



PUBLIC DISCLOSURE

October 18, 2013

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The First National Bank of Sedan
Charter Number 3855

101 West Main Street
Sedan, KS 67361

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.

This institution is rated SATISFACTORY.

- The First National Bank of Sedan's (First National) average loan-to-deposit (LTD) ratio of 48% reflects reasonable responsiveness to the credit needs of the assessment area (AA).
- A substantial majority of the bank's primary loan product has been granted in the AA. The sample indicated that 80% of the number and 95% of the dollar volume of loans were granted within the AA.
- First National achieved excellent penetration in lending to small farms. One hundred percent (100%) of the number of sampled agricultural loans were to farms with revenues less than or equal to \$1 million.

SCOPE OF EXAMINATION

The examination included a full-scope review of First National's assessment area. The bank's primary loan product is agricultural loans. The evaluation of this lending product included a review of 20 agricultural loans originated in First National's assessment area during 2010 and 2011. The bank's business strategy has not changed; therefore, the loans granted during these years are representative of all loans granted since the November 19, 2007, Community Reinvestment Act examination (CRA).

DESCRIPTION OF INSTITUTION

The First National Bank of Sedan is a \$51 million bank located in Sedan, Kansas. The bank has one bank location with an adjacent drive-up facility and a cash-dispensing only automated teller machine.

First National offers a full range of commercial, real estate, and consumer credit products. On June 30, 2013, net loans represented 35% of the bank's total assets. The \$18.8 million loan portfolio had the following composition: agricultural 44%; commercial 35%; 1-4 family 17%; and consumer loans 4%.

There are no legal, financial, or other factors impeding the bank's ability to help meet the needs of its AA. We assigned a "Satisfactory" rating at the November 19, 2007, CRA examination.

DESCRIPTION OF ASSESSMENT AREA

First National's AA is Chautauqua County, Kansas, which contains one middle-income census tract (9646). The AA complies with the regulation and does not arbitrarily exclude any low- or moderate-income areas. Chautauqua County was designated as

an underserved middle-income nonmetropolitan geography for both 2010 and 2011 given its remote rural location.

Chautauqua County is located in southeast Kansas and, as of the 2000 census, had a population of 4,359. The Weighted Average of HUD Updated MSA Median Family Income for 2011 is \$53,700. The AA has the following distribution for families: 24% low-income; 27% moderate-income; 25% middle-income; and 24% upper-income. Of the 1,793 households in the AA, 46% receive social security, 13% are below the poverty level, and 5% receive public assistance. Twenty-four percent (24%) of the population is over the age of 65, and 48% of the population consists of civilians not in the workforce. The Weighted Average of Median Housing is \$34,100, and 68% of the housing units are owner-occupied.

The economic condition of the AA is stable. Agriculture is a dominant economic force in the area. The local economy has benefited from steady cattle and oil prices. Major employers in the area include Unified School District 286, Chautauqua County, Sedan Floral, Inc., Sedan City Hospital, and Pleasant Valley Manor.

The Bureau of Labor Statistics reflects a July 2013 unemployment rate for Chautauqua County of 6.4%, above the Kansas statewide unemployment rate of 5.9%. One other bank, with \$46 million in assets, provides competition in the AA. With 78% of the area's deposits, First National ranks first in deposit market share.

Examiners contacted one community professional in the AA. The contact identified agricultural loans and consumer purpose loans as two of the communities primary credit needs. The contact stated that area financial institutions are meeting these needs and these institutions are very involved in the community.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

First National's average quarterly LTD ratio of 48% is rated satisfactory. The LTD ranged between 39% and 58% for the period under review. The average LTD ratio for the bank's competitors was 62%, with ratios ranging from 47% to 77. While First National's quarterly average LTD ratio is below that of its peer bank, the ratio is considered reasonable. The peer bank has four banking locations, two located in the AA and two outside the AA, giving the institution more opportunity to lend. In addition, First National routinely is the benefactor of public fund deposits. Without these deposits, the bank's LTD ratio would increase approximately six percent.

Lending in Assessment Area

First National's lending to agricultural borrowers within the AA is rated outstanding. The bank extended a substantial majority of its primary loan product to borrowers in the AA.

Specifically, the bank made 80% of the number and 95% of the dollar amount of loans in the AA.

Lending to Farms of Different Sizes

First National's lending performance to farms of different sizes is rated outstanding when compared to AA demographics. The loan sample reflected 100% of the number and 100% of the dollar amount of loans to farms with gross revenues less than or equal to \$1 million.

Borrower Distribution of Loans to Farms in AA				
Farm Revenues (or Sales)	<= \$1,000,000	> \$1,000,000	Unavailable	Total
% of AA Farms	98%	0%	2%	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 2000 Census and Business Demographic Summary

Geographic Distribution of Loans

An analysis of the geographic distribution of loans originated in the AA during the evaluation period would not be meaningful. The AA does not contain low- or moderate-income tracts.

Responses to Complaints

First National 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) credit 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.