



## **PUBLIC DISCLOSURE**

June 17, 2013

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

First National Bank in Fredonia  
Charter Number 14370

730 Madison  
Fredonia, KS 66736

Office of the Comptroller of the Currency

2959 N. Rock Road, Suite 510  
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 in Fredonia's (FNB) average quarterly loan-to-deposit (LTD) ratio of 45% reflects reasonable responsiveness to the credit needs of the assessment area (AA).
- FNB extended a majority of its primary loan product to consumers in the AA. The sample indicated that management granted 78% of the number and 74% of the dollar amount of consumer loans within the AA.
- FNB's lending to households of different incomes reflects reasonable penetration.
- Geographical distribution of loans to consumers located in low- or moderate-income tracts reflects excellent dispersion.

## **SCOPE OF EXAMINATION**

The evaluation period for this examination was January 1, 2010 through December 31, 2012. The primary loan product granted within FNB's AA during the evaluation period was consumer purpose loans. Seventy-two percent of the number and 34% of the dollar amount of loans granted during the evaluation period were consumer loans.

Two analyses were conducted. One was for the years 2010-2011 and one for 2012. Demographic information from the 2010 U.S. Census was published during the 2010-2012 evaluation period; therefore the periods were analyzed separately in order to compare the bank's lending performance to the demographics in publication at the time the lending occurred. For clarity, demographic information from both the 2000 and 2010 U.S. Census will be presented in a table format. The 2010 U.S. Census provides the data used for 2012 figures, while 2011 and 2010 statistics rely upon information from the 2000 U.S. Census.

The evaluation of consumer lending included a review of 32 consumer loans originated in the bank's AA during 2010-2011, and 20 consumer loans originated in 2012. The bank's business strategy has not changed. Therefore, the loans granted during these years are representative of all loans granted since the December 4, 2007 Community Reinvestment Act (CRA) examination.

## **DESCRIPTION OF INSTITUTION**

The First National Bank in Fredonia is a \$99 million institution located in Fredonia, Kansas. The bank has a drive-through lane and a 24-hour Automated Teller Machine

(ATM). There are no branch locations. FNB is a wholly owned subsidiary of First National Bancshares Corporation, a one-bank holding company also located in Fredonia, Kansas. As of March 31, 2013, the holding company had total assets of \$102 million.

FNB is a full-service banking institution offering commercial, agricultural, real estate, and consumer credit products. As of March 31, 2013, net loans represent 30% of total assets. The \$30 million loan portfolio has the following composition: 30% one-to-four family residential real estate loans; 26% commercial/business loans; 23% consumer loans; and 21% agricultural loans.

There are no legal, financial, or other factors impeding the ability to meet the needs of the AA. We assigned a “Satisfactory” rating at the December 4, 2007 CRA examination.

## DESCRIPTION OF ASSESSMENT AREA

FNB’s assessment area consists of Wilson County, Kansas. The county is not in a Metropolitan Statistical Area (MSA). The AA contains three middle-income census tracts (9971, 9972, and 9974) and one moderate-income census tract (9973). The 2010 U.S. Census reclassified census tract 9973 to moderate-income from middle-income. The bank is located in the moderate-income tract. The AA complies with the CRA regulation and does not arbitrarily exclude any low- or moderate-income areas.

Wilson County is located in Southeastern Kansas. The county is in a remote rural location. The census tracts in Wilson County were designated as Distressed Middle-Income Nonmetropolitan Tracts in both 2010 and 2011 due to population loss. The Weighted Average of HUD Updated MSA Median Family Income for 2012 is \$54,400. Table 1 shows several population characteristics of the AA for the relevant activity year.

**TABLE 1**

<b>Assessment Area Statistical Comparison</b>		
<b>Activity Year</b>	<b>2011</b>	<b>2012</b>
# of Households in AA	4,214	3,872
% of AA Households Below Poverty Level	13%	17%
% of AA Households Receiving Public Assistance	4%	2%
% of AA Households Receiving Social Security	37%	38%
% of Population over Age 65	20%	20%
% of Civilians not in the Workforce	38%	22%
Median Housing Value	\$ 41,873	\$ 58,106
% of Housing Units that are Owner-Occupied	66%	62%

Sources: 2000 and 2010 U.S. Census data

The principal industry in the AA is agriculture, primarily cattle and grains. Manufacturing and the oil/gas industry provide diversity. Ninety-eight percent of businesses report less than 50 employees. Some of the larger employers in the AA are Valent Aerostructures, Systech Environmental Systems, Fredonia Regional Hospital, county public administration, and the school districts.

The Wilson County economy is slowly recovering from the nationwide recession. The AA suffers from an exceptionally high unemployment rate. As of April 2013, the Bureau of Labor Statistics reports a not seasonally adjusted (NSA) unemployment rate of 9.2% for Wilson County, second only to Linn County at 11.3%. The NSA unemployment rate for Kansas for the same date is 5.3%.

FNB ranks first in market share with 36% of the AA deposits; however, FNB faces strong lending competition within the AA. Based on the Federal Deposit Insurance Corporation's most recent deposit market share report dated June 30, 2012, four other institutions maintain five offices in the AA. One institution has two locations within the AA. Three competitors have branches outside the AA, the largest competitor having 23 locations in outside markets. The fourth competitor had a loan production office in the Wichita MSA, which closed in 2011. Since FNB cannot compete in volume and pricing across all loan products, management has developed a niche in lending for consumer purposes.

