

PUBLIC DISCLOSURE

April 19, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The First National Bank of Sedan
Charter Number 3855**

**101 West Main Street
Sedan, Kansas 67361**

**Office of the Comptroller of the Currency
South Kansas Field Office
3450 North Rock Road, Suite 505
Wichita, Kansas 67226**

NOTE: 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.

GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the 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. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

*This document is an evaluation of the Community Reinvestment Act (CRA) performance of **The First National Bank of Sedan, Kansas**, prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of April 19, 1999. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.*

INSTITUTION'S CRA RATING: This institution is rated “**Satisfactory.**”

The bank has a satisfactory record of meeting the credit needs of its assessment area.

- < The bank has a good record of lending to businesses of different sizes.
- < Lending to borrowers of different incomes is also good. A sample of residential real estate loans indicate 52% were advanced to low- and moderate-income individuals.
- < Ninety-four percent of the number of loans are within the bank’s assessment area.
- < The bank’s penetration to low- and moderate-income individuals exceeds the demographics of the assessment area.
- < The bank’s loan-to-deposit ratio is adequate.

DESCRIPTION OF INSTITUTION

The First National Bank of Sedan (First National) is a \$38 million financial institution located in Sedan, Kansas. First National has no branch locations and no automated teller machines. The bank is a full service financial institution, providing a variety of loan products with an emphasis on residential real estate and agricultural loans. Net loans represent 35% of total assets or \$13.2 million. In addition, First National has 74% of the deposits of Chautauqua County, as of June 30, 1998.

The bank's financial condition, size, local economic conditions, and other factors allow it to help meet the credit needs of its assessment area. At the previous CRA examination dated February 15, 1996, First National received a "Satisfactory Record of Meeting Community Credit Needs" rating.

The following table illustrates that the loan portfolio is composed primarily (73%) of residential real estate and agricultural loans.

Loan Distribution by Type		
Loan Type	Dollar Amount as of 12/31/98	Percent of Loan Portfolio as of 12/31/98
Residential Real Estate	\$6,425M	47%
Agricultural Loans	\$3,525M	26%
Commercial Loans	\$2,614M	19%
Consumer Loans	\$1,149M	8%
Total (gross loans)	\$13,746M	100%

DESCRIPTION OF ASSESSMENT AREA

The bank's assessment area consists of Chautauqua County, Kansas. The assessment area is located in southeast Kansas with a population of 4,407, and is agricultural dependent. Chautauqua County has one Block Numbering Area (BNA). BNA 9946 is considered a moderate-income tract.

The assessment area does not arbitrarily exclude any low- or moderate-income areas. Households with income below the poverty level represent 20% of the total households. The median housing cost for the assessment area is \$18,800, and 65% are owner occupied.

The assessment area contains one bank (First National) and two branches of another bank. Agriculture, including grain and livestock production, provide the bulk of the area's employment base. Other employers in the area include: medical services, school districts, city and county government, retail, and light manufacturing. Depressed livestock and low grain and oil prices have affected the local economy. Chautauqua County's unemployment rate is low. The Kansas statewide nonmetropolitan median family income is \$38,200 for 1998. Income levels in the area are among the lowest in the state, with the average median family income being \$21,426.

Examiners conducted an interview with two community contacts in the service and retail industries. The contacts did not identify any specific credit needs but did indicate the local banks were effectively meeting the credit needs of the area. Both contacts did mention that First National, the only locally owned bank, was very involved in community activities.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

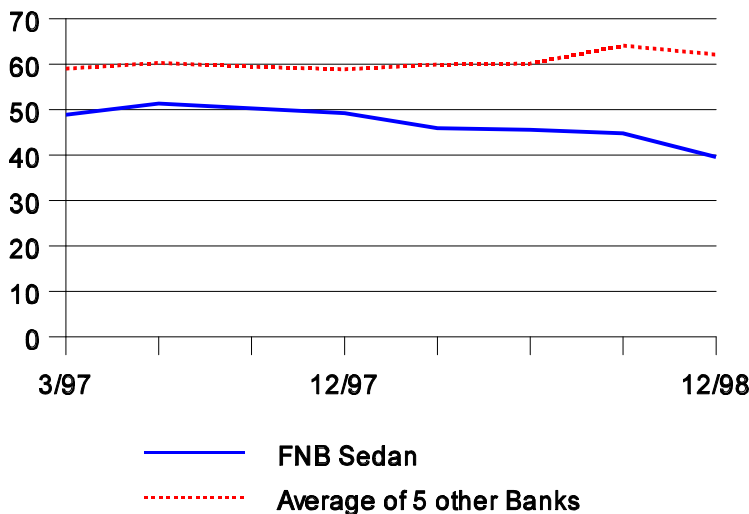
Loan-to-Deposit Ratio

The bank's level of lending is reasonable. In the last eight quarters, the bank's quarterly average loan-to-deposit ratio was 47%. This is lower than the quarterly average loan-to-deposit ratio of 60% for the five other banks that are considered competition in the area. The other five banks have quarterly average loan-to-deposit ratios ranging from 52% to 70%. Management presented external factors that have caused its loan-to-deposit ratio to decline. The loans have declined due to competitive pressure from Farm Credit Service (FCS) and institutions willing to finance residential real estate for longer

terms. First National feels it is not economically feasible to match competitive terms that are being offered by FCS and real estate lenders. Residential real estate loans have decreased by \$1.5 million in the last year. The bank's deposits increased by \$3 million in the fourth quarter of 1998. These coinciding factors have contributed to the declining loan-to-deposit ratio. Management feels deposits will decrease back to historical levels toward the second half of 1999 as public funds will move out of the bank. In addition the bank will lower rates on longer term certificates of deposit. The bank expects loan levels to stabilize for the rest of 1999.

Loan-to-Deposit Ratio

Quarterly Average Since Previous Exam



Lending in Assessment Area

First National extends a majority of its loans within the assessment area. Bank records indicate 94% of the number and 90% of the dollar amount of all loans are in the assessment area. Examiners used loan samples and management generated reports to support findings.

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

Lending levels to businesses of different sizes is good. Examiners reviewed a sample of 20 agricultural loans granted from the previous examination to April 15, 1999. Management considers farms with annual gross revenues of \$100,000 or less to be small operations. The following table shows the distribution of agricultural loans by annual gross revenues.

Agricultural Annual Gross Revenues	Number of Loans	Percentage
Less than \$100,000	16	80%
\$100,000 to \$250,000	3	15%
More than \$250,000	1	5%
TOTAL	20	100%

The bank has an excellent record of granting residential real estate loans to borrowers of different income levels. The following table depicts distribution by income level of residential real estate loans granted from the previous examination to April 15, 1999. The table illustrates the bank's lending to low-income individuals is good. Loans to moderate-income individuals is satisfactory.

Distribution of Residential Real Estate Loan Sample by Income Levels			
Income Levels	Number of Customers	Percentage of sample	Percentage of Families in Income Category
Low	8	33%	30%
Moderate	5	20%	22%
Middle	7	28%	27%
Upper	5	20%	21%

Distribution of Residential Real Estate Loan Sample by Income Levels			
Total	25	100%	100%

Geographic Distribution of Loans

An analysis of the bank’s geographic distribution of loans would not be meaningful since the assessment area contains only a moderate-income tract.

Response to Complaints

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

Compliance with Anti-Discrimination Laws and Regulations

Based on our review, the bank is in compliance with all provisions of antidiscrimination laws and regulations. Examiners did not find any evidence of prohibited discrimination or other illegal credit practices.