



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

December 29, 2008

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The Stockton National Bank
Charter Number 7815

123 North Cedar
Stockton, KS 67669

Office of the Comptroller of the Currency

Kansas City North Field Office
1701 College Blvd, Suite 1600
Overland Park, KS 66210

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

Lending performance of The Stockton National Bank (SNB) helps meet the credit needs of its assessment area. We reached this conclusion based on the following:

- SNB originated a majority of loans inside its assessment area.
- SNB's loan-to-deposit ratio is more than reasonable compared to other banks in the trade area.
- Lending activities represent a reasonable penetration among businesses and farms of different sizes.
- The bank received no consumer complaints concerning its performance in meeting the community's credit needs.

SCOPE OF EXAMINATION

Examiners evaluated SNB using small bank examination procedures, which focuses primarily on lending performance. Our objectives were to assess the bank's ability and record to serve and meet the community's credit needs within their assessment area (AA). We based our analyses and conclusions on data the bank provided, which we verified during our review. We identified the bank's primary products as farm loans and commercial loans by the dollar amount of loans in the portfolio. The lending test covers loan performance from January 1, 2006 through December 12, 2008, as this is representative of SNB's lending strategy since the last CRA examination. We selected a random sample of 24 farm and 33 commercial loans made from January 1, 2006 through December 12, 2008.

DESCRIPTION OF INSTITUTION

SNB is an intrastate bank located in Stockton, KS. As of September 30, 2008, SNB had total assets of \$77 million and tier one capital of \$7.8 million. SNB is owned by Stockton Bancshares, Inc., of Stockton Kansas. The bank operates their office and one automated teller machine (ATM) in Stockton, Kansas. The bank owns no other branches or deposit taking ATMs. Affiliate banks include Farmers & Merchants Bank, Hill City, Kansas and Trego-Wakeeney State Bank, Wakeeney, Kansas. The bank is located in a middle-income nonmetropolitan geography. There has not been any significant change to SNB's corporate structure, including merger or acquisition activities.

The bank offers a full range of deposit and loan products and services. Agricultural and commercial lending are the bank's primary business focus.

As of September 30, 2008, SNB reported net loans of \$62 million, which represents 81 percent of total assets. The loan portfolio composition is as follows:

Loan Portfolio Summary by Loan Product September 30, 2008	
Loan Category	% of Outstanding Dollars
Business Loans	47.90%
Farm Loans	43.67%
Home Loans	5.63%
Consumer Loans	2.80%

There are no legal or financial circumstances that impede the bank's ability to meet the credit needs of its AA. The bank received a Satisfactory rating at its last CRA examination dated December 31, 2002. The bank is not required to file Home Mortgage Disclosure information.

DESCRIPTION OF ASSESSMENT AREA

SNB has one AA, which is comprised of nine contiguous counties in central Kansas: Norton, Phillips, Smith, Graham, Rooks, Osborne, Trego, Ellis, and Russel. This AA meets the requirements of the regulation and does not arbitrarily exclude any low-or moderate-income areas.

Demographic Information for SNB's AA					
	#	% Low	% Moderate	% Middle	% Upper
Geographies (Census Tracts)	19	0%	0%	94.74%	5.26%
Population by Geography	67,769	0%	0%	89.21%	10.79%
Owner-Occupied Housing by Geography	20,261	0%	0%	89.77%	10.23%
Businesses by Geography	8,464	0%	0%	93.14%	6.86%
Farms by Geography	1,144	0%	0%	92.13%	7.87%
Family Distribution by Income Level	17,991	18.80%	21.49%	25.33%	34.38%
Household Distribution by Income Level	28,129	25.16%	18.33%	19.49%	37.03%
Census Median Family Income (MFI)		\$41,637	Median Housing Value		\$60,804
HUD-Adjusted MFI: 2008		\$50,100	Families Below the Poverty Level		7.46%
HUD- Adjusted MFI: 2007		\$47,900	Unemployment Rate		3.66%
HUD – Adjusted MFI: 2006		\$49,800			

Source: 2000 U.S. Census Data

Economic activity in the area is focused in agriculture. Management indicated that the population of Stockton is declining and there have been recent job losses in the surrounding areas. Competition in the town of Stockton is scarce, with only one competing bank. Competition in the nine county AA is average with several competing community banks.

