



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

November 18, 2002

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The Farmers National Bank of Buhl
Charter Number 11076
914 Main Street
Buhl, Idaho 83316**

**Comptroller of the Currency
ADC - Montana, Wyoming, Idaho & Utah
2795 Cottonwood Parkway, Suite 390
Salt Lake City, Utah 84121**

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.

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INSTITUTION'S CRA RATING

This institution is rated Satisfactory.

The Farmers National Bank of Buhl's lending performance depicts a satisfactory practice of providing for the credit needs of the assessment area. The following supports this rating:

- The bank's loan-to-deposit ratio indicates a reasonable responsiveness to area credit needs.
- A substantial majority of loans were originated within the assessment area.
- The bank's lending patterns reflect a good distribution of loans to businesses and farms of different sizes.

Description of Institution

The Farmers National Bank of Buhl (FNB) is a community bank located in Buhl, Idaho. As of September 30, 2002, the bank had assets of \$266 million and net loans totaling \$170 million, or 64% of total assets. The bank provides a full range of depository products and services. The bank's main office is located in Buhl with branch offices in Twin Falls (two), Wendell and Jerome. There is one Automated Teller Machine (ATM) at each branch. FNB opened the Jerome branch office during the evaluation period. Farmers Bancorporation (FB), a one-bank holding company located in Buhl, Idaho, owns 100% of FNB's stock. FB has no substantive assets other than this bank.

FNB's primary lending focus is on agricultural and commercial loans. Table 1 displays the breakdown of the bank's loan portfolio by loan type as of September 30, 2002.

| Table 1 LOAN PORTFOLIO COMPOSITION September 30, 2002 | \$ (000) | Percent |
|--|-----------------|----------------|
| Real Estate Loans | | |
| 1-4 Family Residential Properties Secured by First Liens | 11,544 | 7 |
| Farmland | 16,600 | 10 |
| Non-farm Non-residential Properties | 22,933 | 13 |
| Construction, Land Development, Other | 10,957 | 6 |
| Agricultural Loans | 60,325 | 35 |
| Consumer Loans | 16,341 | 9 |
| Commercial Loans | 33,855 | 20 |
| Total | 172,555 | 100% |

Source: Consolidated Report of Condition for September 30, 2002

No financial, legal, or other impediments limit the bank's ability to meet the credit needs of its assessment area. FNB received a Satisfactory rating at its March 30, 1998 CRA examination.

Description of the Assessment Area

FNB designated 21 block numbering areas (BNA's) in Jerome, Gooding and Twin Falls Counties as its assessment area (AA). This AA in south central Idaho meets the requirements of the regulation. The city of Twin Falls is the largest community in the AA. Other communities in the AA include Buhl, Castleford, Filer, Wendell, Hagerman, Bliss, Gooding, Jerome, Kimberly, Hansen, Murtaugh, Eden, Hazelton and Hollister. According to the U.S. Census Bureau, the 2001 population of the AA was 97,387. This reflects a 21 percent increase from 1990. The AA has four moderate-income BNA's, sixteen middle-income BNA's, and one upper-income BNA. There are no low-income BNA's. The U.S. Department of Housing and Urban Development (HUD) lists the Idaho statewide non-metropolitan median family income as \$41,400 for 2002. The U.S. Census Bureau lists the percentage of persons below the poverty level at 13.1 percent. The median housing value in the AA for 2000 was \$90,000, according to the U.S. Census Bureau.

| Table 2 | | | | |
|-------------------------|---------------------------------|---------------------|-----------------|----------------|
| 1990 CENSUS DATA | | | | |
| Income Level | Percent of MFI | Income Range | Families | |
| | | | Number | Percent |
| Low-Income | Less than 50% | < \$20,700 | 4,215 | 20% |
| Moderate-Income | At least 50% and less than 80% | \$20,700 - \$33,119 | 4,610 | 21% |
| Middle-Income | At least 80% and less than 120% | \$33,120 - \$49,679 | 5,283 | 24% |
| Upper-Income | 120% and over | \$49,680 + | 7,538 | 35% |

Source: U.S. Census Bureau, 1990 Census Data

The dominant industries based on number of jobs in the AA are retail, manufacturing, healthcare, hospitality and government. The AA's unemployment rate as of September 2002 was 3.1 percent compared to the State of Idaho's unemployment rate of 4.7 percent at the same date.

The financial services sector is competitive. The June 30, 2001, FDIC Deposits Market Share Report shows 12 financial institutions competed for \$1.1 billion of insured deposits. The three largest institutions (Wells Fargo Bank Northwest, National Association; FNB; and First Federal Savings and Loan Association) hold 67 percent of the AA's deposits.

We made one community contact with a county wide economic development organization. The contact indicated that the local financial institutions meet the business and agricultural needs of the community. The contact indicated that the economy is stable.

Conclusions about Performance Criteria

The evaluation of the bank's lending performance is based upon the review of loans originated in 2000, 2001 and 2002. The tables included in this section use cumulative data from these three years.

