



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

August 23, 2007

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Farmers National Bank of Kansas
Charter Number: 23191

200 Main Street
Walnut, Kansas 66780

Office of the Comptroller of the Currency

Kansas City South Field Office
1710 East 32nd Street, Suite H
Joplin, Missouri 64804

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.

Farmers National Bank of Kansas is helping to meet the credit needs of its assessment area.

The major factors supporting this rating are:

- The bank grants a majority of its loans to borrowers within the assessment area.
- The bank's loan-to-deposit ratio is above the average for other similarly situated banks in the assessment area.
- The distribution of borrowers reflects satisfactory penetration to low-income borrowers and strong penetration to moderate-income borrowers and small farmers.

SCOPE OF EXAMINATION

Our objectives were to assess the bank's ability to serve and meet the community's needs within their assessment area. The bank remains intrastate with no branches outside of Kansas and is not located in a metropolitan statistical area (MSA). We used loan originations ranging from April 1, 2002 to August 1, 2007 in our evaluation to identify the bank's primary products. Based on the volume of loans originated during the evaluation period, agriculture and 1-4 family residential real estate loans were the primary products selected for our sample. We reviewed the credit files on a random sample of 22 1-4 family residential real estate and 19 agricultural loans, which originated from April 2002 to August 2007.

Our review also included contacting a representative of local government office in the assessment area. Primary credit needs consist of affordable housing assistance, working capital for farms, and financial education. The contact indicated all financial institutions in the area assist in meeting the credit needs of the surrounding area and support many of the community programs.

DESCRIPTION OF INSTITUTION

Farmers National Bank of Kansas is located in Walnut, Kansas. The bank has \$28 million in total assets, with loans representing \$25 million or 89 percent of total assets according to the June 30, 2007 Report of Condition. Kanbanc, Inc., a multi-bank holding company located in Overland Park, Kansas, owns 77 percent of Farmers National Bank. Kanbanc, Inc. reported total assets of \$76,896 million as of June 30, 2007. Farmers National Bank's main office is in Walnut, Kansas with full service branches in St. Paul and Hepler, Kansas. The bank offers a variety of loan products agricultural, residential real estate, consumer, and commercial loans.

The bank was rated satisfactory at its previous CRA evaluation conducted on March 19, 2002. There are no legal impediments or other factors, including the financial condition of the bank, which hinder the bank's ability to help meet needs of its assessment area.

The following table reflects the composition of the bank's loan portfolio from the June 30, 2007 Report of Condition. The breakdown is by outstanding dollar amounts only, since the bank does not maintain sufficient information by loan type to determine the number of loans originated during this period.

Loan Portfolio as of June 30, 2007		
Loan Type	Dollar Amount (\$000)	Percentage
Real Estate	\$16,003	61.83%
Agriculture	\$4,476	17.30%
Consumer	\$2,840	10.97%
Commercial	\$2,564	9.90%
TOTAL	\$25,883	100%

Source: Bank generated data from Report of Condition

The bank is not required to file Home Mortgage Disclosure information. Please refer to the bank's Public File for more details.

DESCRIPTION OF ASSESSMENT AREA

The bank's assessment area consists of Crawford and Neosho counties in Kansas. The assessment area meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income geographies. The assessment area contains two moderate-income census tracts, thirteen middle-income census tracts, and one upper-income census tract. The bank's competitors include several independently-owned banks and branches of several mid-size or large banks within the assessment area.

The weighted average of HUD MSA Median Family income was updated to \$49,800 in 2006 and \$47,900 in 2007. The median value of housing is \$55,646 with 61 percent owner-occupied. The 2006 census indicates 16 percent of the households are below the poverty level. While the assessment area does not contain any low-income census tracts, low- and moderate-income families represent 20.74 percent and 20.78 percent of the assessment area's population. Unemployment rates for the assessment area (Crawford County - 5 percent and Neosho County – 4.4 percent) are comparable to the 4.5 percent unemployment rate for the State of Kansas.

The assessment area's major employers include agriculture, government, education, small manufacturing, and retail trade.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

Farmers National Bank's loan-to-deposit ratio reflects good responsiveness to the credit needs of its assessment area. The bank's quarterly average loan-to-deposit ratio since the previous CRA evaluation is 91.87 percent. The quarterly average loan-to-deposit ratios for four similarly situated banks in the assessment area range from 44.75 percent to 61.19 percent.

Lending in Assessment Area

Farmers National Bank's record of lending to borrowers within its assessment area is satisfactory. For loans evaluated from April 2002 to August 2007, management originated 81 percent by number and 83 percent by dollar amount within the assessment area.

The distribution of credit is detailed as follows:

Lending in the Assessment Area								
	Number of Loans				Dollars of Loans (000s)			
	Inside		Outside		Inside		Outside	
	#	%	#	%	\$	%	\$	%
Totals	38	80.8%	9	19.2%	\$3,404	83.1%	\$691	16.9%

Source: Loan sample and bank generated reports.

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

Farmers National Bank’s performance of lending to borrowers of different incomes and to farms of different sizes is good. Based on our sample of 1-4 family residential loans and agricultural loans since the previous CRA examination, the bank has responded favorably to the credit needs of its assessment area by originating loans to low- and moderate-income borrowers and small farmers.

Residential real estate lending to borrowers of different income levels is satisfactory. While the level of residential real estate lending to low-income borrowers is slightly below the number of low-income families in the assessment area, the level of residential real estate lending to moderate-income borrowers is double the number of moderate-income families. The residential real estate sample includes purchase money, refinancing, and home improvement loans, as the bank did not maintain complete information to separate these loans further by category.

The following table illustrates the bank’s distribution of residential real estate loans based on the income level of the borrower:

Borrower Distribution of Residential Real Estate Loans in Assessment Area								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Families	% Number of Loans	% of AA Families	% Number of Loans	% of AA Families	% Number of Loans	% of AA Families	% Number of Loans
1-4 Family	20.7	18.2	20.8	40.9	24.5	27.3	34.0	13.6

Source: 2000 U.S. Census, loan sample, and bank generated reports.

Farmers National Bank’s lending to small farmers is strong. The bank does not always obtain financial information on long-term customers of the bank. This is particularly true with small farmers. Therefore, examiners were not able to evaluate the bank’s lending activities based on the farmer’s revenue. Examiners used loan size as a proxy to determine the bank’s lending to farmers of different sizes. Our agricultural loan sample reflects 63 percent of the loans are less than \$10 thousand, and 84 percent of the loans are less than \$50 thousand. Only 16 percent of the loans in our sample were greater than \$100 thousand.

Geographic Distribution of Loans

The distribution of loans within the assessment area's census tracts is reasonable. While our loan sample did not indicate any loans within the two moderate-income census tracts, these census tracts are located in Pittsburg, Kansas. Farmers National Bank's closest facility is approximately 35 miles from Pittsburg, Kansas. Management does not actively seek loans in the Pittsburg, Kansas area. In fact, our loan sample did not reflect any loans in Pittsburg, Kansas.

Responses to Complaints

Farmers National Bank did not receive any written complaints regarding its CRA performance during the evaluation period.

Fair Lending or Other Illegal Credit Practices Review

We did not find any evidence of discriminatory or other illegal credit practices inconsistent with helping to meet assessment area's credit needs.