

PUBLIC DISCLOSURE

October 18, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First National Bank
Charter Number 14163**

**202 East 11th
Goodland, Kansas 67735**

**Comptroller of the Currency
Denver Field Office
1099 18th Street, Suite 2650
Denver, Colorado 80202-1926**

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 **First National Bank, Goodland, Kansas**, prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of October 18, 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.”**

- C First National Bank originates a substantial majority of loans in its assessment area.
- C The bank's loan-to-deposit ratio is comparable with other banks in the assessment area.
- C The bank's home mortgage loan product line has reasonable penetration among low- and moderate-income individuals.
- C The bank actively lends to small farms in its assessment area.
- C The bank has made several loans that are considered community development loans.
- C There was no evidence of discrimination noted during this examination.

DESCRIPTION OF INSTITUTION:

First National Bank (FNB) is a \$255 million community bank that serves northwestern Kansas and a small portion of eastern Colorado. (Although total assets are \$255 million, the bank has not maintained this level of assets for the requisite two years. Therefore the bank is not required to report large bank CRA data.) The bank is 1 of 11 banks headquartered in the bank's 7-county assessment area. 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 Sharon Springs, St. Francis, Colby, and Quinter, Kansas. The bank operates eight automated teller machines (ATMs); four in Goodland and one each in Colby, Sharon Springs, Quinter, and Wakeeney. All branches and ATMs are in the bank's assessment area.

FNB is owned by First National Bancshares, Inc., a one bank holding company. First National Bancshares, Inc. is located in Goodland and has total assets of \$259 million.

FNB is a full service bank and offers a variety of loan products, including agricultural loans, commercial loans, residential mortgage loans, and consumer loans. Agricultural lending has historically been the bank's primary market focus. However, the agricultural economy has been experiencing adversity in recent years. As a result, the use of Farm Services Agency guarantees have been steadily increasing.

FNB's ratio of net loans to total assets was 60% as of June 30, 1999. The percentage distribution of gross loans is outlined below.

LOAN PORTFOLIO COMPOSITION			
Product Type	Percentage of Portfolio		
	06/30/1999	12/31/1998	12/31/1997
Agricultural Loans	57%	61%	56%
Commercial Loans	8%	8%	9%
1-4 Family Residential Real Estate Loans	16%	13%	15%
Multifamily Residential Real Estate Loans	1%	1%	1%
Consumer Loans	5%	6%	6%
Commercial Real Estate Loans	10%	10%	10%
Other Loans	3%	1%	3%

The last CRA examination of First National Bank was performed May 8, 1997, at which time an “Outstanding Record of Meeting Community Credit Needs” rating was assigned.

The bank is not restricted in its ability to meet community credit needs. There are no legal impediments or other factors preventing the bank from lending in its assessment area.

DESCRIPTION OF ASSESSMENT AREA:

The bank’s assessment area consists of Cheyenne, Rawlins, Sherman, Thomas, Gove, and Wallace Counties in Kansas, and Kit Carson County in Colorado. The assessment area includes block numbering areas of 9501 and 9502 in Cheyenne County; 9506 and 9507 in Rawlins County; 9536 and 9537 in Sherman County; 9531, 9532, and 9533 in Thomas County; 9551 and 9552 in Gove County; and 9541 in Wallace County. The assessment area also includes block numbering areas 9921, 9922, and 9923 of Kit Carson County in Colorado. The assessment area contains no low- or moderate-income block numbering areas. All 15 block numbering areas in the assessment area are middle income. The assessment area complies with the regulation and does not arbitrarily exclude any low- or moderate-income geographies.

The 1990 U.S. Census lists population in the assessment area at 34,023. Goodland presently has a population of approximately 4,535. Median family income for the assessment area is \$39,040 based on the updated 1999 median family income information provided by the Department of Housing and Urban Development (HUD). In addition, the HUD report shows 15% of the number of households in the assessment area as below poverty level. The following table provides a breakdown of families within the assessment area by income level.

DISTRIBUTION OF FAMILIES BY INCOME LEVEL	
Income Level	Percent of Families in Assessment Area by Income Level¹
Low	19%
Moderate	21%
Middle	26%
Upper	34%

¹Based on 1990 U.S. Census data.

A high level of employment opportunities in the assessment area are related to agriculture. New employment opportunities have occurred in the last two years with the opening of a Wal Mart store in Goodland and the opening of a state prison in Burlington, Colorado. However, some local businesses in Goodland have closed due to competition, including the two local grocery stores. Some of the other major employers in the assessment area include the Vocational/Technical School in Goodland, the Colby Community College, the Goodland Cooperative, and First National Bank in Goodland. The Wal Mart store draws consumers from throughout western Kansas and eastern Colorado that also spend money at other businesses in town. Unemployment for Sherman County including Goodland is at 2.2% per the Chamber of Commerce in Goodland. This information was obtained by the Chamber from the Department of Human Resources for Kansas.

