



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## **PUBLIC DISCLOSURE**

February 4, 2013

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

First National Bank in Frankfort  
Charter Number 11916

124 North Kansas  
Frankfort, KS 66427

Office of the Comptroller of the Currency

7101 College Boulevard, Suite 1600  
Overland Park, KS 66210

**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 this rating are:

- A substantial majority of loans by number and dollar are made to borrowers within the bank's Assessment Area (AA).
- The First National Bank in Frankfort (FNBF) has an excellent record of lending to farms of different sizes.
- Consumer lending to borrowers of different income levels is reasonable.
- The distribution of residential real-estate loans to borrowers of different income levels is reasonable.

**SCOPE OF EXAMINATION**

FNBF was evaluated under the Small Bank examination procedures, which includes a lending test. The lending test evaluates the institution's record of meeting the credit needs of its AA through its lending activities.

The lending test covered FNBF's performance from January 1, 2010 through December 31, 2011, as this is representative of its lending strategy since the last CRA examination.

FNBF's primary loan products are, in dollars, agriculture and residential real estate loans; and, in number, agriculture and consumer loans. Based on this information, we reviewed a sample of 20 1-4 family purchase and refinance loans, 20 consumer loans and 20 agriculture loans. We used the sample to determine the institution's lending record to individuals of different income levels and farms of different sizes, and the percentage of the institution's loan originations extended within the AA.

**DESCRIPTION OF INSTITUTION**

FNBF is a \$35 million, full service financial institution located in Frankfort, Kansas. FNBF is a wholly owned subsidiary of First Frankfort Bancshares, Inc., a one-bank holding company. The bank's main office and holding company are located in Marshall County, Kansas. FNBF has no branch locations but operates one automated teller machine located at the main banking facility. FNBF is the only bank in Frankfort, Kansas.

FNBF offers a variety of loan products with an emphasis on agricultural, real estate and consumer loans. Total loans represented 40 percent of the bank's total assets as of December 31, 2012.

There are no legal or financial constraints that impede the bank's CRA efforts. The last CRA examination dated March 20, 2008 rated the bank's performance as "Satisfactory". Refer to the bank's CRA Public File for more information.

## **DESCRIPTION OF ASSESSMENT AREA**

FNBF has designated all of Marshall and Nemaha counties as its AA. The AA does not include a Metropolitan Statistical Area (MSA), and does not reflect illegal discrimination. The AA contains seven middle-income tracts, meets regulatory requirements, and does not arbitrarily exclude any low- or moderate-income geography.

Farming and agricultural service industries are the economic base for the AA. The overall economic condition of the AA is stable due to good crop yields and agricultural prices. Average unemployment is significantly lower than the national average, at 1.75 percent. The 2011 HUD non-MSA median family income is \$53,700. The median housing value is \$48,844 and 75 percent of housing units are owner-occupied. While there are no low or moderate-income tracts in the AA, low and moderate income families represent 19.77 percent and 24.90 percent of the AA's population.

During the evaluation, we made one community contact with a local business. According to our contact, there is a need for additional affordable housing in the community. Currently, it is very difficult for young families to try to find a home in the area. The contact stated that FNBF is meeting the credit needs in the area and is active in the community.

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

FNBF's performance under the lending test is satisfactory. In our review, a substantial majority of loans were made within the AA. FNBF's loan-to-deposit ratio reflects reasonable responsiveness toward meeting the credit needs of the community. No complaints about the institution's performance in helping to meet the credit needs of the AA were filed.

We found FNBF to have reasonable penetration among residential and consumer borrowers of different income levels. Additionally, the institution has an excellent record of lending to farms of different sizes.

All criteria of the lending test are documented below:

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

FNBF's loan-to-deposit (LTD) ratio is reasonable given its size, financial condition and AA credit needs. Since the last CRA evaluation, the bank's quarterly average LTD ratio is 52.02 percent. This compares reasonably to the quarterly average of three nearby competitors at 68.39 percent. FNBF's LTD ratio ranged from 40.77 percent to 64.39 percent during the same period.

