



## **PUBLIC DISCLOSURE**

August 22, 2022

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

First National Bank of Fredonia  
Charter Number: 14370

730 Madison Street  
Fredonia, KS 66736

Office of the Comptroller of the Currency  
7101 College Boulevard, Suite 1600  
Overland Park, KS 66210

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, and should not 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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## Overall CRA Rating

**Institution's CRA Rating:** This institution is rated **Satisfactory**.

**The lending test is rated: Satisfactory**

The major factors supporting this rating include:

The Lending Test rating is based on:

- A reasonable loan-to-deposit ratio.
- A substantial majority of loans by both number and dollar made in the assessment area (AA).
- Excellent distribution of consumer loans to moderate-income geographies.
- Reasonable distribution of consumer loans to low- and moderate-income borrowers.

### Loan-to-Deposit Ratio

Considering the bank's size, financial condition, and credit needs of the AA, the bank's loan-to-deposit (LTD) ratio is reasonable.

The First National Bank in Fredonia's (FNB) quarterly average LTD ratio is satisfactory at 41.1 percent. The Office of the Comptroller of the Currency (OCC) calculated FNB's quarterly average LTD ratio using information from the Consolidated Reports of Condition from June 30, 2018 to December 31, 2021. FNB's average LTD peaked at 46.9 percent to a low of 34.9 percent. The quarterly average LTD ratio for similarly situated financial institutions during the same period is 53.0 percent. The other institutions' average high peaked at 85.5 percent to a low of 30.5 percent. By asset size, FNB ranked 2nd out of six similarly situated financial institutions. These financial institutions ranged in asset size from \$81.3 million to \$133.6 million with an average asset size of \$98.5 million.

Stimulus money and less loan demand during COVID impacted the bank's ability to lend, particularly for consumer, commercial, and agricultural loans. Customers took out fewer consumer loans due to stimulus money. Deposits over the evaluation period increased by 14.1 percent while net loans decreased by 6.3 percent.

### Lending in Assessment Area

A substantial majority of the bank's loans are inside its AA.

The bank originated and purchased 92.0 percent of its total loans inside the bank's AAs during the evaluation period. This analysis is performed at the bank, rather than the AA, level. This percentage does not include extensions of credit by affiliates that may be considered under the other performance criteria.

**Table D - Lending Inside and Outside of the Assessment Area**

Loan Category	Number of Loans				Total #	Dollar Amount of Loans \$(000s)				Total \$(000s)
	Inside		Outside			Inside		Outside		
	#	%	#	%		\$	%	\$	%	
Consumer	46	92.0	4	8.0	50	312	89.9	35	10.1	347
<b>Total</b>	<b>46</b>	<b>92.0</b>	<b>4</b>	<b>8.0</b>	<b>50</b>	<b>312</b>	<b>89.9</b>	<b>35</b>	<b>10.1</b>	<b>347</b>

Source: Bank Data

Due to rounding, totals may not equal 100.0%

## Description of Institution

FNB is a \$106.1 million community bank headquartered in Fredonia, Kansas. FNB is wholly-owned by First National Bancshares Corporation of Fredonia, a one-bank holding company also located in Fredonia, Kansas. FNB operates a single full-service location and 24-hour ATM in Wilson County, Kansas. FNB has not opened or closed any branches or locations since the prior CRA examination. FNB has one AA that includes all census tracts (CT) in Wilson County, Kansas.

FNB offers a full range of deposit and loan products and services. As of December 31, 2021, the loan portfolio totaled \$31.6 million, or 29.8 percent of total assets. FNB's loan portfolio consisted of the following by dollar: real estate loans (44.6 percent), commercial loans (20.6 percent), individual loans (18.4 percent), agricultural loans (17.4 percent), and other loans (4.0 percent). Net tier 1 capital totals \$16.4 million and deposits total \$89.8 million. FNB holds 32.5 percent of the AA's deposit market share, which ranks first out of the five financial institutions in the AA. Primary competitors include Bank of Commerce, FirstOak Bank, and Community National Bank & Trust. The bank also has competitors from other larger institutions in surrounding communities in Chanute, Neodesha, Independence, and Parsons.

There are no legal, financial, or other factors impeding FNB's ability to meet the community's credit needs. FNB received a "Satisfactory" rating at the previous CRA examination dated July 23, 2018.

