

PUBLIC DISCLOSURE

January 25, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The First National Bank
of Medicine Lodge
Charter Number 10575**

**101 South Main
Medicine Lodge, Kansas 67104**

**Office of the Comptroller of the Currency
South Kansas Field Office
3450 N. 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 Medicine Lodge** prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of January 25, 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. A review of all loans granted in 1997, 1998, and year-to-date 1999, indicated 76% of the number of loans and 57% of the dollar amount of loans are in the bank's assessment area. The bank has an good loan-to-deposit ratio of 74%. The bank's distribution of loans to borrowers of different income levels and businesses of different sizes is good.

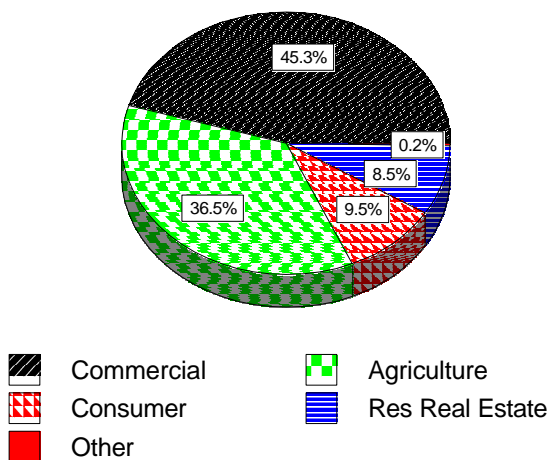
DESCRIPTION OF INSTITUTION

The First National Bank of Medicine Lodge (First National) is a \$70 million bank in Barber County, Kansas. First National is one of 13 banks headquartered in its south central Kansas assessment area. The bank's main location and one branch are located in Medicine Lodge,

Kansas. In addition, the bank has branch locations in Isabel, Kansas, and Overland Park, Kansas. The Overland Park branch was opened as a loan production office and converted to a branch in September 1998. The bank also maintains a loan production office in Woodward, Oklahoma. First National has two automated teller machines (ATM), one at the main location in Medicine Lodge and the other in Overland Park. First Medicine Lodge Bancshares, Inc. owns 100% of First National Bank's common stock.

Loan Portfolio Composition

As of September, 30 1998



First National is a full service bank and offers a variety of loans with an emphasis on agriculture and commercial. The bank's total assets are \$70.7 million. Net loans account for 71% of the total assets. As of September 30, 1998, commercial loans represent 45.3% or \$32 million, agricultural loans represent 36.5% or \$25.8 million, loans to individuals represent 9.5% or \$6.7 million, residential real estate loans represent 8.5% or \$6 million, and other loans represent .2% or \$.2 million of the loan portfolio.

Examiners contacted one individual in the service industry located in the Overland Park, Kansas assessment area and one individual in the retail industry in the Medicine Lodge/Isabel, Kansas assessment area. The primary credit needs, identified by the community contacts, included commercial and consumer financing for the area of Overland Park, Kansas and agricultural financing for the Medicine Lodge, Kansas area. The community contact in Overland Park felt that local financial institutions are highly active in the community. In Medicine Lodge however, the community contact felt that the performance of the financial institutions was fair but more could be done.

The bank's financial condition, size, local economic conditions, and other factors allow it to help meet community credit needs. At the previous CRA examination dated March 13, 1997, First National Bank of Medicine Lodge received a "Satisfactory Record of Meeting Community Credit Needs" rating.

DESCRIPTION OF ASSESSMENT AREAS

The bank has two assessment areas (AA). The Overland Park, Kansas branch assessment area consists of eighty-five census tracts in Johnson County, Kansas; Cass County, Missouri; and Jackson County, Missouri. This assessment area is part of the Kansas City Metropolitan Statistical Area (MSA). The main location and branches in Medicine Lodge, Kansas, and Isabel, Kansas, have an assessment area that consists of Barber, Pratt, Harper, and Comanche counties, all of the state of Kansas. The tracts in the MSA assessment area have a population of 406,232, while the non-MSA assessment area has a total population of 25,013.

