



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

October 27, 2003

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The First National Bank of Liberal
Charter Number 6720**

**324 North Kansas
Liberal, Kansas 67901**

**Comptroller of the Currency
ADC-Arizona & New Mexico
9633 South 48th Street Suite 265
Phoenix, Arizona 85044**

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 of Liberal's (FNBL) lending performance reflects a satisfactory response to community credit needs. This conclusion is based on the following results.

- The loan-to-deposit (LTD) ratio is reasonable given the bank's size, financial condition and assessment area (AA) credit needs.
- The bank originated a majority of loans inside its AA.
- Lending activities represent reasonable penetration of loans to businesses and farms of different sizes.
- The geographic distribution of loans reflects a reasonable dispersion throughout the AA.

DESCRIPTION OF INSTITUTION

As of June 30, 2003, FNBL was a \$155 million community bank located in Seward County in Liberal, Kansas, approximately two miles from the Oklahoma border. FNBL has a main office and full service branch in Liberal. Another full service branch is located in Hugoton, Kansas in Stevens County. The bank has four deposit taking ATMs, one of which is in a moderate-income tract. The bank has not closed any branch offices or deposit taking ATMs during the evaluation period. The bank is a member of a three-bank holding company, Kansas Bank Corporation of Johnson, Kansas. The other two banks are First National Bank of Elkhart and First National Bank of Syracuse.

The bank's primary lending focus is small business and small farm loans. In terms of dollars, commercial and commercial real estate loans represent 31% of the bank's total loan portfolio, and agricultural and farmland loans represent 57% as of December 31, 2002.

The bank was previously rated Satisfactory as of October 26, 1998. There are no financial or legal impediments that hinder the bank's ability to help meet the credit needs of the AA.

DESCRIPTION OF SEWARD & STEVENS COUNTY, KANSAS AA

FNBL has designated seven census tracts (CT) as its AA. The CT's comprise all of Seward County (9656, 9657, 9658, 9659, 9660) and Stevens County (9651, 9652) Kansas. One is moderate-income, five are middle-income, and one is an upper-income tract. According to the Bureau of Labor Statistics, the unemployment rate as of December 31, 2002, for Seward County was 3.5% and 2.7% for Stevens County.

Competition for financial services is moderate. The June 30, 2002 FDIC Deposit Market Share Report shows seven financial institutions competed for \$345 million of insured deposits. The nature of the competition includes five other community banks and a branch of one nation-wide bank. FNBL has the largest share of deposits in the market place at 38%.

Of these six other financial institutions, the bank considers three of them to be close competitors, due to geographic proximity, line of business, and the absence of offices outside the AA. Three banks will be used to evaluate the bank's LTD ratio.

During this examination, we contacted one community leader in the area to discuss economic conditions and credit needs. The contact was a regional governmental official who identified the primary credit needs as agricultural loans due to the rural demographics of southwestern Kansas. The contact stated that local financial institutions throughout all counties in the area are very supportive in meeting those credit needs.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

The evaluation period for this CRA examination focuses on the prior two years (2001-2002) except for the LTD ratio, which is calculated through June 2003. We looked at both the dollar amount of loans and the number of loans originated. An evaluation of the originations showed FNBL's primary products to be commercial and agricultural loans, which is representative of the bank's business strategy.

Loan Originations for Evaluation Period	Percentage of Dollar Amount of Loans	Percentage of Number of Loans
Commercial Loan Originations as a % of Total Originations	36%	18%
Agricultural Loan Originations as a % of Total Originations	46%	18%
Combined Total	82%	36%

Source: Loan Originations for evaluation period

After identifying the primary product, we took a random sample of 20 loans, and used them to determine the ratio of loans inside the AA. To evaluate the geographic and borrower distribution of loans, loans outside the AA were discarded and additional loans were then selected to fill in the sample of 20. Based on these samples, the bank's initial evaluation of its CRA performance in meeting the credit needs of the community is Satisfactory, as supported below.

Loan-to-Deposit Ratio

The bank's quarterly average LTD ratio of 52% is reasonable given the bank's size, financial condition, and AA credit needs. It meets the standard for satisfactory performance. Uniform Bank Performance Reports from the fourth quarter 2000 through the second quarter 2003 were used to compare FNBL with three similarly situated banks.