In conducting our assessment of the bank's performance, we contacted a local community representative. The community contact indicated the community's biggest need is agricultural credit and that the financial institutions in the area are meeting the credit needs of the community.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

LENDING TEST

SNB's lending test is rated satisfactory. The bank's loan-to-deposit ratio is more than reasonable, and it has a majority of loans inside the assessment area. Lending activities represent a reasonable penetration among businesses and farms of different sizes. There are no low- or moderate-income geographies in SNB's AA. Therefore, an analysis of the bank's geographic distribution was not

performed.

Loan-to-Deposit Ratio

SNB's LTD ratio is more than reasonable given the bank's size, financial condition, and AA credit needs. The bank's net LTD ratio averaged 109 percent over 24 quarters from December 31, 2002 to September 30, 2008, with a quarterly low of 93 percent and a quarterly high of 120 percent.

The bank's net LTD ratio compares favorably with other community banks of similar size, location, and product offerings. SNB ranks first among a total of five similarly situated banks serving its AA. The other four banks had an average net LTD ratio of 73 percent, with a range of 65 percent to 91 percent over the previous 24 quarters.

Lending in Assessment Area

A majority of the primary loan products originated by SNB are to consumers within its AA. The following table details the bank's lending within the AA by number and dollar amount of loans originated during the evaluation period. The bank made 70 percent of their primary loans inside the AA and only 30 percent outside of the AA. Although the total dollar amount of loans outside of the AA is 58 percent, the bank's performance of lending to customers within the AA is still reasonable. A low dollar volume of commercial loans inside the AA is a result of limited opportunities for high-dollar commercial loans within the AA. The bank has shown the ability to meet the credit needs of the community. Management also indicated that they have halted loan production in Colorado, where they had previously originated a significant volume of loans.

FNB's Lending in the AA										
Loan Type	Number of Loans					Dollars of Loans (000's)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Commercial	20	60.61%	13	39.39%	33	\$675	23.83%	\$2,159	76.17%	\$2,834
Agriculture	20	83.33%	4	16.67%	24	\$1,257	71.45%	\$502	28.55%	\$1,759
Totals	40	70.17%	17	29.83%	57	\$1,932	42.06%	\$2,661	57.94%	\$4,593

Source: Loan sample.

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

SNB has a good record of lending to borrowers of different income levels within its AA. The distribution of loans reflects a reasonable penetration among businesses and farms of different sizes given the bank's product offerings and local economic conditions.

Business Loans

The distribution of loans to businesses reflects reasonable penetration among businesses of different sizes. Thirty-five percent of the bank’s loans to businesses by number and 51 percent by dollar amount were made to small businesses. Small businesses are businesses with gross annual revenues of one million dollars or less. This is considered reasonable compared to demographic data that show 52 percent of the area’s businesses are considered small businesses. Because we lacked revenue data on 65 percent of the business loans made by the bank, we also looked at the distribution of loans by dollar amount. We found that 95 percent of the business loans in the AA were loans under \$200 thousand; and the average loan amount was \$34 thousand, which provides additional support for a reasonable distribution of loans to small businesses.

The following table shows the distribution of commercial loans among different sized businesses in the AA.

Borrower Distribution of Loans to Businesses Stockton NB’s AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	51.63%	3.19%	45.18	100%
% of Bank Loans in AA by #	35.00%	0%	65.00%	100%
% of Bank Loans in AA by \$	50.95%	0%	49.05%	100%

Farm Loans

The distribution of farm loans reflects reasonable penetration among farms of different sizes. Ninety percent of the farm loans sampled within the sampling period were made to small farms with gross annual revenues of one million dollars or less, and 10 percent of the loans were to farms with unknown revenues. This is considered reasonable compared to demographic data that show 98 percent of the area’s farms are considered small farms.

The following table shows the distribution of loans by farm size in the AA.

Borrower Distribution of Farm Loans in Stockton NB’s AA				
Farm Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Farms	98.25%	0.87%	0.87%	100%
% of Bank Loans in AA by #	90.00%	0%	10.00%	100%
% of Bank Loans in AA by \$	87.00%	0%	13.00%	100%

Geographic Distribution of Loans

An analysis of SNB's geographic distribution of credit is not meaningful. There are no low- or moderate-income geographies in the bank's AA.

Responses to Complaints

SNB did not receive any written complaints about its performance in helping to meet the credit needs in the AA during the evaluation period. No further follow up or response is necessary.

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.