



PUBLIC DISCLOSURE

June 14, 2016

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First National Bank, Goodland
Charter Number 14163

202 East Eleventh Street
Goodland, Kansas 67735

Office of the Comptroller of the Currency

Denver Field Office
1225 17th Street, Suite 450
Denver, CO 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

The major factors supporting the institution's rating are as follows:

- A substantial majority of the loans in our sample were originated within the bank's assessment areas (AAs).
- The Loan to Deposit Ratio (LTD) is reasonable in relation to peer and given the loan growth restrictions in place during the evaluation period.
- The bank has reasonable penetration lending to small farms in its AAs.
- The geographic dispersion for the Kansas AA is excellent.
- There have been no CRA-related complaints during the evaluation period.

SCOPE OF EXAMINATION

We completed a full scope small bank CRA examination of FNB Goodland. Our evaluation period went from the prior CRA examination in 2011 through March 31, 2016. The OCC reviewed and concluded on the bank's CRA lending performance in Colorado and Kansas. We focused our review on the bank's primary loan product, which is agricultural loans. We reviewed a total of 60 loans originated from January 1, 2013 through December 31, 2015 which included 20 loans from each of the three designated AAs. We also performed a geographic analysis for the Kansas AA. We also OCC contacted a local community member to gather information on the local economy and its banking needs.

DESCRIPTION OF INSTITUTION

First National Bank Goodland (FNBG) received its national charter in 1934 and is currently headquartered in Goodland, Kansas. FNBG is the wholly owned subsidiary of First National Bankshares, Inc, who is a single bank holding company also located in Goodland, Kansas. As of December 31, 2015, FNBG had total assets of \$181.5 million, net loans of \$94.3 million, and Tier-One capital of \$23.8 million.

FNBG is an interstate bank with operations in eastern Colorado, western Kansas and part of the Denver metropolitan area. The bank's loan products are heavily centered in agricultural lending but also include 1-4 family mortgages, commercial real estate, commercial & industrial, and individual consumer loans. During the CRA evaluation period, the bank reduced its branch locations from eight to five having sold three of the branches in an effort to recapitalize the institution. The remaining branches are located in Bennett, CO; Kirk, CO; St Francis, KS; Oberlin, KS; and Goodland KS. The bank's

main office is also located in Goodland, KS. The bank has four-deposit taking ATMs located in Goodland, Oberlin, Bennett and St Francis.

From January 1, 2013 through December 31, 2015, the bank originated 2,451 loans totaling \$192.4 million. Agricultural lending has been the bank's primary focus year over year as its branch locations and AAs are primarily located in rural farming communities. Table 1 shows loan originations over the past 3 calendar years.

Table 1 - Loan Originations 2013-2015				
Loan Type	Number of Loans	Percent of Number	Dollar Volume of Loans	Percent of Dollar Volume
Agriculture	1,079	44%	\$154,209,105	80%
1-4 Family Housing	139	5.7%	\$10,089,386	5.3%
Commercial Real Estate	78	3.2%	\$9,080,872	4.7%
C&I	330	13.5%	\$13,728,064	7.2%
Individual	823	33.6%	\$5,301,073	2.8%
Other	2	0.0%	\$33,799	0.0%
Total	2,451	100%	\$192,442,299	100%

Source: FNB Goodland loan reports for 2013-2015

The previous OCC CRA examination Dated July 6, 2011 assigned a "Satisfactory" rating to FNB Goodland.

FNBG had certain loan portfolio restrictions during the evaluation period. However, these restrictions did not prevent the bank from lending in its assessment areas. We did not identify any other legal, financial or other factors, which would impede the bank from meeting community credit needs.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit (LTD) Ratio

- **The LTD ratio is reasonable in relation to similarly situated banks given the bank's financial condition and loan growth restrictions in place during the evaluation period.**

FNBG's average LTD ratio for the 22 quarters between the last exam and March 31, 2016 is 57 percent compared to the peer average of 71 percent. During the evaluation period, FNBG's ratio ranged from 45 to 69 percent, and compares reasonably well to similarly situated banks whose average LTD ratio ranged from 57 to 82 percent. FNBG's LTD ratios were affected by loan portfolio growth restrictions during the evaluation period.

Lending in Assessment Areas

- **A substantial majority of the loans in our sample were originated in the bank’s AAs.**

As shown in Table 2 below, FNBG originated 90 percent, by number, in its AAs. By dollar volume, FNBG originated 99 percent of its total loans inside its AAs.

Table 2 – Distribution of Agricultural Loans in AAs				
Loan Type	Number of Loans	Percent of Number	Dollar Volume of Loans	Percent of Dollar Volume
In AA	18	90%	2,828,724	99%
Out of AA	2	10%	41,100	1%
Total	20	100%	\$2,869,824	100%

Source: Bank loan reports for 2013-2015

Responses to Complaints

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

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 CFR 25.28(c), in determining a national bank’s CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank, or in any AA by an affiliate whose loans have been considered as part of the bank’s lending performance.

