



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

December 14, 2009

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The First National Bank of Independence, Kansas
Charter Number: 8145

113 N. Penn
Independence, Kansas 67301

Office of the Comptroller of the Currency

Kansas City South Field Office
1710 East 32nd Street, Suite H
Joplin, Missouri 64804-4100

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 major factors supporting this rating for The First National Bank of Independence Kansas (FNB) are:

- FNB's loan-to-deposit ratio is excellent considering the bank's size and level of competition in its assessment area.
- Management originated a substantial majority of the bank's lending activity within both of its assessment areas.
- The bank's record of lending to businesses of different sizes and to borrowers of different income levels is reasonable.
- The geographic distribution of loans approximates demographics for the moderate-income census tracts for commercial lending in the Kansas assessment area and is lower than demographics for residential real estate lending in both assessment areas.
- The bank received no consumer complaints concerning its performance in meeting the community's credit needs.

Scope of Examination

The scope of this examination included evaluating FNB based on the small bank CRA examination procedures and focused primarily on the lending test. Our objectives were to assess the bank's ability to serve and meet the community's needs within their assessment areas (AA). Because FNB has branches in two states, we separately analyzed loan data for the states of Kansas and Colorado. Our loan sample included originations from January 1, 2007 through November 30, 2009. FNB's primary lending products, by number and dollar amount since the last CRA examination, were 1-4 family residential real estate (RRE) and commercial loans. To assess the bank's performance, examiners selected a random sample of twenty 1-4 family RRE loans and twenty commercial loans from each AA. The sample of RRE for the Independence AA included the sample from the HMDA data integrity review completed in the third quarter of 2009.

DESCRIPTION OF INSTITUTION

FNB is an \$85 million community bank headquartered in southeast Kansas, with branches in Independence and Elk City, Kansas, as well as one branch in Pueblo, Colorado. The bank opened a loan production office (LPO) in Pueblo, Colorado in late 2001. The LPO converted to a full service branch in June 2006. The Oakes family represents the majority shareholders of the bank. FNB is a full-service bank offering a variety of loans with 1-4 family RRE and commercial loans as its primary product lines. Net loans represent 77 percent of total assets. FNB received a "Satisfactory" rating at the last CRA examination dated November 17, 2003. There are no legal or financial factors that impede the bank's ability to help meet the credit needs of the AAs. For additional information on the bank's products and services refer to the bank's Public File.

DESCRIPTION OF ASSESSMENT AREA(S)

FNB has two AAs that we labeled as the Kansas AA and the Colorado AA. The Kansas AA consists of the contiguous counties of Montgomery, Elk, and Wilson. The Pueblo Metropolitan Statistical Area (MSA) is the basis for the Colorado AA. The AAs meet the requirements of the regulation and do not arbitrarily exclude low- or moderate-income geographies. The Kansas AA includes 4 moderate- and 14 middle-income census tracts. The Colorado AA consists of 19 moderate-income, 19 middle-income, and 11 upper census tracts. Major competitors in the AAs include both local and national financial institutions.

We conducted one community contact during this examination. The contact indicated the area's economy has experienced slight growth in the recent months. Large employers (Cessna) have announced rehiring of laid off employees, as well as some new hires. The downtown development continues to grow and reflects the vitality of the community. Bank involvement within the community is strong through programs to promote and develop start up businesses, as well as low-income housing projects. The contact stated the institutions in the area work to address the community's credit needs.

SELECTION OF AREAS FOR FULL-SCOPE REVIEW

As described, FNB has branches in one MSA in Colorado and in non-MSA communities in Kansas. We separately sampled and analyzed lending activity for each AA in each state.

RATINGS

The bank's overall rating is a blend of the state ratings. Among other factors, we weighted performance based on the number of loan originations in the applicable AAs, with more weight given to activity in Kansas AA. For the evaluation period, 84 percent of the total number of loan originations was generated in the Kansas AA.

Conclusions with Respect to Performance Criteria

The analysis of the following is bank-wide and represents the bank’s performance in all AAs based on a review of reported loan information maintained during the evaluation period.

Loan-to-Deposit Ratio

The bank’s average quarterly loan-to-deposit ratio is strong and shows more than reasonable responsiveness towards meeting the credit needs of the community. For the past 28 quarters since the bank’s last CRA examination, FNB’s average quarterly loan-to-deposit ratio is 107.58 percent, as compared to the 75.95 percent of seven similarly situated banks within the bank’s lending area. The average loan-to-deposit ratios ranged from 52.10 percent to 97.16 percent.

Lending in Assessment Area

The bank’s record for lending to borrowers reflects a substantial majority inside the AA. For loans in the evaluation period, management originated 95 percent by number and 96.28 percent by dollar within its AA. See Table 1 for details.

Table 1 – Lending in AA										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Commercial	39	97.5%	1	2.5%	40	\$7,792,681	97.5%	\$200,000	2.5%	\$7,992,681
1-4 Family RRE	36	92.5%	3	7.5%	39	\$6,710,440	94.9%	\$360,000	5%	\$7,070,440
Totals	75	95%	4	5%	79	\$14,503,121	96.3%	\$560,000	3.7%	\$15,063,121

Source: Loan sample.

Responses to Complaints

FNB did not receive any written complaints about its CRA performance in its AAs during the evaluation period.

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’s credit needs.

STATE RATING

State of Kansas

CRA Rating for Kansas is Satisfactory.

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

FNB’s lending to borrowers of different income levels and to businesses of different sizes shows reasonable penetration. To assess the bank’s performance, examiners selected a sample of twenty commercial and 1-4 family RRE loans, including loans reported in the bank’s Home Mortgage Data report, in the AA.

