



## **PUBLIC DISCLOSURE**

August 6, 2018

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

First National Bank of Scott City  
Charter Number 8808

501 Main Street  
Scott City, KS 67871

Office of the Comptroller of the Currency

Wichita Field Office  
2959 North 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, and should not 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.

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## **Overall CRA Rating: Satisfactory**

### **The Lending Test is rated: Satisfactory**

- The First National Bank of Scott City's (FNB) loan-to-deposit (LTD) ratio of 72 percent is reasonable.
- FNB originated a majority of its loans within the assessment area (AA). The sample indicates that FNB had 60 percent of the number of loans, and 69 percent of the dollar volume of loans granted within the AA.
- FNB's lending patterns reflect reasonable distribution to borrowers of different income levels and businesses of different sizes. Performance indicates that 85 percent (for 2015 and 2016) and 100 (for 2017) percent of agricultural loans were made to farms with gross revenues less than or equal to one million dollars.

## Definitions and Common Abbreviations

The following terms and abbreviations are used throughout this performance evaluation, including the CRA tables. The definitions are intended to provide the reader with a general understanding of the terms, not a strict legal definition.

**Affiliate:** Any company that controls, is controlled by, or is under common control with another company. A company is under common control with another company if the same company directly or indirectly controls both companies. A bank subsidiary is controlled by the bank and is, therefore, an affiliate.

**Aggregate Lending:** The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the MA/assessment area.

**Census Tract (CT):** A small subdivision of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan areas. Census tracts generally have a population between 1,200 and 8,000 people, with an optimal size of 4,000 people. Their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

**Community Development:** Affordable housing (including multifamily rental housing) for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet Small Business Administration Development Company or Small Business Investment Company programs size eligibility standards or have gross annual revenues of \$1 million or less; activities that revitalize or stabilize low- or moderate-income geographies, distressed or underserved nonmetropolitan middle-income geographies, or designated disaster areas; or loans, investments, and services that support, enable or facilitate projects or activities under HUD Neighborhood Stabilization Program criteria that benefit low-, moderate-, and middle-income individuals and geographies in the bank's assessment area(s) or outside the assessment area(s) provided the bank has adequately addressed the community development needs of its assessment area(s).

**Community Reinvestment Act (CRA):** The statute that requires the OCC to evaluate a bank's record of meeting the credit needs of its local community, consistent with the safe and sound operation of the bank, and to take this record into account when evaluating certain corporate applications filed by the bank.

**Consumer Loan(s):** A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor

vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

**Family:** Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family, which is further classified into 'male householder' (a family with a male householder and no wife present) or 'female householder' (a family with a female householder and no husband present).

**Full Review:** Performance under the Lending, Investment, and Service Tests is analyzed considering performance context, quantitative factors (e.g., geographic distribution, borrower distribution, and total number and dollar amount of investments), and qualitative factors (e.g., innovativeness, complexity, and responsiveness).

**Geography:** A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

**Home Mortgage Disclosure Act (HMDA):** The statute that requires certain mortgage lenders that conduct business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applicants, the amount of loan requested, the disposition of the application (e.g., approved, denied, and withdrawn), loan pricing, the lien status of the collateral, any requests for preapproval, and loans for manufactured housing.

**Home Mortgage Loans:** Such loans include home purchase, home improvement and refinancings, as defined in the HMDA regulation. These include loans for multifamily (five or more families) dwellings, manufactured housing and one-to-four family dwellings other than manufactured housing.

**Household:** Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

**Limited Review:** Performance under the Lending, Investment, and Service Tests is analyzed using only quantitative factors (e.g., geographic distribution, borrower distribution, total number and dollar amount of investments, and branch distribution).

**Low-Income:** Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent, in the case of a geography.

**Market Share:** The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the MA/assessment area.

**Median Family Income (MFI):** The median income determined by the U.S. Census Bureau every five years and used to determine the income level category of geographies. Also, the median income determined by the Federal Financial Institutions Examination Council (FFIEC) annually that is used to determine the income level category of individuals. For any given area, the median is the point at which half of the families have income above it and half below it.

**Metropolitan Area (MA):** Any metropolitan statistical area or metropolitan division, as defined by the Office of Management and Budget, and any other area designated as such by the appropriate federal financial supervisory agency.

