



PUBLIC DISCLOSURE

August 29, 2013

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The First National Bank of Spearville
Charter Number 10161

401 North Main
Spearville, KS 67876

Office of the Comptroller of the Currency

2959 N. Rock Road, Suite 510
Wichita, KS 67226

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.

This institution is rated SATISFACTORY

- First National Bank of Spearville’s (First National) average loan-to-deposit ratio (LTD) of 73% reflects reasonable responsiveness to the credit needs of the assessment area (AA).
- A substantial majority of the bank’s primary loan products were granted inside the AA. The sample indicated that 95% of the number and 98% of the dollar volume of loans were granted within the AA.
- First National achieved reasonable penetration in lending to small farms. Ninety percent (90%) of the number of sampled agricultural loans were to farms with gross revenues less than or equal to one million dollars.
- First National’s geographic distribution of loans reflects poor dispersion through the moderate-income census tract in the assessment area. While the loan sample did not reflect any loans were granted to farms located in the one moderate-income tract; only 24 farms, the equivalent to 5% of all farms in the assessment area, are located in this tract. Due to the bank’s location, lending opportunities are limited in this area.

SCOPE OF EXAMINATION

The examination included a full-scope review of First National’s AA. The bank’s primary loan product is agricultural loans. The evaluation of this lending product included a review of 20 agricultural loans originated in First National’s assessment area during 2010 and 2011. The bank’s business strategy has not changed; therefore, the loans granted during these years are representative of all loans granted since the March 12, 2007, Community Reinvestment Act examination (CRA).

DESCRIPTION OF INSTITUTION

First National Bank of Spearville is a \$29 million bank located in Spearville, Kansas. First National has one bank location. The bank has a cash dispensing only automated teller machine located inside Kelly’s Corner Grocery in Spearville. The bank is a wholly owned subsidiary of the holding company, Spearville Bancshares, Inc. The holding company had total assets of \$4.8 million as of December 31, 2012. First National offers a full range of commercial, real estate, and consumer credit products with an emphasis on agricultural loans. On June 30, 2013, net loans represented 57% of the bank’s total assets. The \$17 million loan portfolio had the following composition: agricultural 79%; commercial 16%; and consumer loans 5%.

There are no legal, financial, or other factors impeding the bank’s ability to help meet the needs of its AA. We assigned a “Satisfactory” rating at the March 12, 2007, Community Reinvestment Act examination.

DESCRIPTION OF ASSESSMENT AREA

First National's AA is comprised of Ford County, Hodgeman County, and Edwards County, all located in southwestern Kansas. The AA contains nine census tracts: two upper income; six middle-income; and one moderate-income tract. The AA does not contain any low-income census tracts. The AA complies with the regulation and does not arbitrarily exclude any low- or moderate-income areas. Ford County is designated as distressed due to population loss in census tracts #9617, #9618 and #9620. Hodgeman County is designated an underserved middle-income non-metropolitan geography given its remote rural location; and, Edwards County is designated as distressed due to population loss and underserved middle-income geography given its remote rural location.

The 2000 U.S. Census reflects a population of 37,992. The Weighted Average of HUD Updated MSA Median Family Income for 2011 is \$53,700. The AA has the following distribution for families: 18% low-income; 20% moderate-income; 25% middle-income; and 37% upper-income. Of the 13,113 households in the AA, 25% receive social security, 11% are below the poverty level, and 3% receive public assistance. Twelve percent (12%) of the population is over the age of 65, and 33% of the population consists of civilians not in the workforce. The median housing value is \$62,331 and 61% of the housing units are owner-occupied.

The economic condition of the AA is stable. The bank's trade area is dominated by agriculture, primarily cattle feeding and wheat production. Major employers in the area include local cattle feed yards and beef packing plants, and the Unified School District 381. The Bureau of Labor Statistics reflects July 31, 2013 unemployment rates (unadjusted) for Ford County, Edwards County, and Hodgeman County are 4.2%, 4.0%, and 4.8% respectively. The unadjusted rate in Kansas for the same period is 5.9%.

First National faces strong competition in the AA. Based on the Federal Deposit Insurance Corporation's most recent deposit market share report dated June 30, 2012, twelve other financial institutions maintain offices in the AA. The asset sizes for these institutions range from \$992 million to \$30 million. First National ranks 11th in deposit market share with 4% of the deposits in the AA.

Examiners contacted one community professional in the AA. The contact indicated that the primary credit needs of the communities located in the AA are agricultural and various types of consumer loans. The contact stated that the credit needs of the communities are being met by local financial institutions and these institutions are very involved in the communities.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

First National's average quarterly LTD ratio of 73% is reasonable. The LTD ratio ranged between 55% and 81% for the period under review. The average quarterly LTD ratio over the same period for the four similarly situated banks in the AA is 60%. The average LTD ratios for the peer banks for the same period range from 43% to 70%.

Lending in Assessment Area

First National's lending to agricultural borrowers within the AA is outstanding. The bank extended a substantial majority of its primary loan product to borrowers in the AA. Specifically, the bank granted 95% of the number and 98% of the dollar amount of loans in the AA.

Lending to Farms of Different Sizes

As reflected in the table below, First National's lending performance to farms of different sizes is reasonable when compared to AA demographics. The loan sample reflected 90% of the number of loans were granted to farms with gross revenues less than or equal to one million dollars. This is slightly lower than the demographic data showing 96% of farms in the AA have revenues less than or equal to \$1 million.

Borrower Distribution of Loans to Farms in Ford/Hodgeman/Edwards AA				
Farm Revenues (or Sales)	<= \$1,000,000	> \$1,000,000	Unavailable	Total
% of AA Farms	96%	2%	2%	100%
% of Bank Loans in AA by #	90%	10%	0%	100%
% of Bank Loans in AA by \$	53%	47%	0%	100%

Source: Loan Sample and 2011 Business Demographic Summary

Geographic Distribution of Loans

Geographic distribution of loans reflects poor dispersion in the AA's one moderate-income tract. The AA does not contain any low-income tracts. The bank's distant geographical proximity to the moderate-income tract is a mitigating factor; thus, the poor performance did not negatively impact the overall CRA rating.

The sample indicates the bank did not grant any loans to farms in the moderate-income tract. The one moderate-income tract, #9621, is located 17 miles southwest of Spearville in Dodge City, Kansas. Only 24 farms, the equivalent of 5% of all farms in the AA, are located in the moderate-income tract. Competition from financial institutions with better geographical proximity to census tract #9621 limits First National's agriculture lending opportunities in this moderate-income census tract. First National's

borrowers in the Dodge City area are located primarily to the north of the city, which is closer to First National. The bank makes loans in the census tract when possible.

Responses to Complaints

First National has not received any CRA-related complaints since the last CRA examination.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. 25.28(c), or 12 C.F.R. 195.28(c), in determining a national bank's (bank) or Federal savings association's (FSA) CRA rating, respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or FSA, or in any AA by an affiliate whose loans have been considered as part of the bank's or FSA's lending performance.

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.