The housing market in the assessment area is good. The median housing value for the assessment area based on the 1990 U.S. Census was \$36,514. The average sales price of a single family residence in the Goodland area in October 1999 was \$65,000 to \$70,000. A local Realtor in Goodland indicated that affordable housing is readily available; however, there is a shortage of higher priced homes. Houses are selling on the average of within 60 to 90 days. Based on HUD reports, owner-occupied housing units total 61% of all housing units.

The bank faces competition from several other financial institutions in the assessment area. In addition, the primary competition for farm loans is from Farm Credit Services. A community contact in the agricultural industry noted that banks in the area are effectively meeting credit needs of the community.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Loan-to-Deposit Ratio

First National Bank's loan-to-deposit ratio is reasonable. The bank's average loan-to-deposit ratio for the eight quarters ended June 30, 1999, is 71%.

The bank is significantly larger in asset size (\$255 million) than any of the banks in the assessment area with the next largest bank totaling \$83 million. The other banks in the assessment area include 11 independent banks with assets as of June 30, 1999, between \$10 million and \$83 million. The average loan-to-deposit ratio for the 11 banks over the same eight-quarter period was 64%, with a high ratio of 89% and a low ratio of 37%.

Lending in the Assessment Area

The bank's record of making loans in its assessment area is very good. A review of 21 residential real estate, 20 commercial, and 22 agricultural loans between April 1, 1997, and September 30, 1999, indicates the bank makes a substantial majority of loans in its assessment area.

LENDING IN ASSESSMENT AREA		
Type of Loan	% in AA Based on Number of Loans in Sample	% in AA Based on Dollar Volume of Loans in Sample
Agricultural Loans	91%	93%
Commercial Loans	85%	94%
Consumer Loans	95%	98%

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

Agricultural Lending

FNB's agricultural loan distribution reflects a good commitment to lend to small farms in the assessment area. Agricultural loans are a significant credit need, as a substantial portion of the assessment area is agricultural land. In fact 96% of the farms in the bank's assessment area report revenues less than \$1 million. We sampled 22 agricultural loans made from mid-1997 through mid-1999 and collected annual revenue information. Of the 22 loans in our sample, 100% were made to farms with gross revenues of less than \$1 million.

Commercial Lending

The bank's commercial loan distribution reflects a reasonable commitment to lend to small businesses in the assessment area. Ninety-two percent of the nonfarm businesses in the bank's assessment area report revenues less than \$1 million. We sampled 20 commercial loans made from mid-1997 through mid-1999 and collected annual revenue information. Of the 20 loans in our sample, 100% were made to businesses with gross revenues of less than \$1,000,000.

Residential Real Estate Lending

Our review of the bank's residential real estate loans reflects a reasonable distribution to borrowers of different income levels. We sampled 21 residential real estate loans made from mid-1997 through mid-1999. The borrowers were categorized into income levels based on the assessment areas median family income for the year in which the loan originated. The analysis indicates that FNB lends to individuals of all income levels within the assessment area. However, our sample indicates loan distribution to low-income borrowers is somewhat below demographics. Fifteen percent of households in the assessment area live below poverty level. Based on the current cost of a lower priced home in the area, it appears unlikely that households living below poverty level could qualify for a mortgage. The results of our sample are shown in the following table.

RESIDENTIAL REAL ESTATE LOAN DISTRIBUTION BY INCOME LEVEL OF BORROWER		
Income Level	Percent of Families by Income Level 1990 U.S. Census	Percent of Residential Real Estate Loan Sample By Number
Low	19%	14%
Moderate	21%	14%
Middle	26%	29%
Upper	34%	43%

Community Development Loans

As of June 30, 1999, FNB had \$1,558,000 in loans that qualify as community development loans. These loans include the construction of two projects for low- to moderate-income individuals. In addition, the bank made one loan to the Goodland Regional Medical Center for a lease to purchase an airplane and hospital equipment, and one loan to the Rural Health Ventures, Incorporated to fund the recruitment of new doctors for the community. The bank provided information that showed low- and moderate-income individuals received a large percentage of the benefit from these two loans.

Geographic Distribution of Loans Within the Assessment Area

We did not analyze the geographic distribution of loans because all the block numbering areas comprising the assessment area are designated middle income. The lack of diverse geographies prevents a meaningful analysis.

Response to Complaints

No complaints have been received regarding the bank's CRA performance since the last examination.

Record of Compliance with Anti-discrimination Laws

A current fair lending examination did not identify any evidence of prohibited discriminatory practices. We did not identify any violations involving illegal discrimination or any practices intended to discourage applicants applying for credit. As part of our examination, we used a sample of automobile loan applicants comparing female denials against male approvals. Our sample did not identify any disparate treatment.