



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

June 09, 2003

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The First National Bank Of Sedan
Charter Number 3855**

**101 West Main
Sedan, KS 67361**

**Comptroller of the Currency
Assistant Deputy Comptroller, C. Scott Schainost
3450 North Rock Road Suite 505
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.

DESCRIPTION OF INSTITUTION

The First National Bank of Sedan (FNB or the bank) is a \$44 million bank located in Sedan, Kansas. The bank has no branches. FNB has one automated teller machine located at the main office. The bank does not operate under a holding company. There have been no changes in the bank's corporate structure.

FNB is a full service bank providing a variety of loan products with an emphasis on residential real estate and agricultural loans. On March 31, 2003, net loans represented 31% of the bank's total assets. The bank's \$14 million loan portfolio has the following composition: 46% agricultural; 19% residential real estate; 17% commercial; 9% consumer; and 9% other real estate. The bank has not changed any existing loan products, or offered any new products since the previous CRA examination. Examiners determined the primary lending products were agricultural and residential real estate loans.

The bank's financial condition, size, and local economic conditions allow it to help meet the credit needs of its assessment area. Examiners assigned a "Satisfactory" rating at the April 19, 1999, CRA examination.

DESCRIPTION OF ASSESSMENT AREA

The bank's assessment area (AA) consists of Chautauqua County, Kansas. The AA consists of the moderate-income block numbering area 9946. The AA complies with regulation and does not arbitrarily exclude any low- or moderate-income tracts. The Kansas statewide non-MSA median family income for 2002 is \$44,200. The unemployment rate for the AA in April 2003 is 4.4% compared to 6.1% nationwide.

Examiners made two community contacts with local business professionals in the AA. The contacts identified home loans and agricultural purpose loans as two of the area's primary credit needs. Each contact stated that FNB is the only local bank in the AA and that it is very active in the community.

The AA has a population of 4,407. The income distribution for families in the AA is 30% low-income, 22% moderate-income, 27% middle-income, and 21% upper-income. Twenty percent of the households in the AA have incomes below the poverty level. The weighted average median housing value is \$18,800. Sixty-five percent of homes in the AA are owner occupied. One other bank, with \$34 million in assets, provides competition in the AA. With 75% of the area's deposits, FNB ranks 1st in deposit market share.

The local economy is severely depressed. Agriculture is the dominant economic force in the

area. Consecutive below average crop yields, coupled with poor cattle prices have caused local farmers to either scale back or stop their operations. The AA has not been attractive for industries because of a declining, aging population with a large percentage (41%) out of the workforce.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

FNB's level of lending is adequate. The bank's quarterly average loan-to-deposit ratio (LTD) over the past 12 quarters ending March 31, 2003, is 38%. Examiners compared this ratio to that of similarly situated bank in and adjacent to the AA. For peer banks, examiners analyzed the ratios over the same time period for a group of four banks. The quarterly average LTD for this group is 69%. The quarterly average ratios for the banks within the peer group range from 61% to 82%.

While FNB's quarterly average LTD is below that of the similarly situated banks, it is still considered adequate. FNB is one of two banks with offices in the AA and is the only bank that operates entirely within the AA. The other similarly situated banks have the ability to lend in areas outside the depressed AA. FNB management stated loan demand is low. Examiners reviewed the bank's credit denials and determined management does not turn down credit worthy customers. The two community contacts affirmed management's statement that loan demand in the area is low and each believed the banks in Chautauqua County are meeting the area's credit needs.

Lending in Assessment Area

FNB's lending in its AA is satisfactory as it extends the majority (85% of the number and 83% of the dollar) of its loans in the AA. Examiners utilized a sample of 20 agricultural and 20 residential real estate loans, originated from April 19,1999, to December 31, 2002, to assess the bank's performance in this area. These loan products were selected because they represent the primary lending products of the bank.

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

The level of lending to farms of different sizes and residential real estate borrowers of different incomes is good. The sample used to determine the bank's performance in lending within the AA was used to determine the performance in this area.

The bank's level of lending to farms of different sizes is good. All loans in the examiner's sample were to farms with annual gross revenues of \$1 million or less. The bank's performance exceeds the Dun & Bradstreet 2002 demographic data that shows 95% of the farms in the AA have annual gross revenues of \$1 million or less. Further breakdown of the sample shows 95% of the loans were to farms with revenues of less than \$250 thousand and 90% to farms with revenues under \$100 thousand.

Lending to residential real estate borrowers of different incomes is excellent. Lending to low-income borrowers is good (35% of the sample) compared to the family income demographics of

30%. Lending to moderate-income borrowers representing 35% of the sample is above demographic data showing 22% and represents excellent performance.

Geographic Distribution of Loans

An analysis of the bank's geographic distribution of loans would not be meaningful since the assessment area contains only a moderate-income tract.

Responses to Complaints

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

Fair Lending Review

We found no evidence of illegal discrimination or other illegal credit practices.