



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## **PUBLIC DISCLOSURE**

July 6, 2011

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

First National Bank  
Charter Number: 14163

202 East Eleventh Street  
Goodland, Kansas 67735-0000

Office of the Comptroller of the Currency

Denver Field Office  
1225 17th Street, Suite 450  
Denver, Colorado 80202-5534

**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.**

**State Name: Kansas Rating: "Satisfactory"**

**State Name: Colorado Rating: "Satisfactory"**

The overall Community Reinvestment Act ("CRA") rating takes into consideration the ratings in the Kansas and Colorado Assessment Areas ("AAs"). The rating is based on First National Bank's ("FNB" or "the bank") performance in regard to farm, business, home purchase, and home refinance lending. The major factors that support the overall rating include:

- FNB originated a substantial majority of its loans in the AAs.
- The bank's loan-to-deposit ratio is reasonable.
- FNB has reasonable borrower distribution of lending to small farms in each AA.
- The bank has reasonable penetration in lending to small businesses in the Kansas AA and excellent penetration in lending to small businesses in the Colorado AA.

## **Scope of Examination**

The Office of the Comptroller of the Currency ("OCC") completed a full-scope small bank review of FNB. The OCC concluded on the bank's CRA performance in Kansas and Colorado by reviewing the bank's average loan-to-deposit ratio since the previous examination and testing the bank's lending inside the AAs. The OCC also tested the bank's borrower income distribution for the bank's primary products. The OCC reviewed the following primary products: agriculture, commercial business, and residential real estate (home purchase and refinancing) loans. The OCC used reported Home Mortgage Disclosure Act ("HMDA") data and CRA loan data for small businesses and farms since the previous CRA examination.

## **Description of Institution**

FNB is a \$245 million bank headquartered in Goodland, Kansas. The bank is an interstate community bank with operations in the states of Kansas and Colorado. FNB serves two rural AAs comprising mostly distressed and/or underserved counties. One AA is in northwestern Kansas and the other is in eastern Colorado. FNB's main office is located in Goodland, Kansas, 17 miles east of the Colorado state line, and 50 miles south of Nebraska. Full service branches are located in St. Francis, Colby, Quinter, Bird City, and Oberlin, Kansas, as well as Bennett and Kirk, Colorado. The bank operates 18 automated teller machines ("ATMs"), 6 of which are deposit-taking. All branches and ATMs are located in FNB's AAs.

FNB is owned by First National Bancshares, Inc., a one-bank holding company. First National Bancshares, Inc. is located in Goodland, Kansas.

As of June 30, 2011, FNB had Tier 1 capital of \$14.7 million and net loans of 50.75 percent of total assets. Since the last public evaluation, dated August 2, 2006, the bank has originated or purchased \$165 million in loans comprising: agriculture (38 percent by number, 58 percent by dollar); residential real estate (14 percent, 14 percent); commercial (11 percent, 7 percent); commercial real estate (4 percent, 15 percent); and consumer (26 percent, 4 percent). Agricultural lending has historically been FNB's primary market focus because the bank serves rural farming communities.

The OCC performed the last CRA examination of FNB on August 2, 2006, and assigned a "Satisfactory" rating. At that time, the OCC examined FNB under the large bank performance standards.

The bank has certain loan portfolio restrictions. However, there are no legal impediments or other factors preventing the bank from lending in its AAs.

## **Conclusions with Respect to Performance Criteria**

### **Loan-to-Deposit Ratio**

FNB's average loan-to-deposit ("LTD") ratio is reasonable. As of March 31, 2011, the 20-quarter average LTD ratio calculated since the previous CRA examination was 71.25 percent. The average LTD for eight similarly situated banks ranges from 61.43 percent to 102.2 percent, with an average of 78.82 percent. FNB's LTD ratio is low compared to the average LTD of similarly situated banks because of its loan portfolio restrictions. Similarly situated banks are those banks of comparable asset size and operating in the same geographies.

### **Lending in Assessment Area**

FNB originated a substantial majority of its loans inside the AAs since the previous CRA evaluation based on the OCC's sample. As shown in Table 1 below, the bank originated 91 percent based on number and 89 percent based on dollar amount inside the AAs.

