



SMALL BANK

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

PUBLIC DISCLOSURE

March 08, 2004

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Farmers National Bank
Charter Number 11933**

**759 State Street
Phillipsburg, KS 67661**

**Comptroller of the Currency
ADC-Kansas City North
6700 Antioch Road Suite 450
Merriam, KS 66204**

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's record of lending to agricultural borrowers of different sizes and to borrowers of different income levels is good.
- The overall geographic distribution reflects an acceptable penetration throughout the bank's assessment area (AA).
- The majority of loans are made to borrowers in the bank's AA.
- The average quarterly loan-to-deposit ratio is good.

DESCRIPTION OF INSTITUTION

Farmers National Bank (FNB) is a \$64 million institution located in northwest Kansas. The bank's primary loan products in dollars were agricultural loans and by number were consumer loans. FNB operates three branches located in Agra, Logan, and Kensington in addition to the main bank facility located in Phillipsburg. All of the facilities are located in Kansas and are included in the bank's AA. FNB received a "Satisfactory" rating at the last CRA examination dated April 5, 1999. There are no legal or financial factors that impede the bank's ability to help meet the credit needs of the assessment area. Refer to the bank's CRA Public File for more information.

DESCRIPTION OF ASSESSMENT AREA

The bank's AA encompasses all of Phillips and Smith Counties in Kansas. It is comprised of two moderate- and four middle-income BNAs. The AA does not arbitrarily exclude any low- or moderate-income areas. Refer to the bank's CRA Public File for more information.

Two community contacts were made during this review. Agricultural loans continue to be a primary need due to the rural demographics. The contacts stated that local financial institutions were effectively meeting credit needs in the area and provide good community support.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

FNB's average quarterly loan-to-deposit (LTD) ratio is good. The average ratio from June 30, 1999 through December 31, 2002 is 68 percent. We compared the bank's LTD ratio to 5 similarly sized community banks with an agricultural business focus in the immediate and

surrounding county area, including the bank's AA. Ratios for these banks ranged from 45 percent to 70 percent. FNB's average LTD ratio ranked second among the other five institutions reviewed.

Lending in Assessment Area

The bank's record of lending to borrowers within the AA is excellent. We sampled a total of 40 agricultural and consumer loans originated from January 2001 through December 2002. Lending to borrowers in the AA is calculated at 93 percent by number and 96 percent by dollar.

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

The distribution of loans to agricultural borrowers of different sizes is good. Based on the 20 borrowers sampled, the bank's results show 100 percent of the loans were originated to borrowers with revenues of less than one million. This compares reasonably to assessment area (AA) demographics that reflect 98 percent of the farms earn revenues of less than one million annually. Demographic information was obtained from the 1990 United States Census Bureau Data.

The bank's record of lending to borrowers of different income levels is excellent. Based on the 20 consumer borrowers sampled, results demonstrate lending to low-income borrowers was 30 percent by number and 30 percent by dollar and lending to moderate-income borrowers represented 45 percent by number and 41 percent by dollar. This performance exceeds area demographics that show low- and moderate-income households at 29 percent and 17 percent, respectively. The demographic information was obtained from the 1990 United States Census Bureau Data.

Geographic Distribution of Loans

The geographic distribution of agricultural loans is reasonable. Based on our sample of 20 agricultural loans, the geographic distribution in moderate-income areas is 30 percent by number and 16 percent by dollars. This performance is slightly below 1990 United States Census Bureau demographics, which reflect that 38 percent of the total farms are located in the 2 moderate-income tracts. However, the bank's penetration is reasonable based on the bank's office locations. FNB has only 1 branch in the far western portion of Smith County where both moderate-income BNAs are located.

The geographic distribution of consumer loans is excellent. Based on our sample of 20 consumer loans, the geographic distribution in moderate-income areas is 30 percent by number and 46 percent by dollars. This performance exceeds AA demographics that show 25 percent of the households live in the moderate-income tracts. Demographic information was obtained from the 1990 United States Census Bureau Data.

Responses to Complaints

FNB has not received any written CRA related complaints during our review period of June 30, 1999 through December 31, 2002.

Fair Lending or Other Illegal Credit Practices Review

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