



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

June 15, 2010

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First National Bank of Washington
Charter Number: 2912**

**101 C Street
Washington, KS 66968**

Office of the Comptroller of the Currency

**Kansas City North
7100 College Boulevard, Suite 1600
Overland Park, KS 66210-2077**

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.

We based the bank's Community Reinvestment Act (CRA) rating on the following primary factors:

- A majority of the loans sampled were made inside the Assessment Area (AA).
- The bank's distribution to borrowers of different income levels and farms of different sizes represents reasonable penetration.
- The bank's average loan-to-deposit (LTD) ratio percent is reasonable.

SCOPE OF EXAMINATION

We performed a full scope evaluation of First National Bank of Washington's (First National) CRA performance using Small Bank Examination Procedures. Our objective was to assess the bank's ability to serve and meet the credit needs of the community within its AA. Our loan sample included originations from January 1, 2008 to June 15, 2010. Based on loan originations, the bank's primary lending products, by number and dollar amount, are 1-4 family Residential Real Estate (RRE) and agriculture. We reviewed 66 1-4 Family RRE loans and 20 Agriculture loans for our sample.

DESCRIPTION OF INSTITUTION

First National is a \$61 million, single-branch institution located in Washington, Kansas. Washington is located in the central portion of Washington County. There are five other financial institutions that compete for deposits and loans within Washington County. As of June 30, 2009, the bank held 25.3 percent of deposits within the market.

There are no legal or financial factors that impede the bank's ability to help meet the credit needs of the AA. The bank received a "Satisfactory" rating at the last CRA examination dated October 21, 2003. Please refer to the bank's CRA Public File for more information.

DESCRIPTION OF ASSESSMENT AREA

First National designated nine contiguous townships within the northern half of Washington County as its AA. The AA encompasses portions of block numbering areas (BNAs) 9786 and 9787 — both middle income. The AA meets regulatory requirements and does not arbitrarily exclude any low- or moderate-income geographies.

The AA's 2009 non-MSA updated median family income was \$52,100. The 2000 U.S. Census data reflects a total population of 3,627; median housing value of \$40,300; median family income of \$37,857; and 990 families. Ten percent of these families have income below the poverty level.

The economy of the bank's AA is stable. The local economy is heavily dependent on agriculture. The U.S Department of Labor, Bureau of Labor Statistics, reports the year-end 2009 unemployment rate for Washington County at 4.3 percent. This compares favorably to that of the State of Kansas at 6.3 percent and the national rate of 9.5 percent.

We contacted one individual within the community to discuss local credit needs and the performance of financial institutions in the area. This individual represented a financial services company. Our contact stated agricultural loans are the primary credit need in the community. The contact further stated that all financial institutions in the area are meeting the needs of the community.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

First National's performance under the lending test is satisfactory. First National was found to have reasonable penetration among borrowers of different income levels and farms of different sizes. Of the loans sampled, a majority were made within the AA. First National's LTD ratio is reasonable. No complaints about the bank's performance in helping to meet the credit needs of the AA were filed.

Loan-to-Deposit Ratio

The bank's LTD ratio is reasonable, given the institution's size, financial condition, AA credit needs, and atypical deposit activity. First National's quarterly average LTD ratio for the past 29 quarters was 49 percent, representing a 26 percent increase from the last CRA examination. Two factors significantly impacted the loan-to-deposit ratio. First National is the only bank in the county which accepts county deposits. This activity can increase deposit balances by \$6 million to \$10 million twice per year, often just prior to quarter-end. Second, when owners put \$3 million in the bank, it went into 5 year Certificates of Deposit instead of into investments because of low investment yields. Both of these factors contribute to higher deposit balances, resulting in lower LTD ratios without a significant change in the lending activity. Quarterly average LTD ratios of the similarly situated banks ranged from 46 percent to 112 percent.

Lending in Assessment Area

The bank's record of lending to borrowers in the AA is reasonable given First National's size, financial condition, and AA credit needs. We reviewed RRE and agricultural loans to evaluate the level of lending inside the AA. Our review found the bank originated 80 percent of RRE loans by number and 68 percent by dollar volume inside the AA. The bank originated 55 percent of its agricultural loans by number, and 51 percent by dollar volume inside the AA. An additional 40 percent of the agricultural loans were made in the remaining area within Washington County and within 15 miles from the bank

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

The bank's record of lending to borrowers of different income levels and farms of different sizes is satisfactory.

The distribution of loans to RRE borrowers of different income levels shows good penetration. Based on our samples, First National's distribution of RRE loans to low-income borrowers was excellent. The distribution of RRE loans to moderate-income borrowers was adequate. Forty percent of the bank's total RRE loans were made to low- or moderate-income borrowers.

The bank's record of lending to farms of different sizes represents good penetration. Both by number and dollar amount of loans, First National's small loans to farms was very close to the percentage of farms in the AA reporting revenues of less than \$1 million.

Geographic Distribution of Loans

As the AA encompasses only middle-income geographies, an analysis of geographic distribution of loans would not be meaningful and was not performed.

Responses to Complaints

The bank has not received any consumer complaints regarding performance in helping to meet the credit needs of the AA 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. An analysis of recent public comments, consumer complaints, and HMDA information was performed according to the OCC's risk-based fair lending approach. Based on analysis of this information, the OCC determined a comprehensive fair lending examination would not need to be conducted in connection with the CRA evaluation this year.