



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks  
Washington, DC 20219

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## **PUBLIC DISCLOSURE**

**March 31, 2008**

# **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**The First National Bank of Centralia  
Charter Number 3824**

**620 Fourth Street  
Centralia, Kansas 66415**

**Office of the Comptroller of the Currency  
Kansas City North  
7101 College Boulevard, Suite 1600  
Overland Park, Kansas 66210-2077**

**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 **The First National Bank of Centralia (FNB)** prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **March 31, 2008**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.

## INSTITUTION'S CRA RATING

**This institution is rated "Outstanding".**

The major factors supporting this rating include:

- FNB's record of lending to businesses of different sizes and to borrowers of different income levels is excellent.
- FNB's level of community development activities is good.
- FNB's record of lending within its AAs is excellent.
- The bank's quarterly average loan-to-deposit ratio is considered more than reasonable given the bank's size, lending capacity, area credit needs, and competition within the AA.

## Scope of Examination

The evaluation period for lending and community development activity for this CRA examination is November 27, 2001 through March 31, 2008. For the lending sample we selected loans originated year-to-date 2008 and during the previous two calendar years of 2007 and 2006. Primary credit products by dollar and number consist of agricultural related loans (32 percent and 43 percent, respectively) followed by commercial loans (29 percent and 19 percent, respectively). We reviewed a sample of 65 loans originated during the evaluation period, 42 commercial/agricultural related and 23 residential real estate loans.

## **Description of Institution**

The First National Bank of Centralia (FNB) is an \$83 million financial institution with its headquarters in Centralia, Kansas. FNB also has two full-service branches one in Seneca and one in Corning, Kansas. The Corning branch was acquired in 2006. First Centralia Bancshares, Inc., of Centralia, a multi-bank holding company owns 100 percent of the bank stock of this bank and that of Vermillion State Bank located in Vermillion, Kansas with total assets of \$16 million.

FNB offers a broad range of loan and deposit products. Its lending focus is agricultural and commercial products. This is consistent with the strategic goals of the bank. As of December 31, 2007, total loans of \$46 million represented 56 percent of total assets. Tier 1 capital is \$8 million. The loan portfolio is composition is as follows: agricultural related (43 percent), commercial (29 percent), 1-4 family residential (23 percent), and consumer (5 percent).

There are no financial, legal, or other factors that impede the bank's ability to help meet the credit needs of its AA. The last CRA evaluation, dated November 26, 2001, rated the bank's performance as "Outstanding".

## **Description of Assessment Area**

FNB's AA comprises all of Nemaha County, Kansas, which contains census tracts 9801, 9802, and 9803, and the adjacent census tract of 9794 in the southeast corner of Marshall County, Kansas. The AA meets the requirements of the regulation, and does not arbitrarily exclude any low- or moderate- income geographies. The AA is not in a metropolitan statistical area. All of the census tracts in the AA are designated as middle income. The 2007 updated HUD statewide nonmetropolitan area median family income is \$49,800. Low-, moderate-, middle-, and upper-income families represent 17 percent, 21 percent, 29 percent, and 33 percent, respectively, of the AA population. Several financial institutions have offices in the AA making competition strong.

As of December 31, 2007 the Bureau of Labor Statistics showed the annual average 2007 unemployment rate for Nemaha County at 3.01 percent and for Marshall County 3.2 percent. The local rate is lower than that for the state and nationally. As of March 31, 2008 the rate for the state of Kansas was 4.1 percent compared to the national rate of 5.1 percent.

One community contact was made with a business owner in the AA. The contact stated that small agricultural and commercial lending represent the greatest credit need in the area but there is also a need for additional housing stock. Demographic data indicates that 74 percent of the dwellings are already owner-occupied. The surrounding area is predominantly agriculture dependent. The economy closely correlates to the prosperity of farmers.

## CONCLUSIONS ABOUT PERFORMANCE CRITERIA

FNB's record of lending to businesses of different sizes and to borrowers of different income levels is excellent. Management responded favorably to the credit needs of its AA. The bank's performance exceeds area demographic data. Based on a review of the bank's loan portfolio and the results of the sample selected, the tables below illustrate the revenue and income distribution for businesses and individuals.

