



## **PUBLIC DISCLOSURE**

January 26, 2015

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

Farmers National Bank  
Charter Number 11933

759 State Street  
Phillipsburg, KS 67661

Office of the Comptroller of the Currency

2959 N. Rock Road, Suite 510  
Wichita, KS 67226

**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 loan-to-deposit ratio is reasonable given the bank’s size, financial condition, and the credit needs within the AA.
- The institution meets the credit needs of the community by originating a substantial majority of loans inside the assessment area (AA).
- The distribution of borrowers reflects reasonable penetration among individuals of different income levels and farms of different sizes.

**SCOPE OF EXAMINATION**

We assessed the record of Farmers National Bank (FNB) in meeting the credit needs of the local community in accordance with the Community Reinvestment Act (CRA) for the period beginning January 2012 to December 2014. In order to determine the lending performance, we selected primary products based on both the number and dollar amount of loans originated between January 1, 2012 and December 31, 2014. Agriculture and consumer loans were determined to be the primary products within the assessment area (AA). We selected a random sample of 20 loans of each respective category in order to evaluate lending performance within the AA.

**DESCRIPTION OF INSTITUTION**

FNB is a \$122 million financial institution with the main office located in Phillipsburg, KS. In addition to the main branch, FNB maintains additional branches in Agra, Logan, Kensington, and Stockton. There is no Bank Holding Company (BHC); but rather, it is owned through individual, partnership, and trust shareholders. While there is no BHC, the controlling entity also owns the Farmers State Bank of Atwood as part of a banking chain.

A CRA Performance Evaluation (PE) was last prepared on January 4, 2010, with a “Satisfactory” rating assigned.

FNB offers traditional banking products and services. As of September 30, 2014, loans totaled \$71 million and represented 58 percent of the institution’s total assets. The loan portfolio mix is as follows: 12 percent in 1-4 family residential mortgages; 30 percent in commercial related loans; 47 percent in agriculture loans; 7 percent in consumer loans; and 4 percent in other loan categories.

There are no known legal, financial, or other factors impeding the bank’s ability to meet the credit needs in the AA.

**DESCRIPTION OF ASSESSMENT AREA**

Management designated a single AA for the assessment period included in this evaluation. The AA includes three Census Tracts (CTs) in Phillips County, one CT in Osborne County, two CTs

in Rooks County, and two CTs in Smith County. Phillips and Rooks counties are designated as underserved and Osborne and Smith counties are designated as distressed and underserved. The AA is reasonable, consists of contiguous, whole CTs, includes geographies where the institution has its main office and branches, and does not arbitrarily exclude any low- or moderate-income area(s).

The AA consists of all middle-income tracts. The weighted average HUD median family income is \$55,900. 14.43 percent of households (HHs) are below the poverty level, and 1.24 percent receive public assistance. Housing within the AA primarily consists of owner occupied units (63.43 percent). (*2010 U.S. Census.*)

There is moderate competition within the AA; specifically, in the Phillipsburg area. Per the FDIC Market Share report, FNB controlled 15 percent of the AA's market share as of June 30, 2014.

Per the 2010 Census data reports, primary industries by employment include educational services, health care services, agriculture, manufacturing, and retail trade. Per discussion with bank management and community members, major area employers include the hospitals, school districts, Tamko (building products manufacturer), and Prairie Horizon (ethanol manufacturing plant). (*2010 U.S. Census.*)

During our review, we contacted officers from a local development organization to get a sense of local economic activity and the general credit needs within the AA. During our discussion, the contact stated that, overall they thought local financial institutions did a good job in meeting the needs of the community. The community contact identified small business/startup business loans as a primary credit need in the AA.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

The lending test is based on the following five factors: loan-to-deposit ratio, lending within the AA, income distribution, geographic distribution, and responses to CRA related complaints.