<b>Table 1 - Lending in Kansas AA and Colorado AA</b>										
Loan Type	Number of Loans					Dollars of Loans (In Thousands)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Purchase	21	95.5	1	4.5	22	994	94.1	62	5.9	1,056
Home Refinancing	58	95.1	3	4.9	61	3,770	87.7	528	12.3	4,298
Small Business	1,341	88.2	180	11.8	1,521	77,358	75.7	24,785	24.3	102,143
Farm Loans	3,467	91.4	325	8.6	3,792	265,700	93.5	18,626	6.5	284,326
<b>Totals</b>	<b>4,887</b>	<b>90.6</b>	<b>509</b>	<b>9.4</b>	<b>5,396</b>	<b>347,822</b>	<b>88.8</b>	<b>44,001</b>	<b>11.2</b>	<b>391,823</b>

Source: CRA loan Data for small businesses and farm loans; and Data reported under HMDA.

## Fair Lending or Other Illegal Credit Practices Review

The OCC found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.

## **Kansas State Rating**

### **CRA Rating for Kansas: Satisfactory**

The major factors that support this rating include:

- Penetration in lending to small farms in the Kansas AA is reasonable.
- FNB meets the credit needs in the AA with a reasonable borrower distribution of small business loans within the AA.
- The borrower distribution of residential real estate loans to low- and moderate-income borrowers in the AA is reasonable.

### **Description of Assessment Area**

The Kansas AA consists of nine contiguous counties located in the northwest corner of Kansas. This includes the counties of Cheyenne, Sherman, Wallace, Rawlins, Thomas, Gove, Decatur, Sheridan, and Trego. There are 14 census tracts (“CTs”) within the AA, all of which are designated “Middle-income Nonmetropolitan Distressed and Underserved Geographies.”

The primary industry in the Kansas AA is agriculture. Other leading industries include education, health, and social services. The unemployment rates in these counties ranged between 2.8 percent and 2.8 percent in 2010, well below the State of Kansas’s 7.1 percent unemployment rate. The AA’s median housing value ranges from \$55 thousand to \$90 thousand among each county, with an average median housing value of \$72 thousand.

The community contact stated that the local economy has remained relatively stable given the agriculture concentration. He stated that the credit needs for the area are for small business loans. He stated that there are opportunities for financial institutions to provide funds for community development projects.

The bank operates six branches and six deposit-taking ATMs within this AA. The bank’s main branch is in Goodland, Kansas, 17 miles east of the Colorado state line, and about 50 miles south of the Nebraska border. Other branches are located in the cities of St. Francis, Bird City, Oberlin, Quinter, and Colby.

Competing banks within the AA include: The Bank, Citizens State Bank, Kansasland Bank, Farmers Bank and Trust, The Farmers State Bank, Peoples State Bank, State Bank, Bankwest of Kansas, and Trego-Wakeeney State Bank.

This AA does not reflect illegal discrimination and does not appear to arbitrarily exclude low- and moderate-income CTs. The AA meets the requirement of the CRA regulation.

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

### Farm Loans

Penetration in lending to small farms (farms with annual gross revenues of less than \$1 million) in the Kansas AA is reasonable. Distribution of lending to small farms is slightly lower than the demographic comparator. As shown in Table 2A below, the bank originated 90 percent of farm loans to small farms by dollar amount, and 94 percent by number, compared to the demographic comparator of 98 percent.

<b>Table 2A - Borrower Distribution of Loans to Farms in Kansas AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	97.81	1.53	0.67	100%
% of Bank Loans in AA by #	94.45	3.27	2.28	100%
% of Bank Loans in AA by \$	90.33	8.78	0.89	100%

Source: CRA loan data; Dun and Bradstreet data.

### Small Business Loans

The penetration in lending to small businesses (businesses with annual gross revenues of less than \$1 million) in the Kansas AA is reasonable. The distribution of lending exceeds the demographic comparator when reviewed by number. However, by dollar amount, the percentage of loans to small businesses is below the demographic comparator. See details in Table 2B below. Together, the penetration is considered reasonable.

<b>Table 2B - Borrower Distribution of Loans to Businesses in Kansas AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	73.99	2.70	23.31	100%
% of Bank Loans in AA by #	86.55	9.91	3.54	100%
% of Bank Loans in AA by \$	63.41	34.85	1.75	100%

Source: CRA loan data; Dun and Bradstreet data.