## Scope of the Evaluation

### Evaluation Period/Products Evaluated

The OCC used small bank examination procedures to evaluate FNB's record of meeting the credit needs of its community through its lending activities. The lending test review period is January 1, 2019 through December 31, 2021. The bank has one AA with all CT in Wilson County, Kansas and is a non-metropolitan statistical area. Conclusions were based on the bank's consumer lending as the primary product by number and dollar. We sampled 50 consumer loans originated or purchased in FNB's AA during the review period to assess the bank's performance under the Lending Test.

### Selection of Areas for Full-Scope Review

In each state where the bank has an office, one or more of AAs within that state was selected for a full-scope review. For purposes of this evaluation, bank-delineated AAs located within the same

metropolitan statistical area (MSA), multistate metropolitan statistical area (MMSA), or combined statistical area (CSA) are combined and evaluated as a single AA. Similarly, bank-delineated non-MSA AAs within the same state are combined and evaluated as a single AA. These combined AAs may be evaluated as full- or limited-scope. Refer to the “Scope” section under each State Rating for details regarding how full-scope AAs were selected. Refer to appendix A, Scope of Examination, for a list of full- and limited-scope AAs.

## **Ratings**

The bank’s overall rating is a blend of the state ratings, and where applicable, multistate ratings.

FNB’s ratings are based on its lending in the state of Kansas in its sole AA.

The MMSA rating and state ratings are based on performance in all bank AAs. Refer to the “Scope” section under each state and MMSA Rating section for details regarding how the areas were weighted in arriving at the respective ratings.

## **Discriminatory or Other Illegal Credit Practices Review**

Pursuant to 12 CFR 25.28(c) in determining a national bank’s or federal savings association’s (collectively, bank) CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank, or in any AA by an affiliate whose loans have been considered as part of the bank’s lending performance. As part of this evaluation process, the OCC consults with other federal agencies with responsibility for compliance with the relevant laws and regulations, including the U.S. Department of Justice, the U.S. Department of Housing and Urban Development, and the Consumer Financial Protection Bureau, as applicable.

The OCC has not identified that this institution (or any affiliate whose loans have been considered as part of the institution’s lending performance) has engaged in discriminatory or other illegal credit practices that require consideration in this evaluation.

The OCC will consider any information that this institution engaged in discriminatory or other illegal credit practices, identified by or provided to the OCC before the end of the institution’s next performance evaluation in that subsequent evaluation, even if the information concerns activities that occurred during the evaluation period addressed in this performance evaluation.

## State Rating

### State of Kansas

**CRA rating for the State of Kansas<sup>1</sup>:** Satisfactory

**The Lending Test is rated:** Satisfactory

The major factors supporting this rating include:

- Excellent distribution of consumer credit to moderate-income census tracts.
- Reasonable distribution of consumer loans to both low- and moderate-income borrowers.

### Description of Institution's Operations in Kansas

The Wilson County, KS AA (non-MSA) consists of four census tracts and encompasses all of Wilson County and one tract in Brown County. The AA is not located in an MSA and consists of two middle-income tracts, both designated as underserved, and two moderate-income tracts. Demographic data reports the 2021 median family income as \$49,580 and the median household income as \$42,570. The AA has 15.6 percent of households below the poverty level and 11.9 percent of families below the poverty level.

Primary businesses within the AA are agriculture, service industries, boat manufacturing, and retail trade. Major employers include Cobalt Boats, A-Lert Construction, local government and schools, local hospital, and Kansas Bank Note. The December 2021 unemployment rate in the AA was 2.6 percent, compared to the state of Kansas unemployment rate of 2.8 percent and the national unemployment rate of 3.9 percent.

Based on loan originations during the evaluation period, the primary product for the Wilson County AA is consumer loans by number and dollar. Competition is strong with four other institutions in the market area. FNB ranks first in deposit market share at 32.5 percent. The primary competitors in the AA are small and large community banks, including Bank of Commerce, FirstOak Community National Bank & Trust. FNB's competitors all have multiple banking locations outside the market area with Community National Bank and Trust having two locations inside the market area. All of FNB's competitors are larger in asset size, some significantly larger with a greater depositor base.

We considered a community contact operating a housing agency within the AA. The contact identified low-income and affordable housing as a significant need in the community due to higher home prices and taxes. Rental housing was also cited as a need. The contact stated local banks are active in the community and specifically named FNB as a responsive bank to the community needs and the agency has its accounts with FNB.

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<sup>1</sup> This rating reflects performance within the state. The statewide evaluations do not reflect performance in the parts of those states contained within a MMSA.