We found commercial lending reflected a reasonable penetration as management originated a majority of the loans in the Kansas AA to businesses with revenues below \$1 million. As noted in the following table, demographics indicate 72 percent of the businesses in the Kansas AA have gross annual revenues less than \$1 million.

Borrower Distribution of Loans to Businesses/Farms in Kansas AA				
Business Revenues	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	72.28%	2.88%	24.84%	100%
% of Bank Loans in AA by #	80.00%	10.00%	10.00%	100%
% of Bank Loans in AA by \$	36.01%	59.88%	4.10%	100%

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

FNB’s level of 1-4 family RRE lending to low- and moderate-income consumers has reasonable penetration. Based on our sample, 45 percent of the loans were made to borrowers of low- to moderate-income levels as compared to the combined demographics of 44 percent. The following table illustrates the bank’s distribution of RRE loans based on the income level of the borrower.

Borrower Distribution of Residential Real Estate Loans in Kansas 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
1-4 Family RRE	22.50%	10%	21.68%	35%	25.46%	15%	30.36%	40%

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

Geographic Distribution of Loans

FNB’s geographic distribution of credit reflects reasonable dispersion in the AA. The Kansas AA does not have any low-income census tracts.

The volume of commercial lending activity is comparable to the demographic data in moderate-income census tracts. This performance shows the bank’s commitment to meet credit needs of the AA, given the number of local competitors in the moderate-income census tracts. The following table reflects the geographic distribution of commercial loans in the sample as compared to demographic data.

Geographic Distribution of Loans to Businesses in Kansas AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% 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
Commercial	0%	0%	14%	15%	86%	85%	0%	0%

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

Geographic distribution among 1-4 family RRE loans in moderate-income tracts is below area demographic data and reflects poor penetration. This is not a concern considering the highly competitive environment of the AA and the branch locations. While the bank has three branches in Kansas, only one is located in a moderate-income census tract. With the median family-income level being at \$52,100 for the year 2009, a low-income borrower with income of \$26,050 or less, could make it difficult to qualify for home loans. Only 57 percent of the housing type is owner occupied. The median housing value for the AA is \$45,034. In addition, approximately 13 percent of the families in the AA live below the poverty level. The following table illustrates the bank’s distribution of residential real estate loans based on the income level of the borrower.

Geographic Distribution of Residential Real Estate Loans in Kansas AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
1-4 Family RRE	0%	0%	14.76%	10%	85.24%	90%	0%	0%

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

STATE RATING
State of Colorado

CRA Rating for Colorado is Needs to improve.

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

FNB’s lending to businesses of different sizes reflects excellent penetration, but poor penetration to borrowers of different income levels. To assess the bank’s performance, examiners selected a sample of twenty commercial and 1-4 family RRE loans, including loans reported in the bank’s Home Mortgage Data report, in the AA.

We found commercial lending to be strong as management originated all of the loans in our sample for the Colorado AA to businesses with revenues below \$1 million. As noted in the following table, demographics indicate nearly 79 percent of the businesses in the Colorado AA have gross annual revenues less than \$1 million.

Borrower Distribution of Loans to Businesses/Farms in Colorado AA				
Business Revenues	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	78.65%	3.17%	18.17%	100%
% of Bank Loans in AA by #	100%	0%	0%	100%
% of Bank Loans in AA by \$	100%	0%	0%	100%

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

FNB’s level of 1-4 family RRE lending in the bank’s Colorado AA is lower than demographics and reflects poor penetration. The median housing value for the AA is \$94,716. With the median family-income level being at \$51,300 for the year 2009, a low-income borrower with income of \$25,650 or less, could find it difficult to qualify for a home loan. In addition, approximately 14.5 percent of the households in the AA live below the poverty level. The following table illustrates the bank’s distribution of RRE loans based on the income level of the borrower.

Borrower Distribution of Residential Real Estate Loans in Colorado 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
1-4 Family RRE	20%	20%	18%	4%	22%	37%	40%	39%

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

Geographic Distribution of Loans

FNB’s geographic distribution of credit reflects poor dispersion in the AA. The Colorado AA does not have any low-income census tracts. A review of demographic data indicates the majority of businesses and residential real estate properties are located in middle- or upper-income tracts.

The volume of commercial lending activity for the Colorado AA in moderate-income areas does not meet the standard and is below demographics. The loan sample showed poor dispersion of commercial loans given the amount of businesses in the moderate-income census tracts. This may reflect the impact of location as the bank has only one branch in an upper-income census tract. The following table reflects the geographic distribution of commercial loans in the sample as compared to demographic data.

Geographic Distribution of Loans to Businesses in Colorado AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% 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
Commercial	0%	0%	31%	10%	38%	50%	31%	40%

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

Geographic distribution among 1-4 family RRE loans in moderate-income tracts also shows poor dispersion. In part, this reflects the highly competitive environment of the AA and the branch location. The one branch is located in an upper-income census tract. With the median family-income level being at \$51,300 for the year 2009, a low-income borrower with income of \$25,650 or less, could make it difficult to qualify for home loans. While 61 percent of the housing type is owner occupied, the median housing value for the AA is \$94,716. In addition, approximately 14.5 percent of the households in the AA live below the poverty level. The following table illustrates the bank's distribution of residential real estate loans based on the income level of the borrower.

Geographic Distribution of Residential Real Estate Loans in Colorado AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
1-4 Family RRE	0%	0%	24.22	15%	46.83%	45%	28.95%	40%