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

Colorado State Rating

CRA Rating for Colorado: Satisfactory **The Lending Test is rated: Satisfactory**

The major factor supporting the institution's rating is as follows:

- The bank has reasonable penetration lending to small farms in Colorado.
- A geographic analysis was not meaningful given the AAs do not have low- or moderate-income (LMI) geographies.

Description of the Colorado AAs

Bank management has designated two AAs in Colorado. The rural Colorado AA consists of 3 rural counties bordering Kansas. Adjacent to the rural Colorado AA is Adams and Arapahoe counties AA which is part of the Denver Metropolitan Statistical Area (MSA) and is analyzed separately from the rural AA. The AAs meet the requirements of the regulation and do not arbitrarily exclude LMI geographies.

Rural Colorado AA

This AA consists of three contiguous rural counties of Washington, Yuma, and Kit Carson in northeastern Colorado. Yuma and Kit Carson counties border the Kansas state line. This AA consists of seven CTs all designated as middle income, under-served non-metropolitan tracts. This AA includes the small towns of Akron, Wray, Burlington, and Kirk, CO. FNBG operates a branch in Kirk, CO located in Yuma County.

The agriculture and food related businesses represent the highest industry concentration and totals 25 percent of all employment in the region based on Colorado Economic Development statistics. There is also a high number of agricultural businesses representing 29 percent of the total number of all farm and non-farm businesses in the AA.

Major employers in the AA include Hall Grain, Murphy Brown of Yuma, the Limon County Correctional Facility, and local municipalities, school districts and healthcare providers. Median home prices in these counties range from \$111 to \$137 thousand. 2010 U.S. census data shows unemployment at 2.4 percent. There are 6,289 families in the AA of which 20 percent are low income and 24 percent are moderate income. 2015 HUD adjusted median family income for the AA is \$60,700.

Competition in this AA is moderate consisting primarily of smaller community banks including Frontier Bank, McCook National Bank, First Farm Bank, and The Eastern Colorado Bank. There is also competition from Federal Farm Credit bank lending at

consistently low rates to small farms. As of June 30, 2015, FNBG held 1.05 percent of the deposit market share in the AA as reported by the FDIC.

Adams County and Arapahoe County AA

This AA consists of the two contiguous counties, Adams and Arapahoe, in Colorado. These two counties are largely rural but are a part of the Denver Metropolitan Statistical Area (MSA). This AA consists of four CTs, three tracts are designated middle-income and the fourth is upper-income. The bank operates a branch and deposit-taking ATM in Bennett, CO which is a largely agricultural town located in Adams County.

The local economy of the AA is heavily focused in the services industry, which makes up 40 percent of the areas 1,709 farm and businesses. These services largely support the local farm and ranching industry. Other industries include retail trade, transportation/communication, wholesale trade, and finance.

Major employers in Adams and Arapahoe counties include the University of Colorado Hospital, Children's Hospital Colorado, Comcast Corporation, HealthOne, and CenturyLink. 2010 U.S. Census data shows an unemployment rate of 4.37 percent for this AA. There are 3,943 families in the AA of which 15 percent are low-income and 18 percent are moderate-income. The median housing price is \$189 thousand in Adams county and \$236 thousand in Arapahoe county. 2015 HUD adjusted median family income for this AA is \$79,900.

Given these two counties are part of the Denver MSA, competition in this AA is strong with numerous large national financial institutions as well as community banks including Guaranty Bank and Trust Company, High Plains Bank, and FNB Omaha. As of June 30, 2015, FNBG held 0.10 percent of the deposit market share in the AA as reported by the FDIC.

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

- **FNBG's distribution of agricultural loans reflects a reasonable penetration of small farms in both Colorado AAs.**

Table 3A shows that FNBG originated 85 percent of its agricultural loans, by number, to small farms in the Adams and Arapahoe AA. Small farms are operations with annual gross revenues less than \$1 million. This compares reasonably well to area demographics that indicate that 99 percent of farms in the AA are small farms. The loan sample also showed that 65 percent of the loans originated were to very small farm operations with revenues of less than \$250 thousand. By dollars, the bank originated only 55 percent of its loans to small farms. However, these results are skewed because 14 loans in our sample were originated in amounts under \$50 thousand.

Table 3A - Borrower Distribution of Loans to Farms in Adams-Arapahoe AA					
Farm Revenues	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total	≤\$250,000
% of AA Farms	99%	1%	0%	100%	N/A
% of Bank Loans in AA by #	85%	15%	0%	100%	65%
% of Bank Loans in AA by \$	55%	45%	0%	100%	N/A

Source: Loan Sample and 2015 Business Geodemographic Data

Table 3B shows that FNBG originated 90 percent of its agricultural loans, by number, and 70 percent, by dollars, to small farms in the rural Colorado AA. This compares reasonably well to area demographics that indicate that 97 percent of farms in the AA are small farms. The loan sample also showed that 60 percent of the loans originated were to very small farm operations with revenues of less than \$250 thousand. By dollars, the bank originated only 55 percent of its loans to small farms.

