



**SMALL BANK**

---

Comptroller of the Currency  
Administrator of National Banks

---

Washington, DC 20219

## **PUBLIC DISCLOSURE**

**October 21, 2008**

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

The First National Bank of Liberal  
Charter Number 6720

1700 North Lincoln Avenue  
Liberal, KS 67901-0000

Office of the Comptroller of the Currency

WICHITA  
3450 North Rock Road Suite 505  
Wichita, KS 67226-1355

**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 Liberal's average quarterly loan-to-deposit ratio is reasonable. The bank's average quarterly loan-to-deposit ratio is 51% compared to 59% for competitor banks in the assessment area.
- The First National Bank of Liberal's lending in the assessment area is good, as it extended a majority of its primary loan products to borrowers located in the assessment area. Specifically, we found that The First National Bank of Liberal made 83% of the number and 89% of the dollar amount of loans to borrowers located in the assessment area.
- The First National Bank of Liberal's lending to borrowers of different incomes and businesses of different sizes is good. The volume of lending to farms of different sizes is good. The bank's level of consumer lending to borrowers of different incomes is reasonable.
- The First National Bank of Liberal's lending level in the moderate income tract is reasonable. The geographic distribution of agriculture loans is reasonable, considering that the only moderate-income tract is located in the city of Liberal, Kansas. The geographic distribution of consumer loans is reasonable.

**SCOPE OF EXAMINATION**

We performed a full-scope evaluation of The First National Bank of Liberal's (FNBL) assessment area using Small Bank Community Reinvestment Act (CRA) procedures.

**DESCRIPTION OF INSTITUTION**

FNBL is a \$203 million financial institution located in Liberal, Kansas. Liberal is a city within Seward County, Kansas. FNBL has a main office, three branches, and eight ATMs in Liberal. Two of the ATMs in Liberal take deposits, the rest are only cash-dispensing. One branch and one ATM with deposit taking services are located in the moderate-income tract. The bank has one branch location and two ATMs in Hugoton, Kansas. The bank is 100% owned by a three-bank holding company, Kansas Bank Corporation of Johnson, Kansas. The other two banks are First National Bank of Elkhart and First National Bank of Syracuse. As of September 30, 2008, the holding company had total assets of \$480 million.

FNBL is a full service financial institution offering a variety of loans. Net loans represent 50% of total assets. As of June 30, 2008, FNBL's \$103 million loan portfolio had the following composition: 39% real estate, 26% commercial, 17% individual and other, and 18% agriculture. FNBL has not made any significant changes to its loan products since the previous CRA examination. Examiners determined the primary loan products by

considering the number and dollar volume of originations during the previous two calendar years and year-to-date 2008, and discussing the bank's lending focus with the bank president. We found that small farm loans and consumer vehicle loans are the bank's primary loan products.

FNBL's financial condition, size, and local economic conditions allow it to help meet the credit needs of its assessment area. We assigned a "Satisfactory" rating at the October 27, 2003 CRA examination.

## **DESCRIPTION OF ASSESSMENT AREA(S)**

FNBL has designated fifteen census tracts (CT) as its assessment area (AA). The CT's comprise all of Seward, Stevens, Meade, and Stanton counties in Kansas, and Texas County, Oklahoma. The bank has no branch locations or ATMs in Texas County, Oklahoma, but the county is adjacent to Seward and Stevens counties and Liberal, KS is less than five miles from the Oklahoma border. The bank's AA contains three upper-, eleven middle-, and one moderate-income census tracts. The AA complies with the regulation and does not arbitrarily exclude any low- or moderate-income areas.

The 2000 U.S. Census population of the AA was 55,117. The Kansas state-wide and Oklahoma state-wide non-MSA median incomes for 2008 are \$50,100 and \$44,000 respectively. Of the 19,136 households in the AA, 23% receive social security, 13% have income below the poverty level, and 2% receive public assistance. Twenty-five percent (25%) of the population is not in the work force and 11% is over the age of 65. Sixty-one percent (61%) of housing units are owner-occupied.

The local economy is stable. There are a number of large employers in the area including a large trailer manufacturing firm, ethanol plant, and beef packing plant. In addition, both agriculture and oil and gas continue to provide jobs, and benefit the local economy. As of September 2008, the Kansas and Oklahoma unemployment rates were 4.8% and 3.8% respectively. This is well below the national average of 6.1%.