### Residential Real Estate Loans

The overall borrower distribution of residential real estate loans to low- and moderate-income borrowers in the Kansas AA is reasonable. The level of home purchase lending to low-income borrowers exceeds the demographic comparator. The level of home refinancing lending to low-income borrowers is comparable to the demographic comparator. See details in Table 2C below. FNB's lending in home purchase and refinancing to moderate-income borrowers are below and well below the respective demographic comparators, respectively.

<b>Table 2C - Borrower Distribution of Residential Real Estate Loans in Kansas AA</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Purchase	18.12	19.05	22.60	14.29	25.11	33.33	34.17	33.33
Home Refinancing	18.12	15.79	22.60	7.02	25.11	28.07	34.17	43.86

Source: Data reported under HMDA; U.S. Census data.

### **Geographic Distribution of Loans**

The distribution of geographies in this AA is not sufficient for a meaningful analysis of the geographic distribution of the bank's loans in its AA. The Kansas AA only consists of middle-income CTs. The AA represents contiguous whole geographies and does not arbitrarily discriminate against low- and moderate-income census tracts. The AA does not reflect illegal discrimination.

### **Responses to Complaints**

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

## Colorado State Rating

### CRA Rating for Colorado: Satisfactory

The major factors that support this rating include:

- FNB has excellent penetration in lending to small farms in the Colorado AA.
- FNB has reasonable borrower distribution of small business loans within the AA.

### Description of Assessment Area

The Colorado AA consists of eleven CTs in northeastern Colorado, contiguous with the Kansas AA. This includes the counties of Yuma, Kit Carson, and Washington, as well as CTs in the counties of Adams (84.01, 84.02) and Arapahoe (71.01, 71.02). All CTs are designated as middle-income, with the majority of the CTs in “Nonmetropolitan Distressed or Underserved Geographies.”

Similar to the Kansas AA, the primary industry in the Colorado AA is agriculture. Other leading industries include education, health care, and construction. The unemployment rates in Yuma, Washington, and Kit Carson counties are 4.5 percent, 5.9 percent, and 5.6 percent, respectively, all well below the State of Colorado’s rate of 9.2 percent. The median housing price for the three whole counties in the AA range between \$99 thousand and \$106 thousand.

The bank operates two branches and three ATMs in Colorado. One branch is in Yuma County, and the other is in Adams County. The bank has one deposit taking ATM located in Adams County.

This AA does not reflect illegal discrimination and does not appear to arbitrarily exclude low- and moderate-income CTs. The AA meets the requirement of the CRA regulation.

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

#### Farm Loans

FNB has excellent penetration in lending to small farms in the Colorado AA. Distribution of loans to small farms meets the demographic comparator at 95 percent of farm loans, as noted in Table 3A below.

<b>Table 3A - Borrower Distribution of Loans to Farms in Colorado AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	96.49	1.85	1.66	100%
% of Bank Loans in AA by #	95.22	2.51	2.28	100%
% of Bank Loans in AA by \$	95.40	3.39	1.20	100%

Source: CRA Loan data; Dun and Bradstreet data.

**Business Loans**

Distribution of loans to small businesses in the Colorado AA is reasonable. Penetration of lending to small businesses meets and exceeds the demographic comparator by dollar amount and number, respectively. See details in Table 3B below. With the demographic comparator missing 19 percent of the small business revenues, the overall evaluation of borrower income distribution is reasonable.

<b>Table 3B - Borrower Distribution of Loans to Businesses in Colorado AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	78.92	2.47	18.61	100%
% of Bank Loans in AA by #	91.00	3.79	5.21	100%
% of Bank Loans in AA by \$	78.67	18.61	2.72	100%

Source: CRA Loan data; Dun and Bradstreet data.

**Residential Real Estate Loans**

The bank has only one HMDA reportable loan that it originated since the previous CRA examination. This does not provide sufficient information for a meaningful analysis of the borrower distribution of residential real estate loans in the Colorado AA.

**Geographic Distribution of Loans**

All of the CTs in the AA are designated middle-income. Therefore, further analysis of the distribution of loans by income level is not meaningful. The AA represents contiguous whole geographies and does not arbitrarily discriminate against low- and moderate-income census tracts. The AA does not reflect illegal discrimination.

**Responses to Complaints**

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