**Lending in Assessment Area**

FNBF’s record of lending to borrowers in the AA is outstanding given the institution’s size, financial condition and AA credit needs. Based on our sample, the bank granted a substantial majority of loans inside the AA comprising 86.4 percent by number and 91.6 percent by dollar amount. We reviewed 1-4 family residential loans, consumer loans and agriculture loans. Our review found FNBF originated 95 percent of its 1-4 family residential loans by number and 94 percent by dollar volume inside the AA. The institution originated 75 percent of its consumer loans by number and 73 percent by dollar volume inside the AA. Additionally, they originated 89 percent of its agriculture loans by number and 93 percent by dollar volume inside the AA.

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

FNBF’s distribution of small loans to farms relative to farm revenue and loan amount is excellent. FNBF made approximately 58 percent of its farm loans in amounts less than \$100 thousand. In addition, FNBF’s distribution of small loans to farms with revenues less than \$1 million was 100 percent, slightly above the percentage of farms in the AA with revenues below \$1 million, at 99 percent.

| <b>Borrower Distribution of Loans to Businesses/Farms in Frankfort Assessment Area</b> |              |              |                         |       |
|--|--------------|--------------|-------------------------|-------|
| Business Revenues (or Sales)   | ≤\$1,000,000 | >\$1,000,000 | Unavailable/<br>Unknown | Total |
| % of AA Businesses   | 99%          | 0%           | 1%                      | 100%  |
| % of Bank Loans in AA by #   | 100%         | 0%           | 0%                      | 100%  |
| % of Bank Loans in AA by \$  | 100%         | 0%           | 0%                      | 100%  |

Source: Loan Sample and 2000 U.S. Census data.

| <b>Borrower Distribution of Loans to Businesses by Loan Size in Frankfort Assessment Area</b> |                 |                   |                        |                          |
|---|-----------------|-------------------|------------------------|--------------------------|
| Loan Size (000's)   | Number of Loans | Percent of Number | Dollar Volume of Loans | Percent of Dollar Volume |
| \$0-\$100,000   | 11              | 57.90%            | \$377,242              | 21.53%                   |
| \$100,001- \$250,000  | 7               | 36.84%            | \$1,074,942            | 61.35%                   |
| \$250,001-\$500,000   | 1               | 5.26%             | \$300,000              | 17.12%                   |
| \$500,001-\$10,000,000  | 0               | 0%                | \$0                    | 0%                       |

Source: Loan sample.

The distribution of home loans to borrowers reflects reasonable penetration among borrowers of different income levels. Lending to low-and moderate-income residential real estate borrowers is reasonable. The demographics show that 19.77 percent of families are low income and 24.90 percent are moderate-income. Included within the low-income metrics are 12.30 percent of families below the poverty level.

| <b>Borrower Distribution of Residential Real Estate Loans in Frankfort Assessment Area</b> |                  |                      |                  |                      |                  |                      |                  |                      |
|--|------------------|----------------------|------------------|----------------------|------------------|----------------------|------------------|----------------------|
| Borrower Income Level  | Low              |                      | Moderate         |                      | Middle           |                      | Upper            |                      |
| Loan Type  | % of AA Families | % of Number of Loans | % of AA Families | % of Number of Loans | % of AA Families | % of Number of Loans | % of AA Families | % of Number of Loans |
| 1-4 Family Residential RE  | 19.77%           | 18.18%               | 24.90%           | 18.18%               | 25.21%           | 40.91%               | 30.11%           | 22.73%               |

Source: Loan Sample and 2000 U.S. Census data.

The distribution of consumer loans to borrowers reflects reasonable penetration among borrowers of different income levels. FNBF’s consumer lending to low-and moderate-income individuals meets or exceeds demographic data. The demographics show that 23.99 percent of households are low-income and 18.01 percent are moderate-income. Included within the low-income metrics are 12.30 percent of households below the poverty level.

| <b>Borrower Distribution of Consumer Loans in Frankfort Assessment Area</b> |                    |                      |                    |                      |                    |                      |                    |                      |
|---|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|
| Borrower Income Level   | Low                |                      | Moderate           |                      | Middle             |                      | Upper              |                      |
|   | % 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 |
| Consumer Loans  | 23.99%             | 18.75%               | 18.01%             | 25%                  | 22.85%             | 0%                   | 35.15%             | 56.25%               |

Source: Loan Sample and 2000 U.S. Census data.

**Geographic Distribution of Loans**

Since all census tracts in the AA are designated as middle-income geographies, a geographic analysis would not be meaningful.

**Responses to Complaints**

FNBF has not received any written complaints regarding its CRA performance during the evaluation period.

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

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