



Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

August 23, 1996

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Farmers National Bank
Charter Number 11933

759 State Street
Phillipsburg, Kansas 67661

Office of the Comptroller of the Currency
Salina Duty Station
1516 E. Iron
Salina, Kansas 67401-3236

NOTE: 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 CRA performance of Farmers National Bank (FNB) prepared by the Office of the Comptroller of the Currency (OCC), the institution's supervisory agency, as of August 23, 1996. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 C.F.R. Part 25.

INSTITUTION'S CRA RATING: "Satisfactory record of meeting community credit needs"

FNB's lending patterns reflect satisfactory distribution among borrowers of different incomes and businesses of different sizes. Lending patterns also reflect appropriate distribution among moderate and middle income geographies. FNB makes the majority of its loans within its assessment area.

The following table indicates the performance levels of the Farmers National Bank with respect to the five performance criteria:

SMALL INSTITUTION ASSESSMENT CRITERIA	FARMERS NATIONAL BANK PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does not meet Standards for Satisfactory Performance
Loan-to-Deposit Ratio		X	
Lending in Assessment Area		X	
Lending to Borrowers of Different Incomes and to Businesses of Different Sizes		X	
Geographic Distribution of Loans		X	
Response to Complaints	No complaints were received since the prior examination.		

DESCRIPTION OF INSTITUTION

FNB is headquartered in Phillipsburg, Kansas and has three branches. Two branches are located in Phillips county (Agra and Logan) and one is located in Smith county (Kensington). FNB is not part of a holding company organization although it is affiliated with the Ludell State Bank, Ludell, Kansas. As of June 30, 1996, the bank had total assets of \$49 million, 55% of which were loans. As of that date, the loan portfolio consisted of 15% 1-4 Family; 15% Farmland; 7% Commercial Real Estate; 35% Agricultural; 14% Commercial & Industrial; 14% Consumer. The bank does not operate under any financial or legal impediment which would prevent it from helping to meet the credit needs of the assessment area. At the last CRA examination conducted October 7, 1993, FNB received a "Satisfactory record of meeting community credit needs".

DESCRIPTION OF ASSESSMENT AREA

FNB's assessment area consists of the counties of Phillips and Smith, Kansas which are not part of a metropolitan statistical area (MSA). The assessment area meets the requirements of the regulation and does not arbitrarily exclude low or moderate income geographies. The assessment area has the following number of geographies or block numbering areas (BNA) and income characteristics: Low Income-zero, Moderate Income-two, Middle Income-four, Upper Income-zero. Both the moderate income BNAs are located in Smith county. The assessment area has the following distribution of families by income level: Low Income-23%, Moderate Income-23%, Middle Income-25%, Upper Income-29%. According to the 1990 U.S. Census, the state-wide median family annual income is \$28,068.

The local economy is stable, although three large employers in the area have reduced operations, negatively impacting employment. The main industry of the area is agricultural production and related industries. The major products are cattle, hogs, wheat, milo, and alfalfa. The largest employers include Tamko Roofing, Kyle Rail Road, Brooke Corporation, and Peterson Industries. FNB competes with several financial institutions within the assessment area. These include four banks, one credit union, one savings and loan, and two brokerage firms.

Examiners determined the primary credit need of the assessment area was agriculture related credit. We based this on discussions with bank management and analysis of the financial information of banks within the assessment area. We also identified housing related loans as a major credit need. This is based on discussions with two organizations contacted during the examination and review of three community contacts performed in 1995 and one community contact performed in 1994. The 1990 Census information supports this as the median housing value is \$15,699 and the median year built is 1939.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA :

Loan-to-Deposit Ratio

FNB’s average loan-to-deposit ratio is reasonable. Since the last CRA examination, the bank’s loan-to-deposit ratio has increased from 48% on December 31, 1993 to 63% on June 30, 1996. Based on the loan-to-deposit ratios for the eleven quarters since the previous examination, the average ratio is 54%. This compares favorably with the four other competing banks within the assessment area. Their average loan-to-deposit ratios are: 69%, 50%, 43%, and 36%.

Lending in Assessment Area

FNB originates the majority of its loans within the assessment area. Examiners reviewed the entire loan portfolio as of July 24, 1996 utilizing borrower zip code information. We identified which zip codes corresponded with the assessment area. Based on the number of loans, 78.51% were within the assessment area. Based on the dollar volume of loans, 68.46% were within the assessment area.

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

FNB has reasonable lending penetration among borrowers of different income levels and among businesses of different sizes. The following table illustrates the results of our sample of 33 consumer loans originated in 1996. The lending pattern closely matches the distribution of families by income level.

Consumer Loans				
Income Level	Low	Moderate	Middle	Upper
Number	7	6	11	9
Percentage	21.21%	18.18%	33.33%	27.27%

The following table illustrates the results of our sample of 25 commercial and agriculture loans primarily originated in 1996.

Commercial and Agriculture Loans				
Revenue in 000s	Less than \$100.	\$100 to \$250	\$250 to \$500	\$500 and above
Number	10	9	3	3
Percentage	40%	36%	12%	12%

Geographic Distribution of Loans

FNB's lending pattern reflects reasonable dispersion to all geographies in the assessment area.

Examiners reviewed the entire loan portfolio as of July 24, 1996 utilizing borrower zip code information. We identified which zip codes corresponded with the moderate and middle income areas within the assessment area. The following table illustrates the loan dispersion by the income level of the BNA.

Income of BNA	Low	Moderate	Middle	Upper
# of Loans	0	361	1252	0
% by number.	0	22%	78%	0
\$ of Loans	0	\$4,547,403	\$14,907,700	0
% by dollar.	0	23%	77%	0

The above distribution is reasonable given that only one of the bank's four facilities is located in a moderate income BNA. In addition, 24.67% of the total population reside in the moderate income areas while 75.33% reside in the middle income areas. The analysis reflected lending in all BNAs within the assessment area.

Compliance with Antidiscrimination Laws and Regulations

We found the bank in compliance with both substantive and technical provisions of anti-discrimination laws and regulations.