For purposes of this review, we determined that the bank's primary loan types are agricultural and commercial loans, including real estate. These loan types comprised 84% of the bank's loan portfolio on September 30, 2002. The bank brokers a large majority of their 1-4 family residential loans for the secondary market. For 2002, the bank brokered 168 loans for a total of \$19,773,000. This is in addition to real estate loans originated and kept in the portfolio.

Loan-to-Deposit Ratio

FNB's loan-to-deposit ratio indicates a reasonable responsiveness to area credit needs. During the thirteen quarters ending June 30, 2002, FNB's loan-to-deposit ratio ranged from 65 percent to 86 percent, with an average loan-to-deposit ratio of 74 percent. The thirteen-quarter average loan-to-deposit ratio for twelve similarly situated banks in southern Idaho and northern Utah was 79 percent. The similarly situated banks were community banks with less than \$500 million in assets. While FNB's loan-to-deposit ratio is slightly lower than the average of their competitors, we noted that FNB's loan portfolio increased by 50% in the last five years. FNB also brokered \$20 million of residential real estate loans into the secondary market in the last year. Therefore, the loan-to-deposit ratio is not fully reflective of the lending activity of FNB.

Lending in Assessment Area

FNB originates a substantial majority of its loans within its AA. Based on our sample of loans, FNB makes 92 percent of originations within the AA by number of loans and 91 percent of originations within the AA by dollar amount. Our sample consisted of all loans in the bank's portfolio on September 30, 2002. The bank tracks the geographic location of all loans, and we verified the accuracy of the data.

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

The bank's lending patterns reflect a good distribution of loans to farms and businesses of different sizes.

The AA's economy continues to be agricultural based. FNB's lending practices reflect the bank's focus on making farm loans to borrowers of different sizes, especially to small farms. We randomly selected 43 agricultural loans for our sample. As shown in Table 3, 70% of agricultural loans in our sample were made to borrowers with revenues of less than \$250,000.

| Table 3 BORROWER DISTRIBUTION OF LOANS TO AGRICULTURAL BORROWERS | | | | |
|---|---|----------------|--|----------------|
| Revenues | Loan Distribution by Number of Loans | | Loan Distribution by Dollar Amount of Loans | |
| | Number | Percent | Dollar Amount | Percent |
| \$0 – 100,000 | 20 | 47% | \$150,593 | 5% |
| \$100,001 – 250,000 | 10 | 23% | 373,869 | 13% |
| \$250,001 – 500,000 | 7 | 16% | 574,281 | 20% |
| \$500,001 – 1,000,000 | 3 | 7% | 326,420 | 12% |
| More than \$1,000,000 | 3 | 7% | 1,420,830 | 50% |
| Total | 43 | 100% | \$2,845,993 | 100% |

Source: Examiner loan sample.

The rapid population growth and increasing urbanization of the area creates significant demands for small business loans. FNB demonstrates a strong commitment to supporting small businesses by making loans to commercial loan borrowers of various sizes. We randomly selected 33 commercial loans for our sample. As shown in Table 4, 70% of commercial loans in our sample were made to borrowers with revenues of less than \$500,000.

| Table 4 BORROWER DISTRIBUTION OF LOANS TO COMMERCIAL BORROWERS | | | | |
|---|---|----------------|--|----------------|
| Revenues | Loan Distribution by Number of Loans | | Loan Distribution by Dollar Amount of Loans | |
| | Number | Percent | Dollar Amount | Percent |
| \$0 – 100,000 | 12 | 37% | \$208,492 | 19% |
| \$100,001 – 250,000 | 6 | 18% | 179,213 | 16% |
| \$250,001 – 500,000 | 5 | 15% | 130,672 | 12% |
| \$500,001 – 1,000,000 | 3 | 9% | 200,936 | 18% |
| More than \$1,000,000 | 7 | 21% | 383,591 | 35% |
| Total | 33 | 100% | \$1,102,904 | 100% |

Source: Examiner loan sample.

Geographic Distribution of Loans

The bank's geographic distribution of loans is reasonable. We tested the bank's geographic distribution using our sample of 33 consumer loan originations. There are no low-income tracts within the AA. The bank's distribution of consumer loans (number of loans) closely matches the distribution of families in block numbering areas of different income levels. Refer to Table 5.

| Table 5 GEOGRAPHIC DISTRIBUTION OF CONSUMER LOANS | | |
|--|---|--|
| Block Numbering Area Income Level | Distribution of Loans (number of loans) by Income Level of BNA | Distribution of Families by Income Level of BNA |
| Low | N/A | N/A |
| Moderate | 20% | 15% |
| Middle | 61% | 76% |
| Upper | 19% | 9% |

Source: Loan sample and 1990 U.S. Census data.

Responses to Complaints

FNB has not received any complaints about its performance in helping to meet assessment area credit needs during this evaluation period.

Fair Lending and the Performance Evaluation

An analysis of four years of public comments and consumer complaint information was performed according to the OCC's risk based fair lending approach. Based on its analysis of the information, the OCC decided that a comprehensive fair lending examination would not need to be conducted in connection with the CRA evaluation this year. The last comprehensive fair lending exam was performed December 31, 1997.