

PUBLIC DISCLOSURE

July 19, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First National Bank
Charter Number 8145**

**113 North Main
Independence, Kansas 67301**

**Office of the Comptroller of the Currency
South Kansas Field Office
3450 North Rock Road, Suite 505
Wichita, Kansas 67226**

NOTE: 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.

GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the 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. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

*This document is an evaluation of the Community Reinvestment Act (CRA) performance of **The First National Bank, Independence, Kansas**, prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of July 19, 1999. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.*

INSTITUTION'S CRA RATING: This institution is rated “**Satisfactory.**”

The bank has a satisfactory record of meeting the credit needs of its assessment area.

- < The level of lending to businesses of different sizes and borrowers of different incomes is good. A sample of residential real estate loans indicated 50% were advanced to low- or moderate-income individuals.
- < The bank's 76% quarterly average loan-to-deposit ratio is satisfactory.
- < 91% of the number of loans are within the bank's assessment area.
- < The bank's geographic distribution of loans to the moderate-income tracts within the assessment area is satisfactory.

DESCRIPTION OF INSTITUTION

The First National Bank in Independence (First National) is a \$24 million financial institution located in Independence, Kansas. In addition to the main facility, the bank has one branch location in Independence and one in Elk City, Kansas. The bank's one automated teller machine is at the main location. First National is not owned by a holding company and has one affiliate. The bank is a full service financial institution, providing a variety of loan products with an emphasis in real estate and commercial loans. Net loans represent 70% of total assets or \$17.6 million. In addition, First National has 5% of the deposits in Montgomery County, as of June 30, 1998.

The bank's financial condition, size, local economic conditions, and other factors allow it to help meet the credit needs of its assessment area. There are no legal or financial circumstances impeding the bank's ability to help meet the credit needs in the assessment area (AA). At the previous CRA examination dated January 15, 1997, First National received a "Satisfactory Record of Meeting Community Credit Needs" rating.

The following table illustrates that the loan portfolio is composed primarily of residential real estate loans and commercial loans at 69% combined.

Loan Distribution by Type		
Loan Type	Dollar Amount as of 03/31/99	Percent of Loan Portfolio as of 03/31/99
Residential Real Estate	\$6,469M	36%
Commercial	\$5,869M	33%
Consumer	\$2,178M	12%
Non Farm/Non Residential	\$1,720M	10%
Agriculture	\$1,650M	9%
Total (gross loans)	\$17,886M	100%

DESCRIPTION OF ASSESSMENT AREA

The bank's AA consists of Montgomery County, Kansas. The AA is located in southeast Kansas with a population of 38,816. Montgomery County has thirteen census tracts or block numbering areas. They are broken down as follows: No low-income tracts (0%), four moderate-income tracts (31%),

seven middle-income tracts (54%), and two upper-income tracts (15%).

The AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income areas. The AA has the following distribution of families by income level: 20.4% low-income, 18.9% moderate-income, 23.8% middle income, and 36.9% upper income. Households with income below the poverty level represent 17% of all households. The Kansas statewide nonmetropolitan median family income is \$38,200 for 1998. The median housing cost for the assessment area is \$28,871 and 63% of the houses are owner occupied.