Wilson County – Full-Scope AA

Table A – Demographic Information of the Assessment Area						
Assessment Area: Wilson County						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	4	0.0	50.0	50.0	0.0	0.0
Population by Geography	9,061	0.0	46.8	53.2	0.0	0.0
Housing Units by Geography	4,663	0.0	48.7	51.3	0.0	0.0
Owner-Occupied Units by Geography	2,808	0.0	46.6	53.4	0.0	0.0
Occupied Rental Units by Geography	961	0.0	47.6	52.4	0.0	0.0
Vacant Units by Geography	894	0.0	56.8	43.2	0.0	0.0
Businesses by Geography	560	0.0	52.3	47.7	0.0	0.0
Farms by Geography	85	0.0	50.6	49.4	0.0	0.0
Family Distribution by Income Level	2,496	22.5	21.5	25.9	30.1	0.0
Household Distribution by Income Level	3,769	26.4	17.6	19.5	36.5	0.0
Median Family Income Non-MSAs - KS		\$49,580	Median Housing Value			\$60,048
Household Median Income: \$42,570			Median Gross Rent			\$584
Households Below Poverty Level: 15.6%			Families Below Poverty Level			11.9%
<i>Source: 2015 ACS and 2021 D&amp;B Data</i> <i>Due to rounding, totals may not equal 100.0%</i> <i>(*) The NA category consists of geographies that have not been assigned an income classification.</i>						

**Scope of Evaluation in Kansas**

The OCC used small bank examination procedures to evaluate FNB’s record of meeting the credit needs of its community through its lending activities. The lending test review period is January 1, 2019 through December 31, 2021. The bank has one AA with all census tracts in Wilson County, Kansas and is a non-MSA area. Conclusions were based on the bank’s consumer lending as the primary product by number and dollar.

**LENDING TEST**

The bank’s performance under the Lending Test in Kansas is rated Satisfactory.

**Conclusions for Area Receiving a Full-Scope Review**

Based on a full-scope review, the bank’s performance in the Wilson County AA is reasonable.

**Distribution of Loans by Income Level of the Geography**

The bank exhibits excellent geographic distribution of loans in the State.

### ***Consumer Loans***

Refer to Table U in the state of Kansas section of appendix D for the facts and data used to evaluate the geographic distribution of the bank's consumer loan originations and purchases.

Lending to consumers in different geographies by FNB is excellent. FNB significantly exceeded demographics in its lending to borrowers in moderate-income tracts at 73.9 percent of its loans in comparison to moderate-income demographics of 46.8 percent. There are no low-income tracts in the AA. The middle-income tracts have been identified as underserved financially with the remainder of the bank's loans made in those tracts.

### **Distribution of Loans by Income Level of the Borrower**

The bank exhibits a reasonable distribution of loans to individuals of different income levels and businesses and farms of different sizes, given the product lines offered by the bank.

### ***Consumer Loans***

Refer to Table V in the state of Kansas section of appendix D for the facts and data used to evaluate the borrower distribution of the bank's consumer loan originations and purchases.

Consumer lending to borrowers of different incomes is reasonable. Lending to both low- and moderate-income borrowers exceeded demographics for both. FNB faces strong competition in its AA from other larger banks with a small population and a household poverty rate of 15.6 percent.

### **Responses to Complaints**

FNB has not received any CRA or Fair Lending complaints during the evaluation period.



# Appendix A: Scope of Examination

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The following table identifies the time period covered in this evaluation, affiliate activities that were reviewed, and loan products considered. The table also reflects the MSAs and non-MSAs that received comprehensive examination review, designated by the term “full-scope,” and those that received a less comprehensive review, designated by the term “limited-scope”.

<b>Time Period Reviewed:</b>	01/01/2019 to 12/31/2021	
<b>Bank Products Reviewed:</b>	Consumer loans	
<b>Affiliate(s)</b>	<b>Affiliate Relationship</b>	<b>Products Reviewed</b>
N/A	N/A	N/A
<b>List of Assessment Areas and Type of Examination</b>		
<b>Rating and Assessment Areas</b>	<b>Type of Exam</b>	<b>Other Information</b>
<b>MMSA(s)</b>		
N/A		
<b>States</b>		
Kansas	Small Bank	

## Appendix B: Summary of MMSA and State Ratings

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RATINGS	FNB of Fredonia
	Lending Test Rating
Overall Bank:	Satisfactory
State:	
Kansas	Satisfactory

## Appendix C: Definitions and Common Abbreviations

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The following terms and abbreviations are used in this performance evaluation, including the CRA tables. The definitions are intended to provide the reader with a general understanding of the terms, not a strict legal definition.

