area

FNBB exceeds the standards for satisfactory performance with a substantial majority of loans originated within the AA. We sampled 20 commercial loans and 20 agricultural loans originated since January 1, 2007. Of the loans reviewed, 93% by number and 96% by dollar volume were within the bank’s AA. See the table below for a full breakdown of the lending within the AA.

Table 2 - Lending in Twin Falls, Gooding, and Jerome Counties										
Type of Loan	Number of Loans					Dollars of Loans (000's)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Commercial Loans	18	90.00%	2	10.00%	20	\$2,040	95.11%	\$105	4.89%	\$2,145
Agricultural Loans	19	95.00%	1	5.00%	20	\$1,389	98.49%	\$21	1.51%	\$1,410
Totals	37	92.50%	3	7.50%	40	\$3,430	96.45%	\$126	3.55%	\$3,556

Source: Sample of loans used for CRA performance analysis.

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

The overall borrower distribution of loans to borrowers of different incomes and to businesses of different sizes is reasonable.

Analyzing the borrower distribution of Business Loans

The borrower distribution of loans to businesses of different revenue levels is reasonable and exceeds area demographic data. Based on our sample, the following table illustrates the bank's distribution of commercial loans based on whether the businesses had less than \$1 million in revenue or more than \$1 million in revenue. The bank’s percentage of the number of business loans that it originated to businesses with revenues of \$1 million or less compares favorably to the percentage of AA businesses with revenues of \$1 million or less. Based on our sample, the bank originates 83 percent of its loans to small businesses compared to the AA demographic comparator of 63 percent. Although the percentage of loans the bank made to businesses with revenues less than \$1 million compares favorably to the percentage of businesses reporting revenues less than \$1 million, there was a significant number of businesses (33%) that did not report revenues.

Table 3 - Borrower Distribution of Loans to Businesses

In Twin Falls, Gooding, and Jerome Counties				
Business Revenues (or Sales)	<= \$1,000,000	> \$1,000,000	Unavailable	Total
% of AA Businesses	62.84%	4.12%	33.04%	100.00%
Number (#) of loans	15	3	0	18
% of Bank Loans in AA by #	83.33%	16.67%	0.00%	100.00%
\$ of loans	\$910,411	\$1,130,000	\$0	\$2,040,411
% of Bank Loans in AA by \$	44.62%	55.38%	0.00%	100.00%

Source: Sample of loans used for CRA performance analysis; Dunn and Bradstreet data

Analyzing the Borrower Distribution of Farm Loans

FNBB's distribution of loans to agricultural borrowers of different sizes by number approximates the demographic comparators of the AA. Based on our sample, 95 percent of loans to farms in the AA went to agricultural borrowers with annual revenues of \$1 million or less. This compares favorably with AA demographic information showing 93 percent of bank loans to farms in the AA went to agricultural borrowers with annual revenues of \$1 million or less.

Table 4 – Borrower Distribution of Loans to Farms in Twin Falls, Gooding, and Jerome Counties				
Business Revenues (or Sales)	<= \$1,000,000	> \$1,000,000	Unavailable	Total
% of AA Farms	92.58%	5.19%	2.23%	100.00%
% of Bank Loans in AA by #	94.74%	5.26%	0.00%	100.00%
% of Bank Loans in AA by \$	64.01%	35.99%	0.00%	100.00%

Source: Sample of loans used for CRA performance analysis; Dunn and Bradstreet data

Geographic Distribution of Loans

The overall geographic distribution of the bank's lending reflects reasonable geographic dispersion of small loans to businesses in moderate-income CTs in the AA. The analysis of the bank's distribution of farm loans to different AA geographies is not meaningful.

Analyzing the Geographic Distribution of Business Loans

FNBB's distribution of loans to businesses in moderate-income geographies compared to the percentage of AA businesses in moderate-income geographies is reasonable. The bank's percentage of the number of business loans that it originated to businesses in moderate-income geographies is somewhat less than the percentage of AA businesses located in moderate-income geographies and meets the standard for satisfactory performance. Based on our sample, the bank originates 6 percent of its loans to businesses in moderate-income geographies compared to the AA demographic comparator of 16 percent.

Table 5 - Geographic Distribution of Commercial Loans in Geographic Distribution of Loans to Businesses in Twin Falls, Gooding, and Jerome Counties								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
% of Total	0.00%	0.00%	16.27%	5.56%	70.48%	94.44%	13.25%	0.00%

Source: Sample of loans used for CRA performance analysis; Dunn and Bradstreet data

Analyzing the Geographic Distribution of Farm Loans

The small percentage of agricultural borrowers located in moderate-income geographies in the AA limits the usefulness of analyzing FNBB’s performance in lending to geographies of different income levels within its AA. Dunn and Bradstreet reported that only 7 percent of all farm loans went to agricultural borrowers in moderate-income geographies. Based on our sample, none of FNBB’s loans to farms in the AA went to agricultural borrowers in moderate-income geographies. While this compares unfavorably with the demographic comparator, the limited portion of all farm loans made to agricultural borrowers in moderate-income AA geographies limits the usefulness of this comparison.

Table 6 - Geographic Distribution of Loans to Farms in Twin Falls, Gooding, and Jerome Counties								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Farms	% of Number of Loans	% of AA Farms	% of Number of Loans	% of AA Farms	% of Number of Loans	% of AA Farms	% of Number of Loans
% of Total	0.00%	0.00%	6.59%	0.00%	86.73%	89.47%	6.68%	10.53%

Source: Sample of loans used for CRA performance analysis; Dunn and Bradstreet data

Responses to Complaints

FNBB has not received any complaints during this evaluation period in regards to its CRA performance.

COMMUNITY DEVELOPMENT TEST

FNBB’s responsiveness through community development lending, investments, and services is satisfactory.

FNBB’s performance under the community development (CD) test demonstrates adequate responsiveness to the community development needs of its AA, considering

context and the needs and opportunities within the AA. Opportunities for qualified investments are somewhat limited due to the AA's relatively low population density. The bank's community development loans, investments/donations, and services addressed identified needs.

Number and Amount of Community Development Loans

The bank did not make any qualifying community development loans during the evaluation period.

Number and Amount of Qualified Investments

FNBB's community development investments program demonstrates an adequate responsiveness to the needs within the AA. FNBB made qualified donations totaling \$43,850 to 13 community organizations within the AA. Community organizations provided the following services: 1) facilitate affordable housing options or alternatives to low- or moderate-income individuals; 2) provide community services targeted to low- or moderate-income individuals; or 3) promote economic development.

Extent to Which the Bank Provides Community Development Services

Both the extent and innovativeness of the bank's community development services are reasonable. We evaluated both the bank's retail banking services and community development services. Bank employees are involved in numerous volunteer services and activities. Twelve of these volunteer services and activities met the qualifications for community development services. Bank employees provided technical assistance to entities that support small business owners and economic development in areas including moderate-income geographies and organizations that provide assistance to low- and moderate-income individuals.

The distribution of FNBB's branches and service delivery systems is satisfactory and accessible to individuals of different income levels in the AA. FNBB operates six full service branches offering various loan and deposit products and six ATMs.

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..