



SMALL BANK

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

PUBLIC DISCLOSURE

May 21, 2004

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The First National Bank of Smith Center
Charter Number 3546**

**133 S. Main Street
Smith Center, KS 66967**

**Comptroller of the Currency
Kansas City North – Salina Office
Post Office Box 616
Salina, Kansas 67401-0616**

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 major factors supporting the institution's rating are:

- The bank has a reasonable record of lending to agricultural borrowers of different sizes.
- The majority of loans are made to borrowers within its AA (Assessment Area).
- The average quarterly loan-to-deposit (LTD) ratio is reasonable given local loan demand and competition from other financial institutions.
- The bank has not received any written CRA complaints during our review period of May 10, 1999 through April 30, 2004.

DESCRIPTION OF INSTITUTION

First National Bank (FNB) is a \$37 million financial institution located in Smith Center, Kansas, the county seat of Smith County. FNB is a full-service financial institution wholly owned by Smith Center Bancshares, a one-bank holding company. Agricultural related loans remain the bank's primary credit product by number and dollar. The bank also offers a variety of consumer and commercial loan products. FNB operates one drive-up facility across the street from the bank's main office. In addition, First Insurance, Inc., is an affiliate of the bank through common ownership.

FNB, in conjunction with the state bank headquartered in Smith Center, continues to operate Smith Center, Inc., a community development corporation (CDC). The CDC's primary purpose is to assist with economic development of the town by attracting new businesses for job creation.

We assigned a "Satisfactory" rating during the last CRA Public Evaluation dated May 10, 1999. There are no legal or financial circumstances impeding the bank's ability to help meet community credit needs.

DESCRIPTION OF ASSESSMENT AREA

FNB has designated all of Smith County, Kansas as its AA. The AA designation meets the requirements of CRA legislation and does not arbitrarily exclude low- or moderate-income areas. Based upon demographic information from the 2000 United States Census Bureau, Smith County is comprised of two middle-income census tracts.

The overall economic condition of the community is depressed due to drought conditions and the declining population. The 2000 Census reflected a county population decline of 11 percent compared to 1990 Census data. Although the county unemployment rate is low at 2.3 percent as of March 2004, 43 percent of the households receive Social Security benefits, and 12 percent

live below the poverty level. A community contact stated that it is hard for small, locally owned businesses to continue to operate. Several businesses have had to close as individuals move and/or seek services in larger communities. The 2002 County Economic Vitality and Distress Report prepared by Kansas, Inc. ranks Smith County number 55 out of 105 counties in the state. Economic factors considered include: population, employment, property valuations, per capita income, and financial aid assistance.

Financial institution competitors in Smith County include a locally owned state chartered bank and branch, and the branches of two national banks with main offices in adjacent counties. Their assets range from \$40 to \$68 million. A community contact stated that all of the banks are active in the community and offer a variety of agricultural related products and services to meet primary credit needs.

Refer to the bank's CRA Public File and external publications for additional information about the bank and its assessment area.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

FNB's loan-to-deposit (LTD) ratio is satisfactory given local loan demand levels and competition from other financial institutions. Three other financial institutions have offices in Smith County. FNB's quarterly average LTD ratio for the time period of September 30, 1999 through March 31, 2004 was 49 percent and ranked third among local peers in the county. The average for local competitors ranged from 45 to 68 percent with an asset size ranging from \$40 million to \$68 million.

Lending in Assessment Area

The bank's record of lending to borrowers within the AA is good. Since the bank's last CRA evaluation in May 1999, the bank originated 531 loans totaling \$18 million. We sampled a total of 25 loans originated from May 1999 through December 2002. Lending to borrowers in the AA is calculated at 95 percent by dollar and 88 percent by number.

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

FNB has a satisfactory record of lending to businesses of different sizes. Based on our sample of 22 agricultural borrowers in the AA, the bank's results show 100 percent of the loans were originated to borrowers with revenues of less than \$1 million. This compares reasonably to the 2003 Dunn and Bradstreet Revenue Report. Of the 196 farm operations in the AA that reported revenue information, 99 percent have revenue levels less than or equal to \$1 million.

Approximately 77 percent of the bank's farmers in the sample have sales levels of \$250 thousand or less with an average sales volume of \$177 thousand. The bank's revenue distribution of loans

is as follows:

Borrower Distribution of Agricultural Loans in the AA May 1999 – December 2002		
<u>Revenues/Sales</u>	<u>Loans By #</u>	<u>Loans by %</u>
< 100,000	9	40.9%
\$100,000 - \$250,000	8	36.4%
\$250,000 - \$500,000	3	13.6%
> \$500,000 - \$1,000,000	2	9.1%
> \$1,000,000	0	0.0%
Totals	22	100%

Geographic Distribution of Loans

We did not perform an analysis of the geographic distribution of loans. Both census tracts are designated middle-income tracts. As a result, an analysis would not be meaningful.

Responses to Complaints

FNB has not received any written complaints regarding its CRA performance during the review period of May 10, 1999 through April 30, 2004.

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of illegal discrimination or other illegal credit practices.