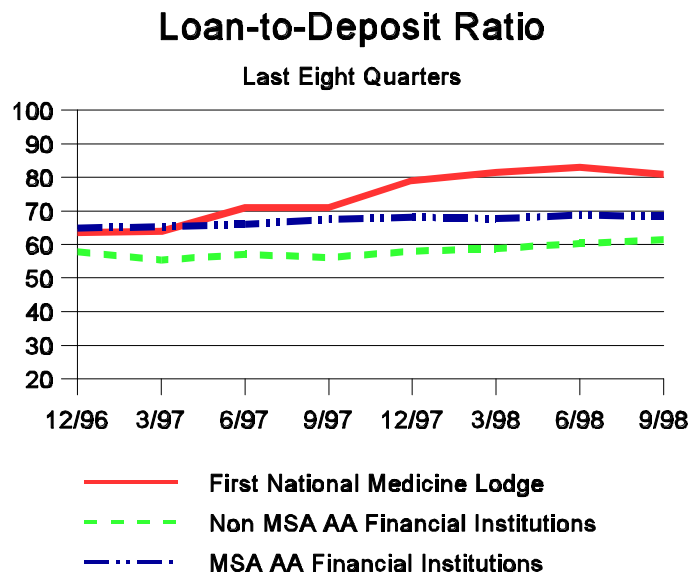
Barber County, Kansas, contains block numbering areas (BNA's) 9681 and 9682. Pratt County, Kansas, contains BNA's 9686, 9687, and 9688. Harper County, Kansas, contains BNA's 9916, 9917, and 9918. Comanche County, Kansas, contains BNA 9676. All the BNA's are middle-income tracts. The specific census tracts in Johnson County, Kansas, are 500 through 538.02, twenty-nine tracts are middle-income and forty-six are upper-income. Cass County, Missouri, AA contains census tracts 600, 601, 602, 603, and 610. Census tract 601 is a moderate-income tract, while the remaining tracts are middle-income tracts. Jackson County, Missouri, AA contains census tracts 133.01, 134.01, 134.05, 134.07, and 134.08. Census tracts 134.01 and 134.05 are moderate-income tracts, 133.01 and 134.08 are middle-income tracts, and 134.07 is an upper-income tract. Kansas statewide non-metropolitan median family income is \$38,200 for 1998, while the Kansas City MSA has a median family income of \$52,600.

The non-MSA AA economy is dominated by agriculture with reliance on wheat and cattle production. Several area banks provide moderate competition. The MSA AA containing Kansas City and several bedroom communities is diverse with retail trade, services, government, and manufacturing.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Loan-to-Deposit Ratio

The bank's lending level is good with an average loan-to-deposit ratio (LTD) of 74% over the last eight quarters. The LTD ratio has an increasing trend and at September 30, 1998, is 81%. The non-MSA assessment area has eighteen financial institutions, excluding First National Bank, with an average LTD ratio of 58%, ranging from 19% to 93%. Examiners compared forty-nine other financial institutions in the MSA AA. The average loan-to-deposit ratio for these financial institutions is 67%, ranging from 32% to 93%.



Lending in Assessment Area

The bank extends a majority of its loans within its AA. Examiners found that 76% of the number and 57% of the dollar volume of all loans originated since December 31, 1996, were in the bank's AAs. Examiners selected a sample to verify the bank's data.

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

Lending levels to borrowers of different incomes are good. The analysis focused on commercial and agricultural loans, the bank's primary product. In addition, an analysis was completed for consumer and residential real estate loans. Examiners sampled nine residential real estate customers with loans granted in the non-MSA AA during 1997, 1998, and year-to-date 1999. This represented 12% of the non-MSA AA's residential real estate portfolio. The following table indicates a favorable distribution of loans to low- and moderate-income borrowers in the non-MSA AA.