The level of competition in the bank's AA is driven by a number of other banks and financial institutions with offices in the AA. With 16% of the area's deposits, the bank ranks first in deposit market share.

Examiners contacted one community professional. The contact indicated that FNBL is actively involved in the community. The contact identified small business, agriculture, and consumer loans as the area's primary credit needs, and indicated that area banks are meeting those needs.

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

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

FNBL's level of lending is reasonable. The bank's average quarterly loan-to-deposit (LTD) ratio since the last CRA exam is 51%. The average quarterly LTD ratio for seven

similarly situated banks in the AA is 59%. The average quarterly LTD ratio for the competitor banks range from 46% to 70%.

FNBL’s quarterly average LTD ratio is within a reasonable range of similarly situated banks in the AA. The bank’s average quarterly LTD trend has been increasing since the current management team has been in place. Since September 30, 2003, the LTD ratio has increased from 44% to the current ratio of 61% as of June 30, 2008.

**Lending in Assessment Area**

FNBL’s lending in the AA is good as it extended a majority of its primary loan products to borrowers located in the AA. Specifically, we found that FNBL made 83% of the number and 89% of the dollar amount of loans in the AA. The sample included 40 loans originated, purchased, or committed during 2006, 2007, and year-to-date 2008. The loan sample included 20 loans of each of the two primary products.

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

Lending levels to borrowers of different incomes and businesses of different sizes are good. To assess the bank’s performance, examiners selected a sample of 20 small farm loans and 20 consumer vehicle loans.

FNBL’s volume of lending to farms of different sizes is good. The loan sample shows 95% of the number and 91% of the dollar amount of loans were granted to farms with annual revenues of less than one million dollars. The remaining loans in the sample did not have revenue information. The bank’s performance is in line with area demographics with 94% of farms in the AA having less than one million dollars in annual revenue.

<b>Borrower Distribution of Loans to Farms in FNBL’s Assessment Area</b>				
Farm Revenues	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Farms	94%	4%	2%	100%
% of Bank Loans in AA by #	95%	0%	5%	100%
% of Bank Loans in AA by \$	91%	0%	9%	100%

*Source: Loan sample; 2008 Business Geodemographic Data.*

The bank’s level of consumer lending to borrowers of different incomes is reasonable. We selected a sample of 20 consumer vehicle loans because this loan type has been a primary focus of the bank’s consumer lending during our assessment period. Lending to low-income borrowers is in-line with area demographics. The AA demographics show that 19% of households are low-income and 15% of the loans in the sample were to low-income borrowers. Lending to moderate-income borrowers is also in-line with

area demographics. The AA demographics show that 17% of households are moderate-income and 20% of the loans in the sample were to moderate-income borrowers.

<b>Borrower Distribution of Consumer Loans in FNBL's Assessment Area</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	19%	15%	17%	20%	19%	35%	45%	30%

Source: Loan Sample; 2000 U.S. Census.

### Geographic Distribution of Loans

An analysis of the geographic distribution of credit within the bank's AA indicates the bank has reasonable penetration to borrowers and businesses in the moderate-income tract. The bank's AA does not contain any low-income tracts.

The geographic distribution of agriculture loans in the bank's AA is reasonable. Since the one moderate-income tract is located within the city limits of Liberal, KS, it is reasonable that that no agriculture loans in our sample were located in the moderate-income census tract. Only 1% of farms are located in the moderate-income tract limiting the bank's opportunity to make agricultural loans in this area.

<b>Geographic Distribution of Loans to Farms in FNBL's Assessment Area</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% 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
Small farm	0%	0%	1%	0%	85%	100%	14%	0%

Source: Loan Sample; 2008 Business Geodemographic Data.

The geographic distribution of consumer vehicle loans is reasonable. There are no low-income census tracts. The bank extended 5% of its loans to borrowers in the moderate-income tract. This is in-line with area demographics showing that 7% of households are located in the moderate-income tract.

<b>Geographic Distribution of Consumer Vehicle Loans in FNBL's Assessment Area</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Vehicle Loans	0%	0%	7%	5%	66%	60%	27%	35%

Source: Loan Sample; 2000 U.S. Census.

### **Responses to Complaints**

The First National Bank of Liberal 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 meet community credit needs.