<b>Borrower Distribution of Loans to Businesses in AA</b>				
Business Revenues/Sales	< 1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses by #	<b>59.90%</b>	3.05%	37.05%	100.00%
% of Bank Loans in AA by #	<b>64.29%</b>	14.29%	22.43%	100.00%

Demographic Data Source: 2007 Business Geo-demographic data; bank and examiner generated reports

Approximately 64 percent of the businesses in the commercial/agricultural sample have annual revenues of less than \$1 million dollars compared to area demographic data of 60 percent. In addition, a further review of the bank's loan distribution shows that 53 percent have revenues below \$500 thousand.

<b>Borrower Distribution of Residential RE Loans in AA</b>								
Borrower Income Level	Low-Income		Moderate-Income		Middle-Income		Upper-Income	
	% of AA Families	% of Bank Loans by Number	% of AA Families	% of Bank Loans by Number	% of AA Families	% of Bank Loans by Number s	% of AA Families	% of Bank Loans by Number s
Residential Real Estate Loans	16.75%	5.00	<b>21.16%</b>	<b>30.00%</b>	29.06%	25.00%	33.03%	35.00%

Demographic Data Source: 2000 US Census; bank and examiner generated reports. Note: Loans not shown by type of residential loans. The bank is not required to report Home Mortgage Disclosure data due to the location of its offices.

For residential real estate loans, the bank's performance for lending to borrowers at the moderate-income level exceeds area demographic data. Approximately 30 percent of the borrowers in the sample had income at the moderate level compared to demographic data of 21 percent. For borrowers at the low-income level, the bank's performance is below area demographic data but is not a concern. With the updated HUD median family-income being at \$49,800 for the year 2007, a low-income borrower would have income of \$24,900 or less making it difficult to qualify for a home loan. In addition the bank is an active participant in the Federal Home Loan Bank Rural First-Time Homebuyer Grant Program that help qualified applicants purchase or rehab/repair an eligible home. Review the Community Development Activities section of the PE for additional details about the program.

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

The bank's quarterly average loan-to-deposit ratio of 75 percent is excellent and is considered more than reasonable given the bank's size, lending capacity, area credit needs, and competition within the AA. The loan-to-deposit ratio is a quarterly average based on financial information from December 1, 2001 to December 31, 2007. For informational purposes, we reviewed the loan-to-deposit ratio of six other financial institutions similar product offerings with locations in the AA. The quarterly average loan to deposit ratio for these institutions was 67 percent with total assets ranging from \$10 million to \$184 million.

## **Lending in Assessment Area**

FNB's record of lending within its AAs is excellent. Both by number and dollar, a substantial majority of the bank's loans are extended to businesses, farm owners and individuals in the AA. The bank originated 84 percent of its loans by dollar and 74 percent by number in the AA.

## **Geographic Distribution of Loans**

A geographic analysis of loans distribution by geography is not meaningful since entire AA is categorized as middle-income. There are no low-or moderate-income census tracts in the AA.

## **Responses to Complaints**

FNB has not received any complaints about its performance in helping to meet needs in the AA during this 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 credit needs.

## **COMMUNITY DEVELOPMENT ACTIVITIES**

The bank's performance under the community development test shows an excellent level of responsiveness to community development needs in the AA. The bank's community development activities primarily help to address affordable housing needs in targeted markets.

FNB is an active participant in programs to help provide affordable housing area residents. During the evaluation period, FNB originated 46 loans totaling \$1.3 million as one of the financial institutions providing funding to participants in the Federal Home Loan Bank Rural First- Time Homebuyer Grant Program (RFHP). The program provides up to \$4 thousand in RFHP grant money to assistance an eligible borrower with obtaining a down payment, closing costs or rehabilitation / repair assistance. To be eligible for the home purchase program the borrower must be a first-time home buyer earning 80 percent or less of the area median income purchasing a home in the rural areas of Kansas, Colorado, Nebraska or Oklahoma. To participate in the rehab/repair assistance program the borrower must be a low-income homeowner within one of the rural federally disaster areas. These community development activities benefit geographies and/or individuals located within the bank's AA, as well as within a broader statewide or regional area. The programs cover the rural areas of Kansas, Colorado, Nebraska, and Oklahoma.