Examiners contacted one business professional in the AA. The contact stated the community's most pressing lending need is to develop affordable housing. The community has formed a committee to explore the options. The contact stated local banks have each focused on a primary lending product, but work well together to ensure the community's needs are met. First National Bank in Fredonia was specifically mentioned as an institution that demonstrates significant support to the lending needs of the area.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

### **Loan-to-Deposit Ratio**

FNB's LTD ratio is satisfactory. FNB's average quarterly LTD ratio of 45% reflects reasonable responsiveness to the credit needs of the AA considering the economic conditions, area competition, and lending opportunities within the local area. The LTD ratio ranged between 36% and 56% for the period under review. The average quarterly LTD ratio over the same period for the bank's competitors was 87%, with ratios ranging from 79% to 104%.

FNB's low loan to deposit ratio did not significantly affect the bank's overall CRA rating. The LTD ratio was pressured by low loan demand in an area with an aging population base and a high unemployment rate. Furthermore, FNB's competitors have operations

in multiple AAs. This allows competitors additional opportunities to lend, the ability to offer a variety of other loan products, and pricing flexibility.

**Lending in Assessment Area**

FNB’s lending to consumer borrowers within the AA is satisfactory. The bank granted 78% of the number and 74% of the dollar amount of its primary loan product (consumer loans) within the AA. Furthermore, a majority of all loans were granted to borrowers within the bank’s AA. See Table 2.

**TABLE 2**

<b>Lending in Wilson County 2010 - 2012</b>										
Type of Loan	Number of Loans					Dollars of Loans (000's)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Consumer Loans	2,506	78%	697	22%	3,203	\$11,644	74%	\$4,120	26%	\$15,764
All Loans	3,493	78%	966	22%	4,459	\$34,166	75%	\$11,671	25%	\$45,837

Source: Bank generated data.

**Lending to Borrowers of Different Incomes**

FNB’s overall distribution of consumer loan products to households of different incomes during the three-year evaluation period is satisfactory.

As noted previously, census demographics for the evaluation period reflect an aging population base and high levels of poverty. These factors, combined with the high unemployment rate in Wilson County result in a reduced level of loan demand from low- and moderate-income households. Examiners considered these external factors as contributing to the bank’s performance below the demographic comparators. Accordingly, performance below the demographic comparators noted below did not negatively affect the bank’s overall lending rating.

Lending Period 2010 – 2011

Borrower distribution during 2010-2011 reflects poor penetration and is rated as needs to improve.

As reflected in Table 3, lending to low-income households is significantly below the demographic comparator. The AA demographics reflect that 27% of households are classified as low-income. The consumer loan sample indicated the bank granted 13% of loans to low-income households. Lending to moderate-income households is also below the demographic comparator of 19% with the loan sample indicating that 13% of loans were extended to moderate-income households.

**TABLE 3**

Household Distribution of Consumer Loans in Wilson County 2010 - 2011									
Household Income	Low		Moderate		Middle		Upper		Unavailable
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of Number of Loans
% of Total	27%	13%	19%	13%	21%	31%	33%	34%	9%

Source: Loan Sample, 2000 U.S. Census data

**Lending Period 2012**

Lending to low- and moderate-income households during 2012 reflects reasonable penetration and is rated satisfactory.

As reflected in Table 4, distribution of consumer loan products to low-income households (15%) is significantly below the 2012 AA demographics comparator of 28%; however, lending to moderate-income households during 2012 reflects the improving economics in the area. The loan sample indicates that the bank extended 35% of consumer loan products to moderate-income households. The bank’s performance ratio is significantly above the demographic comparator of 17% moderate-income households.

**TABLE 4**

Household Distribution of Consumer Loans in Wilson County 2012									
Household Income	Low		Moderate		Middle		Upper		Unavailable
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of Number of Loans
% of Total	28%	15%	17%	35%	21%	15%	35%	35%	0%

Source: Loan Sample, 2010 U.S. Census data

**Geographic Distribution of Loans**

FNB’s lending to consumers located in the moderate-income geography is outstanding. This conclusion is based on excellent penetration into census tract 9973 during 2012. The bank’s performance ratio of 65% in the moderate-income tract significantly exceeds the demographic ratio of 33%. See Table 5.

During 2012, there were no low-income tracts in the AA. There were no low- or moderate-income tracts during the lending years of 2010 and 2011.

**TABLE 5**

Geographic Distribution of Consumer Loans in Wilson County 2012								
Census Tract Income	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
% of Total	0%	0%	33%	65%	67%	35%	0%	0%

Source: Loan Sample, 2010 U.S. Census data

**Responses to Complaints**

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

**Fair Lending or Other Illegal Credit Practices Review**

Pursuant to 12 C.F.R. 25.28(c), or 12 C.F.R. 195.28(c), in determining a national bank’s (bank) or Federal savings association’s (FSA) CRA rating, respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or FSA, or in any AA by an affiliate whose loans have been considered as part of the bank’s or FSA’s lending performance.

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.