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

FNB's loan-to-deposit ratio is reasonable given the bank's size, financial condition, and the credit needs within the AA. The bank's quarterly average loan-to-deposit ratio of 64.98 percent from December 31, 2009 to September 30, 2014 is in line with the average loan-to-deposit ratio of similarly situated institutions in the area with an average ratio of 66.80 percent.

### **Lending in Assessment Area**

Lending within the AA is outstanding. A substantial majority of sampled loans were originated inside the AA with 98 percent by number and 99 percent by dollar volume. The following table depicts the lending activities within the AA during the evaluation period.

<b>Lending in AA</b>										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Agriculture	20	100	0	0	20	1,203,202	100	0	0	1,203,202
Consumer	19	95	1	5	20	108,690	94	7,500	6	116,190
<b>Total</b>	<b>39</b>	<b>98</b>	<b>1</b>	<b>2</b>	<b>40</b>	<b>1,311,892</b>	<b>99</b>	<b>7,500</b>	<b>1</b>	<b>1,319,392</b>

Source: loan origination report

**Lending to Borrowers of Different Incomes and to Farms of Different Sizes**

The distribution of borrowers reflects reasonable penetration among individuals of different income levels and farms of different sizes.

**Agriculture Loans**

The borrower distribution of farm loans is reasonable. The percentage of bank loans to farms with revenues of less than \$1 million by number and dollar is near to the percentage of small farms in the AA. See the table below for additional details.

<b>Borrower Distribution to Farms</b>				
Business Revenues (or Sales)	<= \$1,000,000	> \$1,000,000	Unavailable	Total
% of AA Farms	98.92%	0.94%	0.13%	100.00%
% of Bank Loans in AA by #	95.00%	5.00%	0.00%	100.00%
% of Bank Loans in AA by \$	91.69%	8.31%	0.00%	100.00%

Source: Bank reports; 2010 U.S. Census data

**Consumer Loans**

The borrower distribution of loans to consumers indicates reasonable penetration among low- to moderate- income (LMI) households. Consumer loans to low-income households is slightly lower than demographics given that 23.61 percent of households are classified as low-income, and 15.00 percent of the sampled loans were to households designated as such. Loans to moderate-income households exceed the demographic percentages with 25.00 percent of sampled loans extended to consumers in this income bracket compared to demographics of 18 percent. Please refer to the table below for additional information.

<b>Borrower Distribution of Consumer Loans</b>									
Borrower Income Level	Low		Moderate		Middle		Upper		Unavailable
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of Number of Loans
% of Total	23.61	15.00%	18.21%	25.00%	20.93%	35.00%	37.26%	25.00%	0.00%

Source: Bank reports; 2010 U.S. Census data

### **Geographic Distribution of Loans**

A geographic analysis would not provide meaningful results as all census tracts in the AA are designated as middle-income geographies.

### **Responses to Complaints**

Neither the Office of the Comptroller of the Currency nor the bank received any complaints about its CRA performance during the evaluation period.

### **Community Development Activities**

The volume of qualified Community Development loans (CD) demonstrates adequate responsiveness to the AA's credit and community needs; such activities had a positive impact on the local community. From January 2010 to December 2014, FNB extended eligible CD loans/donations totaling \$1.10 million, or 6 percent of Tier 1 Capital, during the evaluation period. Such loans/donations were extended for use by organizations that provide essential community services including healthcare, infrastructure, and social services in distressed and underserved nonmetropolitan geographies.

Additionally, the institution's record of providing branches and services enhances credit availability in its AA. FNB operates five full service branches and one ATM within the AA; branch locations provide easy access to financial services for individuals located within the rural AA. In the past, the institution opened a branch in response to community requests in Stockton, KS after another institution exited that market.

### **Fair Lending or Other Illegal Credit Practices Review**

Pursuant to 12 C.F.R. 25.28(c), or 12 C.F.R. 195.28(c), in determining a national bank's (bank) or Federal savings (FSA) CRA rating, respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or FSA, or in any assessment area by an affiliate whose loans have been considered as part of the bank's or FSA's lending performance.

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