



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## **PUBLIC DISCLOSURE**

September 7, 2007

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

First National Bank & Trust Company in Larned  
Charter Number: 7125

102 West 6<sup>th</sup> Street  
Larned, KS 67550

Office of the 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.**

- First National Bank & Trust Company in Larned's average quarterly loan-to-deposit ratio is reasonable. The bank's average quarterly loan-to-deposit ratio is 61% compared to 64% for similarly situated banks in the assessment area.
- The majority of the bank's primary loan products have been granted in the assessment area. The loan sample indicated that 80% of the number and 73% of the dollar volume of loans were granted in the assessment area.
- First National Bank & Trust Company in Larned's level of lending to farms of different sizes is good. Ninety-five percent (95%) of the number of loans were to farms with revenues less than or equal to \$1 million.
- First National Bank & Trust Company in Larned's level of lending to commercial businesses is excellent. One hundred percent (100%) of the number of loans were granted to businesses with revenues less than or equal to \$1 million.

## **SCOPE OF EXAMINATION**

We performed a full-scope evaluation of First National Bank & Trust Company in Larned's assessment area. To assess the bank's performance, examiners selected a sample of 20 loans determined to be the bank's primary lending product during the evaluation period. The bank's primary loan products were determined to be agricultural loans and commercial loans. The evaluation period for the lending test was January 1, 2005 to year-to-date 2007.

## **DESCRIPTION OF INSTITUTION**

First National Bank & Trust Company in Larned (First National Bank) is a \$55 million bank headquartered in Larned, Kansas. The bank has two locations including the main office in Larned and a branch office in Macksville, Kansas. Each location is equipped with a drive-up facility. The bank operates a deposit-taking automated teller machine (ATM) at the main office and a cash-dispensing ATM at the Macksville branch. A cash-dispensing ATM is located at the Larned State Hospital.

The bank is a wholly owned subsidiary of Pawnee Bancshares Corporation, a one-bank holding company headquartered in Larned, Kansas. As of June 30, 2007, the holding company has total assets of \$60.2 million. In addition to the holding company, the bank has the following affiliates: Pawnee Bancshares Inc. Employee Stock Option Plan (ESOP), and Lanbank Insurance Agency.

First National Bank is a full-service bank offering a variety of loans. Net loans represent 59% of the bank's total assets. As of June 30, 2007, the bank's \$33 million loan

portfolio has the following composition: real estate loans 52%, agricultural 26%, commercial 16%, and individual/other 6%. The bank has not changed any existing loan products but has started offering Home Equity Lines of Credit since the previous Community Reinvestment Act (CRA) examination. Examiners determined the primary loan products, based on the number and dollar volume granted during the previous two calendar years and year-to-date 2007, are agricultural loans and commercial loans, respectively.

First National Bank's financial condition, size, and local economic conditions allow it to help meet the credit needs of its assessment area. We assigned a "Satisfactory" rating at the August 26, 2002, CRA examination.

## **DESCRIPTION OF ASSESSMENT AREA(S)**

First National Bank's assessment area (AA) consists of Pawnee, Edwards, and Stafford Counties in Kansas. The counties are not in a Metropolitan Statistical Area (MSA). The AA contains six middle-income census tracts. The AA does not contain any low-, moderate-, or upper-income census tracts. The AA complies with the regulation and does not arbitrarily exclude any low- or moderate-income areas.

The 2000 U.S. Census population of the AA was 15,471. The Kansas state-wide non-MSA median income for 2006 is \$49,800. The income distribution for families in the AA is 16% low-income, 23% moderate-income, 25% middle-income, and 36% upper-income. Of the 6,215 households in the AA, 36% receive social security, 10% have income below poverty level, and 2% receive public assistance. Thirty percent (30%) of the population is not in the work force and 20% is over the age of 65.

The median housing value is \$43,332 and 65% of the housing units are owner-occupied. Agricultural production dominates the local economy. Poor weather conditions have impacted only a portion of the AA and have been mitigated by increased cattle and grain prices. Major employers of the area are Larned State Hospital, Larned State Correctional Facility, the Unified School Districts, and Ward Feedyard. These employers provide employment diversity and stability in the local economy. The Kansas unemployment rate for July 2007 is equal to the nationwide rate of 4.6%.

The level of competition in the bank's AA is driven by a number of other banks and several financial institutions with offices in the AA. With 14% of the area's deposits, the bank ranks third in deposit market share.

Examiners contacted one community professional. The contact indicated First National Bank is actively involved in the community. The contact identified agricultural and commercial business loans as two of the area's primary credit needs and indicated that area banks are meeting those needs.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

### Loan-to-Deposit Ratio

The bank's lending level is reasonable. First National Bank's average quarterly loan-to-deposit ratio since the last CRA exam is 61%. The average quarterly loan-to-deposit ratio for five similarly situated banks in the AA is 64%. The average loan-to-deposit ratio for the peer banks range from 48% to 76%.

### Lending in Assessment Area

The bank's lending in the AA is good as it extends a majority of its primary loan products to borrowers located in the AA. Specifically, we found that First National Bank made 80% of the number and 73% of the dollar amount of loans in the AA. The sample included 40 loans originated, purchased, or committed during 2005, 2006, and year-to-date 2007. The loan sample included 20 loans of each of the two primary products.

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

Lending levels to farms and businesses of different sizes is good. To assess the bank's performance, examiners selected a sample of 20 agricultural loans and 20 commercial loans. These products represent the majority of loans originated from January 1, 2005 to year-to-date 2007.

Lending levels to farms of different sizes is good. The agricultural loan sample indicates 95% of the number and 59% of the dollar amounts were granted to farms with revenues less than or equal to \$1 million. While the dollar percentage appears low, one large loan totaling \$500M to a farm with revenues greater than \$1 million distorts the ratios. The agricultural demographic data shows that 98% of farms in the AA have revenues less than or equal to \$1 million.

Borrower Distribution of Loans to Farms in AA				
Farms Revenues	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Farms	98%	1%	1%	100%
% of Bank Loans in AA by #	95%	5%	0%	100%
% of Bank Loans in AA by \$	59%	41%	0%	100%

Source: Loan sample and 2007 Business Geodemographic data

The volume of lending to businesses of different sizes in the AA is excellent. The commercial loan sample shows 100% of the number and 100% of the dollar amount of loans were granted to businesses with revenues less than \$1 million. First National Bank's performance exceeds the business demographic data that shows 45% of

commercial businesses have annual gross revenues of \$1 million or less, with 52% of businesses having unavailable or unknown revenues.

<b>Borrower Distribution of Loans to Businesses in AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	45%	3%	52%	100%
% of Bank Loans in AA by #	100%	0%	0%	100%
% of Bank Loans in AA by \$	100%	0%	0%	100%

Source: Loan sample and 2007 Business Geodemographic data

### **Geographic Distribution of Loans**

An analysis of the distribution of credit within the assessment area would not be meaningful, as the AA does not have any low- or moderate-income tracts.

### **Responses to Complaints**

First National Bank has not received any CRA-related complaints since the previous 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.