Income Level Distribution of Residential Real Estate Loan Sample (Non-MSA)			
Income Level Distribution	Number of Customers	Percentage of Loan Sample	Percentage of Families in Income Category
Low-Income	2	22%	19%
Moderate-Income	3	34%	21%
Middle-Income	2	22%	22%
Upper-Income	2	22%	38%

Examiners selected a sample of five residential real estate loans granted at the Overland Park, Kansas branch. This represented 26% of the branch's residential real estate portfolio. The following table indicates an excellent distribution of credit to low- and moderate-income borrowers.

Income Level Distribution of Residential Real Estate Loan Sample (MSA)			
Income Level Distribution	Number of Customers	Percentage of Loan Sample	Percentage of Families in Income Category
Low-Income	2	40%	9%
Moderate-Income	1	20%	13%
Middle-Income	1	20%	23%
Upper-Income	1	20%	55%

Examiners sampled twenty direct automobile loans granted in the non-MSA AA, which represented 10% of the non-MSA's direct automobile portfolio. The following table indicates a good distribution of loans to low- and moderate-income borrowers.

Income Level Distribution of Consumer Loan Sample (Non-MSA)			
Income Level Distribution	Number of Customers	Percentage of Loan Sample	Percentage of Families in Income Category
Low-Income	4	20%	19%
Moderate-Income	3	15%	21%
Middle-Income	10	50%	22%
Upper-Income	3	15%	38%

Examiners sampled five direct automobile loans granted in the MSA's AA, which represented 15% of the direct automobile portfolio. The following table indicates an excellent distribution of credit to low- and moderate-income borrowers.

Income Level Distribution of Consumer Loan Sample (MSA)			
Income Level Distribution	Number of Customers	Percentage of Loan Sample	Percentage of Families in Income Category
Low-Income	1	20%	9%
Moderate-Income	1	20%	13%
Middle-Income	3	60%	23%
Upper-Income	0	0%	55%

Lending levels to businesses of different sizes are good. Examiners sampled five commercial loans granted during 1997, 1998, and year-to-date 1999 in the non-MSA AA. This represented 8% of the non-MSA’s commercial portfolio. Management considers all five of these borrowers as small businesses. The following table displays the distribution of gross annual revenues for the sample:

Gross Annual Revenue Distribution for Commercial loan Sample (Non-MSA)	
Income Level	Number of Customers
0 to \$50,000	2
\$50,000 to \$100,000	1
\$100,000 to \$250,000	1
Above \$250,000	1

Examiners sampled four commercial loans granted in the MSA AA. This represented 9% of the MSA’s commercial portfolio. Management considers 1 of these borrowers as a small business, 2 as medium size businesses, and 1 as a large operation. The following table displays the distribution of gross annual revenue for the sample:

Gross Annual Revenue Distribution for Commercial Sample (MSA)	
0 to \$250,000	1
\$250,000 to \$500,000	0
\$500,000 to \$1,000,000	2
above \$1,000,000	1

Examiners randomly sampled fifteen agricultural loan customers with loans granted in the non-MSA's AA during 1997, 1998, and year-to-date 1999. This represented 10% of the agriculture portfolio. Management considers all fifteen of these borrowers as small farmers. The following table displays the distribution of gross annual revenues for the sample:

Gross Annual Revenue Distribution for Agricultural Loan Sample (Non-MSA)	
0 to \$25,000	3
\$25,000 to \$50,000	3
\$50,000 to \$100,000	0
\$100,000 to \$175,000	5
\$175,000 to \$250,000	4

There are no agricultural loans in the MSA AA.

Geographic Distribution of Loans

An analysis of the geographic distribution of credit within the MSA AA indicates the bank has low penetration in the moderate-income tracts. The bank provided reports that sorted loans by zip code. Examiners used zip code maps and geocoding software to determine loans granted in moderate-income tracts. The bank has granted two loans in moderate-income tracts, one in 134.01 and one in 134.05. There were no loans granted in moderate-income tract 601. The moderate-income tracts have a combined population of 7,485 or 2% of the MSA AA's total population. A review of loan distribution in the non-MSA AA would not be meaningful as the area has only middle-income tracts.

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. We based our fair lending review on gender and reviewed seven single females and fourteen single male vehicle loans. Examiners did not find any evidence of prohibited discrimination or other illegal credit practices.