**Metropolitan Division:** As defined by Office of Management and Budget, a county or group of counties within a Core Based Statistical Area that contains an urbanized population of at least 2.5 million. A Metropolitan Division consists of one or more main/secondary counties that represent an employment center or centers, plus adjacent counties associated with the main/secondary county or counties through commuting ties.

**Metropolitan Statistical Area:** An area, defined by the Office of Management and Budget, as a core based statistical area associated with at least one urbanized area that has a population of at least 50,000. The Metropolitan Statistical Area comprises the central county or counties containing the core, plus adjacent outlying counties having a high degree of social and economic integration with the central county or counties as measured through commuting.

**Middle-Income:** Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 percent and less than 120 percent, in the case of a geography

**Moderate-Income:** Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 percent and less than 80 percent, in the case of a geography.

**Multifamily:** Refers to a residential structure that contains five or more units.

**Other Products:** Includes any unreported optional category of loans for which the institution collects and maintains data for consideration during a CRA examination. Examples of such activity include consumer loans and other loan data an institution may provide concerning its lending performance.

**Owner-Occupied Units:** Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

**Qualified Investment:** A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

**Rated Area:** A rated area is a state or multi-state metropolitan area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multi-state metropolitan area, the institution will receive a rating for the multi-state metropolitan area.

**Small Loan(s) to Business(es):** A loan included in 'loans to small businesses' as defined in the Consolidated Reports of Condition and Income (Call Report) instructions. These loans have original amounts of \$1 million or less and typically are either secured by nonfarm or nonresidential real estate or are classified as commercial and industrial loans.

**Small Loan(s) to Farm(s):** A loan included in 'loans to small farms' as defined in the instructions for preparation of the Consolidated Reports of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, or are classified as loans to finance agricultural production and other loans to farmers.

**Tier One Capital:** The total of common shareholders' equity, perpetual preferred shareholders' equity with non-cumulative dividends, retained earnings and minority interests in the equity accounts of consolidated subsidiaries.

**Upper-Income:** Individual income that is at least 120 percent of the area median income, or a median family income that is at least 120 percent, in the case of a geography.

## **Description of Institution**

The First National Bank of Scott City (FNB) is a \$113 million institution, located in Scott City, Kansas. FNB has one bank location with a drive-up facility, and an automated teller machine adjacent to the bank. FNB is a wholly-owned subsidiary of the holding company, First National Bancshares of Scott City, Ltd. The holding company has total assets of \$15 million as of December 31, 2017.

FNB designates Scott County as its AA. The AA comprises one middle-income census tract (9571). The AA complies with the regulation and does not arbitrarily exclude any low- or moderate-income areas. Please refer to Appendixes A and B for more information.

FNB faces moderate competition in the AA. Based on the Federal Deposit Insurance Corporation's most recent deposit market share report, dated June 30, 2017, FNB ranks second in deposit market share with 38 percent of the deposits within the AA. Other institutions in the AA are Western State Bank and Security State Bank, with 12 percent and 50 percent of the deposit market share, respectively. Both competing institutions have one office in the AA.

FNB is a full-service banking institution offering a range of agricultural, commercial, real estate, and consumer credit products. As of June 30, 2018, net loans represent 62 percent of FNB's total assets. FNB's loan portfolio comprises 54 percent agricultural loans, 23 percent commercial loans, 13 percent consumer loans, and 10 percent residential real estate. FNB had Tier One Capital of \$14.6 million as of June 30, 2018.

There are no legal, financial, or other matters impeding FNB's ability to help meet the credit needs of the AA. The Office of the Comptroller of the Currency last evaluated FNB's CRA performance on July 2, 2013. FNB received an overall rating of "Satisfactory" under the Small Bank Performance Standard.

## **Scope of the Evaluation**

### **Evaluation Period/Products Evaluated**

Examiners performed an evaluation of FNB's CRA performance using the Small Bank CRA procedures. The Performance Evaluation (PE) is an assessment of CRA performance from January 1, 2015, through December 31, 2017. FNB's primary loan product is agricultural loans. The evaluation of this lending product included a review of 20 agricultural loans originated by FNB during 2015 and 2016, and 20 agricultural loans originated in 2017. We performed two analyses due to the 2015 American Community Survey (ACS) census update.

## **Data Integrity**

We did not perform a data integrity review as the bank is not a CRA or Home Mortgage Data Disclosure reporter.