Table 3B - Borrower Distribution of Loans to Farms in Rural Colorado AA					
Farm Revenues	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total	≤\$250,000
% of AA Farms	96.6%	2.1%	1.3%	100%	N/A
% of Bank Loans in AA by #	90%	10%	0%	100%	60%
% of Bank Loans in AA by \$	71%	29%	0%	100%	N/A

Source: Loan Sample and 2015 Business Geodemographic Data

Geographic Distribution of Loans

We did not perform a geographic analysis. The AAs consist of middle- and upper-income tracts so a geographic analysis would not be meaningful.

Kansas State Rating

CRA Rating for Kansas: Satisfactory

The Lending Test is rated: Satisfactory

The Geographic Distribution test is rated: Satisfactory

The major factors supporting the institution's rating are as follows:

- The bank has reasonable penetration lending to small farms in Kansas.
- The geographic dispersion of agricultural loans in Kansas AA is excellent.

Description of the Kansas AA

This AA consists of the six contiguous counties (Cheyenne, Sherman, Rawlins, Decatur, Thomas, and Wallace) in northwestern Kansas. This AA includes nine CTs of which seven are designated middle-income, one is upper-income, and one is designated moderate-income. There are no low-income CTs in this AA. The AA meet the requirements of the regulation and does not arbitrarily exclude LMI geographies.

FNBG has three branches in this AA located in: St. Francis, KS (Cheyenne County), Oberlin, KS (Decatur County), and Goodland, KS (Sherman County). The bank has 3 deposit-taking ATMs located in St. Francis, Oberlin, and Goodland.

This AA is largely rural and heavily reliant on the farm and ranch industry. Major towns in this AA include St. Francis, Atwood, Oberlin, Goodland, Colby, and Sharon Springs. All CTs in Cheyenne, Sherman, Rawlins, Wallace and tract 9512 in Decatur county are designated distressed and underserved middle-income non-metropolitan tracts by the federal regulatory agencies. The majority of Thomas county is also designated as an underserved middle-income non-metropolitan geography.

The Kansas Department of Agriculture reports farming and related industries account for 28 percent of the total employment and 36 percent of the gross revenue product in in this AA. Major employers include Yost Ford and Farm Supply, Decatur County Feed Yard, Beaver Valley Supply, Sherman-Frontier Ag, Sun Opta, and local municipalities, school districts, and co-ops.

2010 U.S. Census reports low unemployment at 2.6 percent. There are 6,332 families in the AA of which 18 percent are designated as low-income and 20 percent are moderate-income. 2015 HUD adjusted median family income for the AA is \$57,700. Median housing prices vary significantly in this AA with a low of \$51 thousand in Decatur County and high of \$103 thousand in Thomas County.

Competition in the area is low consisting of a limited number of smaller community banks including The Bank, The Western State Bank, Bankwest of Kansas, and Eastern

Colorado Bank. As of June 30, 2015, FNBG held 13.71 percent of the deposit market share in the AA as reported by the FDIC.

The community representative we contacted during this examination stated the local housing economy is strong with low rental and housing inventories. The agricultural economy is stable, but softening as a result of a decline in commodity prices. This has led to a 20 percent decline in farmland prices per acre and slowed farm equipment sales. Agricultural loans remain the primary credit need in the AA and credit needs are generally being met by area financial institutions. There is little opportunity for small community banks to participate in community development lending activities as most community development projects are funded by bond issuances and/or increased taxes.

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

- **FNBG’s distribution of agricultural loans reflects a reasonable penetration of small farms in Kansas.**

Table 4 shows that, 90 percent of sampled loans, by number, were originated to small farms. This lending performance compares reasonably well to area demographics that show that 98 percent of area farms are small farms. Additionally we noted that 60 percent of our loan sample was originated to very small farm operations with gross annual revenue less than \$250 thousand. By dollars, the bank originated 82 percent of its loans to small farms. The dollar volume of loans generated to small farms is skewed because 50 percent of the sample were loans originated for less than \$50 thousand.

Table 4 - Borrower Distribution of Loans to Farms in Kansas AA					
Farm Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total	≤\$250,000
% of AA Farms	98%	1.6%	0.4%	100%	N/A
% of Bank Loans in AA by #	90%	10%	0%	100%	60%
% of Bank Loans in AA by \$	82%	18%	0%	100%	N/A

Source: Loan Sample and 2015 Business Geodemographic Data

Geographic Distribution of Loans in Kansas

- **The geographic dispersion of agricultural loans in Kansas is excellent.**

The Kansas AA consists of only one moderate-income tract and FNBG’s lending pattern shows excellent penetration of this one tract. Table 4 shows that 10 percent of loans were originated in the moderate-income tract. Demographic data indicates that only 7 percent of farms are located in the moderate-income tract. As discussed previously there are no low-income tracts in this AA. We also noted that 75 percent of our loan sample were originated to farms in middle-income CTs that are designated as distressed and/or underserved.

Table 4 - Geographic Distribution of Loans to Farms in Rural Kansas								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Farms	% of Number of Loans	% of AA Farms	% of Number of Loans	% of AA Farms	% of Number of Loans	% of AA Farms	% of Number of Loans
Farm Loans	0%	0%	7%	10%	79%	80%	14%	10%

Source: Loan Sample and 2015 Business Geodemographic Data