**Affiliate:** Any company that controls, is controlled by, or is under common control with another company. A company is under common control with another company if the same company directly or indirectly controls both companies. For example, a bank subsidiary is controlled by the bank and is, therefore, an affiliate.

**Aggregate Lending (Aggt.):** The number of loans originated and purchased by all reporting lenders (HMDA or CRA) in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the state/assessment area.

**Census Tract (CT):** A small, relatively permanent statistical subdivision of a county delineated by a local committee of census data users for the purpose of presenting data. Census tracts nest within counties, and their boundaries normally follow visible features, but may follow legal geography boundaries and other non-visible features in some instances, Census tracts ideally contain about 4,000 people and 1,600 housing units.

**Combined Statistical Area (CSA):** A geographic entity consisting of two or more adjacent Core Based Statistical Areas with employment interchange measures of at least 15. An employment interchange measure is a measure of ties between two adjacent entities. The employment interchange measure is the sum of the percentage of workers living in the smaller entity who work in the larger entity and the percentage of employment in the smaller entity that is accounted for by workers who reside in the larger entity.

**Community Development (CD):** Affordable housing (including multifamily rental housing) for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet Small Business Administration Development Company or Small Business Investment Company programs size eligibility standards or have gross annual revenues of \$1 million or less; or activities that revitalize or stabilize low- or moderate-income geographies, distressed or underserved nonmetropolitan middle-income geographies, or designated disaster areas.

**Community Reinvestment Act (CRA):** The statute that requires the OCC to evaluate a bank's record of meeting the credit needs of its entire community, including LMI areas, consistent with the safe and sound operation of the bank, and to take this record into account when evaluating certain corporate applications filed by the bank.

**Consumer Loan(s):** A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, other secured consumer loans, and other unsecured consumer loans.

**Family:** Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family, which is further classified into ‘male householder’ (a family with a male householder’ and no wife present) or ‘female householder’ (a family with a female householder and no husband present).

**Full-Scope Review:** Performance under the Lending, Investment, and Service Tests is analyzed considering performance context, quantitative factors (e.g., geographic distribution, borrower distribution, and total number and dollar amount of investments), and qualitative factors (e.g., innovativeness, complexity, and responsiveness).

**Geography:** A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

**Home Mortgage Disclosure Act (HMDA):** The statute that requires certain mortgage lenders that conduct business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applicants, the amount of loan requested, the disposition of the application (e.g., approved, denied, and withdrawn), the lien status of the collateral, any requests for preapproval, and loans for manufactured housing.

**Home Mortgage Loans:** A closed-end mortgage loan or an open-end line of credit as these terms are defined under 12 CFR 1003.2, and that is not an excluded transaction under 12 CFR 1003.3(c)(1) through (c)(10) and (c)(13).

**Household:** Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

**Limited-Scope Review:** Performance under the Lending, Investment, and Service Tests is analyzed using only quantitative factors (e.g., geographic distribution, borrower distribution, total number and dollar amount of investments, and branch distribution).

**Low-Income Individual:** Individual income that is less than 50 percent of the area median income.

**Low Income Geography:** A census tract with a median family income that is less than 50 percent.

**Market Share:** The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the state/assessment area.

**Median Family Income (MFI):** The median income determined by the U.S. Census Bureau every five years and used to determine the income level category of geographies. The median is the point at which half of the families have income above, and half below, a range of incomes. Also, the median income determined by the Federal Financial Institutions Examination Council (FFIEC) annually that is used to determine the income level category of individuals. For any given area, the median is the point at which half of the families have income above, and half below, a range of incomes.

**Metropolitan Division:** As defined by Office of Management and Budget, a county or group of counties within a Core Based Statistical Area that contains an urbanized population of at least 2.5 million. A Metropolitan Division consists of one or more main/secondary counties that represent an employment center or centers, plus adjacent counties associated with the main/secondary county or counties through commuting ties.

**Metropolitan Statistical Area:** An area, defined by the Office of Management and Budget, as a core based statistical area associated with at least one urbanized area that has a population of at least 50,000. The Metropolitan Statistical Area comprises the central county or counties containing the core, plus adjacent outlying counties having a high degree of social and economic integration with the central county or counties as measured through commuting.

