



SMALL BANK

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

PUBLIC DISCLOSURE

October 16, 2006

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The First National Bank of Howard
Charter Number 3242**

**101 S. Wabash
Howard, KS 67349**

**Comptroller of the Currency
Wichita Field Office
3450 North Rock Road Suite 505
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.

INSTITUTION'S CRA RATING: This institution is rated satisfactory.

- The First National Bank of Howard's average quarterly loan-to-deposit ratio is adequate. The average quarterly loan-to-deposit ratio since the last CRA examination is 64%, compared to 84% for the two other similarly situated banks with locations in the assessment area (AA).
- A majority of The First National Bank of Howard's primary loan products have been granted in the AA. The loan sample indicates 65% of the loans by number and 64% by dollar volume were granted within the AA.
- The First National Bank of Howard demonstrated good lending to borrowers of different incomes and businesses of different sizes. The commercial loan sample indicated 55% of the loans by number were granted to businesses with annual revenues less than one million dollars. The bank does not consistently collect sales or gross revenue information on agricultural loans so we utilized loan size as a proxy. The agricultural loan sample indicated 50% of the number of loans granted in the AA were for less than \$25M.

DESCRIPTION OF INSTITUTION

The First National Bank of Howard (FNB) is a \$7 million bank, headquartered in Howard, Kansas. The bank is 100% owned by First Howard Bancshares Inc., a one-bank holding company. The bank does not have any branches or Automated Teller Machines (ATMs).

FNB is a full-service bank offering a variety of loans. Net loans represent 52% of the bank's total assets. As of June 30, 2006, the bank's \$3.6 million loan portfolio had the following composition: 52% agricultural, 42% real estate, 4% commercial, and 2% individual loans.

The bank's primary lending products, by number and dollar amount, granted since the last CRA examination were agricultural loans and commercial loans.

The bank's financial condition, size, local economic conditions, and other factors allow it to meet the credit needs of its AA. We assigned a "Satisfactory" rating at the May 10, 2002 CRA examination.

DESCRIPTION OF ASSESSMENT AREA

The bank's AA includes all of Elk County Kansas. The 2000 U.S. Census population of the AA was 3,261. The bank's AA is not in a Metropolitan Statistical Area (MSA). The AA complies with the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income areas. The AA is comprised of one middle income census tract (9951).

The 2005 Housing and Urban Development (HUD) median family income of the AA was \$49,800. The AA has the following income distribution for families: 26% low-income, 24% moderate-income, 23% middle-income, and 27% upper-income. Of the 1,418 households in the AA, 46% receive social security, 15% are below the poverty level, and 3% receive public assistance. Twenty-five percent of the population is over the age of sixty-five, and 38% of the population consists of civilians not in the workforce. The median housing value is \$31,000, and 61% of the housing units are owner-occupied. The assessment area is dependent on agriculture, primarily cattle. Major employers include West Elk School District and Howard Twilight Manor Nursing Facility. The October 2006 unemployment rate for Kansas was 4.1%, and 5.3% for Elk County.

Examiners contacted one community professional in the AA. The contact indicated that the primary credit need of the community is agriculture, and that this need is adequately being met by the local financial institutions. The contact also noted that FNB is extremely involved in the communities in which it serves.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

FNB's lending level is adequate. The average quarterly loan-to-deposit ratio since the last CRA examination was 64%, as compared to 84% for the two other similarly situated banks with locations in the AA. The bank's loan-to-deposit ratio lags that of the other two banks partially due to low local loan demand. Another contributing factor is that the other banks each have locations outside the AA.

Lending in Assessment Area

FNB's lending in its AA is reasonable, as it has extended a majority of its primary loans to borrowers in the AA. Specifically, we found the bank made 65% of the number and 64% of the dollar amount of loans in the AA. The sample included forty loans originated, purchased, or committed this year or in the prior two years. The loan sample included twenty loans of each of the two primary products in the bank's AA.

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

FNB's lending to borrowers of different incomes and to businesses of different sizes is good. To assess the bank's performance, examiners selected a sample of sixteen agricultural loans, and twenty commercial loans from the bank's AA. These loan products represent the primary loan types originated since the last CRA examination.

The bank's lending to borrowers of different incomes is good. The bank does not consistently collect sales or gross revenue information on agricultural loans so we utilized loan size as a proxy. The agricultural loan sample included 50% of the number and 7% of the dollar amount of loans granted in the AA that were less than \$25M. This is consistent with the bank's portfolio of many small loans with a few large loans. The loan sample also included three loans (15%) over \$100M equating to 48% of the total dollar volume.

Borrower Distribution of Loans to Farms by Loan Size				
Loan Size (000's)	Number of Loans	Percent of Number	Dollar Volume of Loans	Percent of Dollar Volume
\$0 - \$24,999	10	50%	\$64,448	7%
\$25,000 - \$49,999	4	20%	\$140,854	16%
\$50,000 - \$74,999	0	0%	0	0%
\$75,000 - \$99,999	3	15%	\$256,000	29%
Over \$100,000	3	15%	\$426,692	48%

Source: Loan sample.

The volume of lending to business of different sizes in the AA is good. The AA demographics indicate 34% of the businesses have gross annual revenues less than one million dollars. The commercial loan sample had 55% of the number and 11% of the dollar amount of loans granted in the AA to businesses with revenues less than one million dollars. The bank had 45% by number and 89% by dollar amount of loans with unknown or unavailable revenues. The AA demographics indicated that 64% of businesses had unknown or unavailable revenues.

Borrower Distribution of Loans to Businesses in AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	34%	2%	64%	100%
% of Bank Loans in AA by #	55%	0%	45%	100%
% of Bank Loans in AA by \$	11%	0%	89%	100%

Source: Loan sample and 2006 Business Geodemographic Data

Geographic Distribution of Loans

An analysis of the distribution of credit within the assessment area would not be meaningful, as the assessment area is comprised of one middle-income census tract.

Responses to Complaints

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

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.