



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## **PUBLIC DISCLOSURE**

**December 15, 2009**

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

The First National Bank of Smith Center  
Charter Number 3546

133 S. Main Street  
Smith Center, KS 66967-0000

Office of the Comptroller of the Currency

KANSAS CITY NORTH Field Office  
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, 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.**

- The First National Bank of Smith Center (FNB) has a good record of lending to farms of different sizes.
- A substantial majority of loans are within FNB's assessment area (AA).
- The bank's average loan-to-deposit (LTD) ratio is reasonable given the performance context.

**SCOPE OF EXAMINATION**

Our review covered the time period from January 1, 2007 to December 10, 2009. The bank has one AA consisting of Smith County, Kansas. Our loan sample included 20 agricultural loans and 20 consumer loans. These were the primary loan types by dollar volume and by number.

**DESCRIPTION OF INSTITUTION**

FNB is a \$42 million institution owned by Smith Center Bancshares which is a one-bank holding company. The holding company is headquartered in Smith Center, Kansas, which is the county seat of Smith County. The bank's main office is also located in Smith Center, Kansas. FNB has a drive-up facility across the street from the main bank. The bank's primary loan products in the AA are loans to individuals and agricultural loans. In addition, First Insurance, Inc. is an affiliate of the bank through common ownership.

FNB, in conjunction with Peoples Bank, continues to operate Smith Center, Inc., a community development corporation (CDC). The CDC's primary purpose is to assist with economic development of Smith Center by attracting new businesses for job creation.

There are no legal or financial constraints that impede the bank's CRA efforts. CNB received a "Satisfactory" CRA rating at the last examination dated May 21, 2004. The bank has not opened or closed any branches since the last examination.

**DESCRIPTION OF ASSESSMENT AREA**

FNB designates all of Smith County, Kansas as its AA. Smith County consists of two middle-income census tracts that are designated as underserved due to being in a remote rural location and distressed due to population loss. The AA does not arbitrarily exclude any low- or moderate-income areas and meets the regulatory requirements.

The AA has a population of 4,536 persons with 1,953 households and 1,336 families. The data show 22 percent of families are low-income, 24 percent of families are

moderate-income, 25 percent of families are middle-income, and 29 percent of families are upper-income. The median housing value is \$40,564, and 64 percent of the housing units are owner-occupied. The HUD non-MSA median family income is \$37,181. Generally, the local economy has been depressed due to declining population. Smith County is ranked highest in the state of Kansas for the percent of people age 65 and older at 28 percent and the total population declined by 11 percent over the past ten years. However, in the past two years there has been an influx of younger families coming to the area and, with that, an increase in small business loan requests. The area's economy is still highly dependent on agriculture. Historically, that has been the biggest credit need, but now small business loans are gaining significance as a credit need.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

### Loan-to-Deposit Ratio

FNB's LTD is reasonable given local loan demand levels and competition from other financial institutions. The bank's average LTD ratio from June 30, 2004 to June 30, 2009 was 55 percent. We compared FNB to three other similarly-situated banks in the AA. The average LTD of the other institutions was 66 percent. The high and low averages range from 62.30 percent to 68.36 percent.

### Lending in Assessment Area

The bank's record of lending within the AA is good. FNB originates a substantial majority of its loans, both by number and dollar amount, within its AA. We randomly sampled 20 consumer loans and 20 agricultural loans originated January 1, 2007 through December 10, 2009. The bank originated 90 percent by dollar and number within the AA.

**Table 1 - Lending in Smith County AA**

Type of Loan	Number of Loans					Dollars of Loans (000's)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Consumer Loans	17	85.00%	3	15.00%	20	\$135	87.94%	\$19	12.06%	\$154
Agricultural Loans	19	95.00%	1	5.00%	20	\$550	89.94%	\$62	10.06%	\$611
Totals	36	90.00%	4	10.00%	40	\$685	89.54%	\$80	10.46%	\$765

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

FNB’s overall record of lending to borrowers of different income levels and farms of different sizes is good. The distribution of agricultural borrowers reflects more than reasonable penetration to small farms in the AA. We did not perform an analysis of the

<b>Table 2 - Borrower Distribution to Farms in Smith County AA</b>				
Business Revenues (or Sales)	<= \$1,000,000	> \$1,000,000	Unavailable	Total
% of AA Farms	100.00%	0.00%	0.00%	100.00%
% of Bank Loans in AA by #	100.00%	0.00%	0.00%	100.00%
% of Bank Loans in AA by \$	100.00%	0.00%	0.00%	100.00%

borrower distribution by income level on the consumer loans. The analysis was not meaningful because the bank does not maintain the borrower’s income information for existing customers. We used loan size as a proxy. The distribution of consumer borrowers based on loan size is more than reasonable. Table 2, 2A, and 2B display the bank’s lending for agricultural and consumer loans in the AA.

<b>Table 2A - Borrower Distribution of Loans to Farms by Loan Size in Smith County AA</b>				
Loan Size	Number of Loans	Percent of Number	Dollar Volume of Loans	% of Dollars
0-25,000	13	65.00%	134,311	23.95%
25,001-50,000	2	10.00%	57,000	10.16%
50,001-75,000	3	15.00%	191,500	34.15%
75,001-110,000	2	10.00%	178,000	31.74%
Total	20	100.00%	560,811	100.00%

<b>Table 2B - Borrower Distribution of Loans to Consumers by Loan Size in Smith County AA</b>				
Loan Size	Number of loans	Percent of Number	Dollar Volume of Loans	% of Dollars
0-5,000	12	60.00%	34,591	22.50%
5,001-10,000	1	5.00%	6,004	3.90%
10,001-15,000	3	15.00%	36,386	23.67%
15,001-20,000	3	15.00%	53,748	34.97%
20,001-25,000	1	5.00%	23,004	14.96%
Total	20	100.00%	153,733	100.00%

### **Geographic Distribution of Loans**

An analysis of the geographic distribution of loans was not meaningful for the Smith County AA since there were no LMI geographies.

### **Responses to Complaints**

There were no CRA related complaints to review for this examination period.

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

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs. We performed a comprehensive fair lending examination in May 2009. We did not identify any evidence of discriminatory activity or disparate treatment in that review.