



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

October 08, 2002

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The First National Bank Of Scott City
Charter Number 8808**

**501 Main Street
Scott City, KS 67871**

**Comptroller of the Currency
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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.

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INSTITUTION'S CRA RATING

This institution is rated Satisfactory.

- First National Bank of Scott City's quarterly average loan-to-deposit ratio of 86 percent is satisfactory, compared to 77 percent for its peer bank group.
- First National Bank of Scott City's lending within the assessment area is satisfactory. The bank grants a majority of its primary loan products within the assessment area.
- First National Bank of Scott City demonstrates a satisfactory level of lending to low- and moderate-income borrowers and to businesses and farms of different sizes. The distribution for the consumer loans is good. The distribution for the agricultural loans is satisfactory.

DESCRIPTION OF INSTITUTION

First National Bank of Scott City (“the bank”) is a \$57 million bank headquartered in Scott City, Kansas. In addition to the main office, the bank operates a motor bank that is located across an alley to the west of the main office. The motor bank features a drive-up facility and a deposit-taking automated teller machine (ATM). The bank does not operate any branches.

The bank is owned by First National Bancshares of Scott City Limited, a one-bank holding company headquartered in Scott City, Kansas. On June 30, 2002, the holding company had total assets of \$7 million. In addition to the holding company, the bank has the following affiliates: First National Bank Employee Stock Options (ESOP) and Trust, Hoeme Family Partnership, Hoeme-Hoeme Farms, Inc., Stacy Hoeme Farms, Crown H Cattle Co., Inc., HRC Enterprises, Inc., and HRC Feedyard, Inc. The bank’s corporate structure has not changed since the previous CRA examination.

The bank is primarily an agricultural lender, offering a variety of other loans. On June 30, 2002, net loans represented 69 percent of the bank’s total assets. The bank’s \$40 million loan portfolio has the following composition: agriculture 54 percent; commercial & industrial 22 percent, commercial real estate seven percent; residential real estate seven percent; consumer six percent; and lease financing receivables four percent. The bank has not changed its existing loan products, or offered any new products since the previous CRA examination. Examiners determined that the bank’s primary loan products, based on the number and the dollar volume granted from January 1, 1999, through October 8, 2002, are consumer loans and agricultural loans.

The bank’s financial condition, size, and local economic conditions allow it to help meet the credit needs of its assessment area. At the April 20, 1998, CRA examination examiners assigned a “Satisfactory” rating.

DESCRIPTION OF ASSESSMENT AREA

The bank’s assessment area (AA) consists of Scott County. The AA contains one middle-income block numbering area (BNA), which is 9571. The AA is not part of a Metropolitan Statistical Area (MSA) and does not contain any low-, moderate-, or upper-income tracts. The AA complies with regulation and does not arbitrarily exclude any low- or moderate-income tracts.

The AA has a population of 5,289, with Scott City making up nearly 73 percent of the population. The Kansas statewide non-MSA median family income for 2002 is \$44,200. The AA has the following income for families:

Distribution of Family Income in the Assessment Area	
Income Level	Percentage
Low-income Families	12
Moderate-income Families	18
Middle-income Families	29
Upper-income Families	41
Total	100

Ten percent of the households have incomes below the poverty level, 28 percent receive social security, and five percent are on public assistance. Twenty-six percent of the population is not in the work force, and 16 percent is over the age of 65. The median housing value is \$44,300 and 65 percent of the housing units are owner-occupied.

The AA has a strong concentration in agricultural production, primarily cattle feeding, feed grain, wheat, and alfalfa. The local economy is experiencing a slow-down due to low cattle prices and months of drought conditions. Recent rains are in time for fall planting, raising hopes for an improvement in crop production. Major employers in the area include the local feedlots, Scott Co-operative Association, Unified School District 466, local governments, and Scott County Medical Center. The Kansas unemployment rate for August 2002 is 4.5 percent compared to 5.7 percent nationwide.

The bank faces strong competition in the area. In addition to the bank, nine banks, several farm credit associations, and one savings & loan association have offices in the AA and in adjacent counties. The asset sizes for these institutions range from \$28 million to \$562 billion. Examiners selected five of these financial institutions as peer banks, either because the majority of their deposits are in the AA, or management considers them as competition. The asset sizes of the peer banks range from \$36 million to \$296 million with the bank ranking 4th among this group. With 26 percent of the AA deposits, the bank ranks 2nd in deposit market share.

Examiners contacted one community economic development professional. The contact identified consumer loans and agricultural loans as the community's primary credit needs. The contact also stated that area banks are meeting these needs.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The bank's lending level is satisfactory. The bank's quarterly average loan-to-deposit ratio over the past 12 quarters ending June 30, 2002, is 86 percent, compared to 77 percent for peer banks. For peer banks, examiners selected five banks that either had the majority of their deposits in the AA, or management considers them as competition. The 12-quarter average loan-to-deposit

ratios for the peer banks range from 57 percent to 84 percent.

Lending in Assessment Area

The bank’s lending within the AA is satisfactory since it extends a majority of its loan products in the AA. To determine the distribution, examiners reviewed the bank’s quarterly analysis of its originations for all loan products over the past 12 quarters ending June 30, 2002. The table below depicts the bank’s lending in the AA:

Lending in the Assessment Area	
Percentage by Number	Percentage by Dollar
81	83

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

Lending to borrowers of different income levels and to farms of different sizes is satisfactory. Examiners selected a sample of 20 consumer loans and 20 agricultural loans. These products represent the majority of loans originated from January 1, 1999, through October 8, 2002, in terms of the number and dollar volume, respectively. The distribution for the consumer loans is good. The distribution for the agricultural loans is satisfactory. The community contact identified consumer loans and agricultural loans as two of the community’s primary credit needs.

Lending to borrowers of different income levels for consumer purposes is good. Our conclusion is based on the high percentage of the number of loans granted to low-income borrowers, compared to the percentage of households in that income bracket. The percentage of the number of loans granted to moderate-income borrowers is satisfactory. The table below depicts the bank’s lending performance:

Lending to Borrowers of Different Income Levels			
Consumer Loans Granted			
Borrower Income Level	Percentage of Number	Percentage of Dollar	Percentage of Households in Income Category
Low-income	50	37	18
Moderate-income	20	14	16
Middle-income	20	37	22
Upper-income	10	12	44
Total	100	100	100

Lending to farms of different sizes in the AA is satisfactory. The table below shows 90 percent of the agricultural loans in the examiners' sample are to farms with annual gross revenue of \$1 million or less. The bank's performance is comparable to the Dunn & Bradstreet 2001 demographic data, which indicates 91 percent of the farms in the AA have annual gross revenue of \$1 million or less.

Lending to Farms of Different Sizes Agricultural Loans Granted		
Annual Gross Farm Revenues	Percentage of Number	Percentage of Dollar
Less than \$100,000	30	12
\$100,000 - \$249,999	25	17
\$250,000 - \$499,999	15	07
\$500,000 - \$1,000,000	20	34
Over \$1,000,000	10	30
Total	100	100

Geographic Distribution of Loans

The geographic distribution of loans would not be meaningful as the bank's AA does not contain any low- or moderate-income tracts.

Responses to Complaints

The bank has not received any CRA-related complaints since the previous CRA examination.

Fair Lending Review

An analysis of 1999, 2000, 2001, and first half of 2002 public comments and consumer complaint information was performed according to the OCC's risk based fair lending approach. Based on the analysis of the information, the OCC decided that a comprehensive fair lending examination would not be conducted in connection with the CRA evaluation this year. The latest comprehensive fair lending exam was performed in 1998.