Bank	Average Quarterly LTD Ratio
FNBL	52%
Bank A	75%
Bank B	70%
Bank C	62%

Source: Uniform Bank Performance Report

While FNBL's LTD ratio was lower than its three competitors, it is still reasonably similar. All four banks have experienced a declining trend over the last two years, due to a softening in the agricultural economy. Although they do not meet the size test for community development loans, it is noteworthy to mention that the bank has been financing a builder who is constructing homes under the USDA Rural Development Home Loans program. This program provides affordable housing to qualifying low- and moderate-income individuals (LMI) unable to secure acceptable credit elsewhere.

Lending in Assessment Area

A majority of the number and dollar amount of loans in the loan sample are inside the bank's AA. This meets the standards for satisfactory performance. Refer to the table below.

Lending in Seward and Stevens County Assessment Area										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$000	%	\$000	%	
Agriculture	9	45%	11	55%	20	\$2776	59%	\$1953	41%	\$4729
Business	17	85%	3	15%	20	\$ 355	67%	\$ 176	33%	\$ 531
Totals	26	65%	14	35%	40	\$3131	60%	\$2129	40%	\$5260

Source: sample of loans

Lending to Businesses and Farms of Different Sizes

Given the demographics of the AA, the distribution of loans originated reflects a reasonable penetration among businesses and farms of different sizes. Refer to the two tables below.

Borrower Distribution of Loans to Businesses in Seward & Stevens County AA		
Business Revenues (or Sales)	≤ \$1,000,000	> \$1,000,000
% of AA Businesses*	75%	4%
% of Bank Loans in AA by #	80%	10%
% of Bank Loans in AA by % \$	63%	27%

Source: Loan sample; Dunn & Bradstreet data. *21% of AA businesses did not report revenue data.

The penetration of loans to small businesses (\$1 million or less revenues) as measured by the percentage of the number of loans is excellent. As measured by the percentage of the dollar amount of loans, it is still reasonable.

Borrower Distribution of Loans to Farms in Seward & Stevens County AA		
Farm Revenues (or Sales)	≤ \$1,000,000	> \$1,000,000
% of AA Farms*	94%	5%
% of Bank Loans in AA by #	90%	5%
% of Bank Loans in AA by % \$	23%	77%

Source: Loan sample; Dunn & Bradstreet data. *1% of AA farms did not report revenue data.

The penetration of loans to small farms (\$1 million or less revenues) as measured by the percentage of the number of loans is also reasonable. It appears that the bank falls very short with only 23% of the dollar amount of loans made to small farms compared to the demographic of 94% of the farms in the area with revenues of \$1 million or less. However, this discrepancy can be better understood if you realize that a single loan comprises the 77% of the dollars to large farms. The one loan is the single largest loan in the sample (over \$2 million), which significantly distorts the ratios in such a small sample. Despite the apparent shortfall caused by this one loan, the bank’s performance is reasonable.

Geographic Distribution of Loans

The geographic distribution of loans to businesses and farms reflects a reasonable dispersion throughout the AA. There are no low-income tracts, and only one moderate-income tract.

FNBL’s penetration of the dollar amount of loans to businesses in moderate-income geographies actually exceeds the demographic. The penetration of the number of loans in moderate-income tracts is below, but near to the demographic.

Geographic Distribution of Loans to Businesses in Seward & Stevens County AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Businesses	% of # of Loans	% of AA Businesses	% of # of Loans	% of AA Businesses	% of # of Loans	% of AA Businesses	% of # of Loans
Commercial	0%	0%	28%	15%	57%	65%	15%	20%
		% of \$ of Loans						
		0%		29%		51%		20%

Source: Sample of loans; Dunn & Bradstreet data.

While there are no loans to farms in the moderate income tracts, only nine of the 186 total farms in the AA are in the single moderate-income tract. With such a small number of farms in the moderate-income tract, and such a limited sample size, it is not surprising that none appeared in the sample. Despite the gap in the loan sample in the moderate-income tract, the bank's performance is considered reasonable.

Geographic Distribution of Loans to Farms in Seward & Stevens County AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Farms	% of # of Loans	% of AA Farms	% of # of Loans	% of AA Farms	% of # of Loans	% of AA Farms	% of # of Loans
Agricultural	0%	0%	5%	0%	91%	100%	4%	0%
		% of \$ of Loans						
		0%		0%		100%		0%

Source: Sample of loans; Dunn & Bradstreet data; census data.

Responses to Complaints

FNBL has not received any CRA related complaints since our last examination.

Fair Lending or Other Illegal Credit Practices Review

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