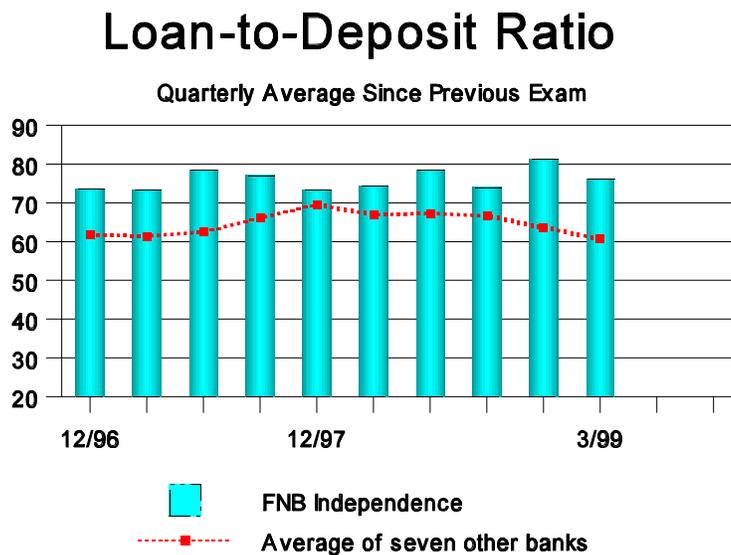
There are nine banks with 17 offices and one savings and loan institution with two offices in the AA. These competing financial institutions range in size from \$4 million to \$145 million in total assets.

The local economy in Independence is considered fair. Manufacturing, agriculture, city and state government, and schools are a substantial part of the local employment base. Major employers in Independence include: Cessna Aircraft, Dana Corporation, Hackney and Sons, and Heartland Cement. Montgomery County's unemployment rate is low at 2.8%.

Examiners conducted an interview with one community contact. The contact did not identify any specific credit needs but did indicate the local financial institutions were effectively meeting the credit needs of the area.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Loan-to-Deposit Ratio



The bank's level of lending is satisfactory. Since the previous CRA exam, the bank's quarterly average loan-to-deposit ratio was 76%. This was higher than the quarterly average loan-to-deposit ratio of 65% for the seven other banks located in Montgomery County. The seven banks have quarterly average loan-to-deposit ratios ranging from 36% to 93%.

Lending in Assessment Area

First National extends a majority of its loans within the AA. Bank records indicate 91% of the number and 82% of the dollar amount of all loans are in the AA. Examiners used management generated reports and a loan sample to support findings. Examiners sampled residential real estate and commercial loans and found similar results to management's reports.

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

The level of lending to businesses of different sizes is good. Examiners reviewed a sample of 20 commercial loans granted from the previous examination to June 1, 1999. Management considers businesses with annual gross revenues of \$500,000 or less to be small businesses. The demographics of the AA show that the majority of businesses have annual gross revenue less than \$500,000. The following table shows the distribution of business loans by annual gross revenues.

Business Annual Gross Revenues	Number of Loans	Percentage
Less than \$500,000	14	70%
Greater than \$500,000	6	30%
TOTAL	20	100%

The bank has a good record of granting residential real estate loans to borrowers of different income levels. The following table depicts distribution by income level of residential real estate loans granted from the previous examination to June 1, 1999. The table illustrates the bank's lending to low- and moderate-income individuals is good and exceeds the demographics of the AA.

Distribution of Residential Real Estate Loan Sample by Income Levels			
Income Levels	Number of Customers	Percentage of sample	Percentage of Families in Income Category

Distribution of Residential Real Estate Loan Sample by Income Levels			
Low	6	21%	20%
Moderate	8	29%	19%
Middle	5	18%	24%
Upper	9	32%	37%
Total	28	100%	100%

Geographic Distribution of Loans

The bank has a satisfactory distribution of loans to the moderate-income tracts in the AA. An analysis of the geographic distribution of credit within the AA found the bank had granted six, or twenty-one percent of loans to the moderate-income tracts. The bank did not have penetration in two of the four moderate income tracts. These tracts are located in Coffeyville, Kansas. Management indicates there is strong competition and limited opportunities for the bank to extend credit in this area. The two moderate-income tracts where loans were generated are located in Independence and Cherryvale, Kansas, respectively.

Response to Complaints

The bank has not received any CRA related complaints since the previous CRA examination.

Compliance with Anti-Discrimination Laws and Regulations

Based on our review, the bank is in compliance with all provisions of antidiscrimination laws and regulations. Examiners did not find any evidence of prohibited discrimination or other illegal credit practices.