## **Selection of Areas for Full-Scope Review**

Scott County is the bank's only AA. We performed a full-scope review of the AA. Please refer to Appendixes A and B for more information.

## **Ratings**

The bank's overall rating is based solely on the full-scope review of the Scott County AA.

## **Discriminatory or Other Illegal Credit Practices Review**

Pursuant to 12 C.F.R. §25.28(c) or §195.28(c), respectively, in determining a national bank's or federal savings association's (collectively, bank) CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank, or in any assessment area by an affiliate whose loans have been considered as part of the bank's lending performance. As part of this evaluation process, the OCC consults with other federal agencies with responsibility for compliance with the relevant laws and regulations, including the U.S. Department of Justice, the U.S. Department of Housing and Urban Development, and the Consumer Financial Protection Bureau, as applicable.

The OCC has not identified that this institution has engaged in discriminatory or other illegal credit practices that require consideration in this evaluation.

The OCC will consider any information that this institution engaged in discriminatory or other illegal credit practices, identified by or provided to the OCC before the end of the institution's next performance evaluation in that subsequent evaluation, even if the information concerns activities that occurred during the evaluation period addressed in this performance evaluation.

# Conclusions with Respect to Performance Tests

## LENDING TEST

FNB’s performance with respect to the lending test is satisfactory. Lending volumes are reasonable given the bank’s size, financial condition, and credit needs of the AA. The majority of agricultural loans were originated to borrowers within the AA. FNB’s lending performance reflects reasonable distribution to borrowers of different income levels and businesses of different sizes.

### Loan-to-Deposit Ratio

FNB’s LTD ratio is reasonable given the bank’s size, financial condition, and credit needs of the AA. The quarterly average LTD ratio since the last CRA examination is 72 percent. The LTD ratio ranged between 64 percent and 81 percent for the period under review. The average quarterly LTD ratio over the same period for FNB’s competitors was 71 percent, with LTD ratios ranging from 45 percent to 110 percent.

### Lending in Assessment Area

FNB originated a majority of their agriculture loans inside the AA. Examiners selected a sample of 20 agricultural loans made during 2015 and 2016, and 20 agricultural loans originated in 2017 to assess management’s lending performance in the bank’s AA. Based on our sample, FNB originated 60 percent by number and 69 percent by dollar volume within their AA.

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

FNB’s lending performance reflects reasonable penetration among borrowers of different incomes and businesses of different sizes. The loan sample from 2015 and 2016 reflects that 85 percent of the number of loans and 68 percent of the dollar volume of loans were granted to farms with gross revenues less than or equal to \$1 million. This represents lending performance lower than demographics. Nine, or 45 percent of the loans in the sample were made to farms with gross annual revenues below \$250 thousand.

<b>Borrower Distribution of Loans to Farms in Scott County AA – 2015 &amp; 2016</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Farms	94%	4%	2%	100%
% of Bank Loans in AA by #	85%	10%	5%	100%
% of Bank Loans in AA by \$	68%	32%	0%	100%

Source: Loan sample, Dun and Bradstreet data

The loan sample from 2017 reflects that 100 percent of the number of loans and 100 percent of the dollar volume of loans were granted to farms with gross revenues less

than or equal to \$1 million. This represents lending performance that exceeds demographics. Additionally, 13, or 65 percent of the loans in the sample were made to farms with gross annual revenues below \$250 thousand.

<b>Borrower Distribution of Loans to Farms in Scott County AA – 2017</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Farms	94%	4%	2%	100%
% of Bank Loans in AA by #	100%	0%	0%	100%
% of Bank Loans in AA by \$	100%	0%	0%	100%

Source: Loan sample, Dun and Bradstreet data

### **Geographic Distribution of Loans**

Examiners did not complete an analysis of the geographic distribution of loans. The AA does not contain any low- or moderate-income tracts.

### **Responses to Complaints**

FNB did not receive any consumer complaints relating to CRA during the evaluation period.

## Appendix A: Scope of Examination

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The following table identifies the time period covered in this evaluation, affiliate activities that were reviewed, and loan products considered. The table also reflects the metropolitan and nonmetropolitan areas that received comprehensive examination review (designated by the term “full-scope”) and those that received a less comprehensive review (designated by the term “limited-scope”).