**Middle-Income:** Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 percent and less than 120 percent, in the case of a geography

**Moderate-Income:** Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 percent and less than 80 percent, in the case of a geography.

**Multifamily:** Refers to a residential structure that contains five or more units.

**Owner-Occupied Units:** Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

**Qualified Investment:** A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

**Rating Area:** A rated area is a state or multi-state metropolitan statistical area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multi-state metropolitan statistical area, the institution will receive a rating for the multi-state metropolitan statistical area.

**Small Loan(s) to Business(es):** A loan included in 'loans to small businesses' as defined in the Consolidated Report of Condition and Income (Call Report) instructions. These loans have original amounts of \$1 million or less and typically are either secured by nonfarm or nonresidential real estate or are classified as commercial and industrial loans.

**Small Loan(s) to Farm(s):** A loan included in 'loans to small farms' as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, or are classified as loans to finance agricultural production and other loans to farmers.

**Tier 1 Capital:** The total of common shareholders' equity, perpetual preferred shareholders' equity with non-cumulative dividends, retained earnings and minority interests in the equity accounts of consolidated subsidiaries.

**Upper-Income:** Individual income that is at least 120 percent of the area median income, or a median family income that is at least 120 percent, in the case of a geography.

## Appendix D: Tables of Performance Data

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### Content of Standardized Tables

A separate set of tables is provided for each state. All multistate metropolitan statistical areas, if applicable, are presented in one set of tables. References to the “bank” include activities of any affiliates that the bank provided for consideration (refer to appendix A: Scope of the Examination). For purposes of reviewing the Lending Test tables, the following are applicable: (1) purchased are treated as originations; and (2) “aggregate” is the percentage of the aggregate number of reportable loans originated and purchased by all HMDA or CRA-reporting lenders in the MMSA/assessment area. Deposit data are compiled by the FDIC and are available as of June 30<sup>th</sup> of each year. Tables without data are not included in this PE.

The following is a listing and brief description of the tables included in each set:

**Table U. Assessment Area Distribution of Consumer Loans by Income Category of the Geography** - Compares the percentage distribution of the number of loans originated and purchased by the bank in low-, moderate-, middle-, and upper-income geographies to the percentage distribution of households in those geographies.

**Table V. Assessment Area Distribution of Consumer Loans by Income Category of the Borrower** - Compares the percentage distribution of the number of loans originated and purchased by the bank to low-, moderate-, middle-, and upper-income borrowers to the percentage distribution of households by income level in each MMSA/assessment area.

Table U: Assessment Area Distribution of Consumer Loans by Income Category of the Geography													2019-21	
Assessment Area:	Total Consumer Loans			Low-Income Tracts		Moderate-Income Tracts		Middle-Income Tracts		Upper-Income Tracts		Not Available-Income Tracts		
	#	\$	% of Total	% of Households	% Bank Loans	% of Households	% Bank Loans	% of Households	% Bank Loans	% of Households	% Bank Loans	% of Households	% Bank Loans	
Wilson County	46	312	100.0	0.0	0.0	46.8	73.9	53.2	26.1	0.0	0.0	0.0	0.0	
<b>Total</b>	<b>46</b>	<b>312</b>	<b>100.0</b>	<b>0.0</b>	<b>0.0</b>	<b>46.8</b>	<b>73.9</b>	<b>53.2</b>	<b>26.1</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	

Source: 2015 ACS; 01/01/2019 - 12/31/2021 Bank Data.  
Due to rounding, totals may not equal 100.0%

Table V - Assessment Area Distribution of Consumer Loans by Income Category of the Borrower													2019-21	
Assessment Area:	Total Consumer Loans			Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers		Not Available-Income Borrowers		
	#	\$	% of Total	% of Households	% Bank Loans	% of Households	% Bank Loans	% of Households	% Bank Loans	% of Households	% Bank Loans	% of Households	% Bank Loans	
Wilson County	46	312	100.0	26.4	28.3	17.6	19.6	19.5	19.6	36.5	32.6	0.0	0.0	
<b>Total</b>	<b>46</b>	<b>312</b>	<b>100.0</b>	<b>26.4</b>	<b>28.3</b>	<b>17.6</b>	<b>19.6</b>	<b>19.5</b>	<b>19.6</b>	<b>36.5</b>	<b>32.6</b>	<b>0.0</b>	<b>0.0</b>	

Source: 2015 ACS; 01/01/2019 - 12/31/2021 Bank Data.  
Due to rounding, totals may not equal 100.0%