<b>Time Period Reviewed</b>	Lending Test: (1/1/2015 to 12/31/2017)	
<b>Financial Institution</b>		<b>Products Reviewed</b>
The First National Bank of Scott City (FNB) Scott City, KS		Agricultural loans
<b>Affiliate(s)</b>	<b>Affiliate Relationship</b>	<b>Products Reviewed</b>
Not Applicable		Not Applicable
<b>List of Assessment Areas and Type of Examination</b>		
<b>Assessment Area</b>	<b>Type of Exam</b>	<b>Other Information</b>
Scott County, KS - CT #9571	Full-Scope	

## Appendix B: Community Profiles for Full-Scope Areas

### Scott County, Kansas

Demographic Information for Full Scope Area: Scott County 2015-2016						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	1	0.00	0.00	0.00	100.00	0.00
Population by Geography	4,936	0.00	0.00	0.00	100.00	0.00
Owner-Occupied Housing by Geography	1,741	0.00	0.00	0.00	100.00	0.00
Business by Geography	396	0.00	0.00	0.00	100.00	0.00
Farms by Geography	147	0.00	0.00	0.00	100.00	0.00
Family Distribution by Income Level	1,546	9.77	21.99	16.30	51.94	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	491	0.00	0.00	0.00	100.00	0.00
Median Family Income FFIEC Adjusted Median Family Income for 2016 Households Below Poverty Level		52,419 57,300 8%	Median Housing Value Unemployment Rate (2010 US Census)		100,100 0.41%	

(\*) The NA category consists of geographies that have not been assigned an income classification.

Source: 2010 US Census and 2016 FFIEC updated MFI

Demographic Information for Full Scope Area: Scott County 2017						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	1	0.00	0.00	100.00	0.00	0.00
Population by Geography	4,928	0.00	0.00	100.00	0.00	0.00
Owner-Occupied Housing by Geography	1,583	0.00	0.00	100.00	0.00	0.00
Business by Geography	392	0.00	0.00	100.00	0.00	0.00
Farms by Geography	155	0.00	0.00	100.00	0.00	0.00
Family Distribution by Income Level	1,379	6.89	26.25	19.72	47.14	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	457	0.00	0.00	100.00	0.00	0.00
Median Family Income FFIEC Adjusted Median Family Income for 2017 Households Below Poverty Level		56,877 60,300 9%	Median Housing Value Unemployment Rate (2015 ACS US Census)		126,000 3.29%	

(\*) The NA category consists of geographies that have not been assigned an income classification.

Source: 2015 ACS US Census and 2017 FFIEC updated MFI

FNB designates Scott County as its AA. The AA comprises one middle-income census tract (9571). The AA complies with the regulation and does not arbitrarily exclude any low- or moderate-income areas.

The 2015 ACS U.S. Census data reflects a population of 4,928, and a median family income of \$59,096. Data reflects that seven percent of families are low-income, 26 percent are moderate-income, 20 percent are middle-income, and 47 percent are upper-income. Of the 2,196 households in the AA, 30 percent receive social security, seven percent are retired, and nine percent are below the poverty level. Nineteen percent (19%) of the population is over the age of 65, and 28 percent of the population consists of civilians not in the workforce. The median housing value is \$126,000 and 67 percent of the housing units are owner-occupied.

Based on the Federal Deposit Insurance Corporation's most recent deposit market share report, dated June 30, 2017, FNB ranks second out of three institutions in deposit market share, with 38 percent of the deposits within the AA. Other institutions in the AA are Western State Bank (WSB) and Security State Bank (SSB). Both competing institutions have one office in the AA, with WSB having 12 percent of the deposit market share and SSB owning 50 percent of the deposit market share. WSB and SSB also have offices outside the market, with WSB having nine offices outside of market (10 total), and SSB having one office outside of market (two total).

The economic condition of the AA is stable. FNB's trade area is dominated by agriculture, primarily cattle feeding and production agriculture. Major employers in the area include Unified School District 466, Scott County Hospital, and local cattle feed yards. The Bureau of Labor Statistics reflects a June 30, 2018, unemployment rate (unadjusted) for Scott County of two percent. The unadjusted rate in Kansas and nationwide for the same period was 3.4 percent and 4.0 percent, respectively.

Examiners contacted an employee within an economic development organization from the AA. The contact indicated that the primary credit needs of the communities located in the AA are agricultural, residential real estate, and various types of consumer lending needs. The contact stated that the credit needs of the communities are being met by local financial institutions, with a high-level of involvement in the community from all three financial institutions.