



**Comptroller of the Currency
Administrator of National Banks**

SMALL BANK

PUBLIC DISCLOSURE

October 26, 1998

COMMUNITY REINVESTMENT ACT Performance Evaluation

**THE FIRST NATIONAL BANK OF LIBERAL
Charter Number 6720**

**324 North Kansas
Liberal, Kansas 67901**

**OFFICE OF THE COMPTROLLER OF THE CURRENCY
Western District
50 Fremont Street, Suite 3900
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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 CRA performance of **The First National Bank of Liberal** prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **October 26, 1998**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 C.F.R. Part 25.*

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

Management is responsive in meeting the credit needs of their assessment area.

- The bank's lending to individuals of various income levels and businesses of different sizes is reasonable. Our analysis revealed the bank's lending profile is reflective of the demographics of their assessment area.
- The majority of the number of bank loans are originated within their assessment area.
- The bank's loan-to-deposit ratio is reasonable given the bank's size, financial condition, and assessment area credit needs.
- First National Bank of Liberal lends equitably to all Block Numbering Areas (BNAs) in their assessment area. No areas were excluded.

The following table indicates the performance level of **The First National Bank of Liberal** with respect to each of the five performance criteria.

THE FIRST NATIONAL BANK OF LIBERAL			
Performance Levels			
Small Institution Assessment Criteria	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does Not Meet Standards for Satisfactory Performance
Lending to borrowers of different incomes and to businesses of different sizes		✓	
Loan-to-deposit ratio		✓	
Lending in assessment area		✓	
Geographic distribution of loans		✓	
Response to complaints	No complaints relating to the bank's CRA activities were received since the prior examination.		

DESCRIPTION OF INSTITUTION

The First National Bank of Liberal (FNBL) is a subsidiary of Kansas Bank Corporation (KBC), a multi-bank holding company based in Johnson, Kansas. KBC owns First National Bank of Elkhart (FNBE) in Elkhart, Kansas and 100% of Syracuse Financial Corporation, owner of First National Bank of Syracuse (FNBS) in Syracuse, Kansas. As of September 30, 1998, FNBL had total assets of \$152 million, FNBE had \$40 million and FNBS had \$57 million.

The bank's main office is located in the downtown business district of Liberal, Kansas. In addition to the main office, the bank currently has three branches and five automatic teller machines (ATM). FNBL opened the Hugoton Branch, located 30 miles northwest of Liberal, in March 1996 and the WalMart Branch located on the north side of Liberal in May 1998. The third branch, ExpressBank, is located one block from the main office. ATM are strategically located throughout the city of Liberal, with two located in the bank's only moderate-income Block Numbering Area (BNA). Both the main office and the Hugoton Branch offer full deposit and loan banking services. The ExpressBank Branch offers full deposit banking services. The WalMart Branch offers full deposit banking services and consumer loans.

On October 21, 1998, FNBL, closed their Retail Banking Center Branch. This branch was located one block west of the main bank facility. The Retail Banking Center was primarily used as office space for the Trust and the Real Estate Departments.

The bank's lending focus is primarily in agricultural and commercial loans. Total outstanding loans as of September 30, 1998, were \$77 million. Of these, 36% were agriculture loans, 22% commercial, 22% agricultural/commercial real estate, 8% residential real estate, 7% consumer and 5% leases. There are no legal or financial impediments preventing the bank from meeting the credit needs of its assessment area.

DESCRIPTION OF ASSESSMENT AREA

FNBL has defined its assessment area as Seward and Stevens Counties, Kansas, in their entirety. The bank's assessment area is a non-metropolitan statistical area and consists of whole geographies. This assessment area comprises seven BNAs which include one moderate-income, five middle-income, and one upper-income BNAs. If the BNA is less than 50% of the weighted average of non-metropolitan census median family income of \$28,068, it is categorized as low-income; moderate-income is between 50% and 79%; middle-income is 80% to 119%; and, upper-income is 120% and above. This information is derived from 1990 census information.

Within the seven BNAs in the bank's assessment area, 15% of the families are designated as low-income, 19% moderate-income, 25% middle-income, and 41% upper-income. These percentages are derived from the updated 1998 Housing and Urban Development weighted average non-metropolitan median family income of \$36,100 for Kansas. The bank's assessment area meets the requirements of the regulation and does not arbitrarily exclude low- and moderate-income

geographies.

The population of this assessment area is 23,791 with 18,743 living in Seward County and 5,048 living in Stevens County. Liberal and Hugoton are the county seats respectively. Seward County's primary economic base includes beef packing, oil and gas, and agriculture. Primary employers are National Beef Packing, the local school district, and Southwest Medical Center. Stevens County's major industries include agriculture and natural gas. Primary employers are the Stevens County, Seaboard Farms, and the local school district.

The banking environment within the assessment area includes one branch of a regional national bank, three state chartered banks, and one credit union. Community contacts identified moderate priced housing as a credit need in the assessment area.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Lending to Borrowers of Different Incomes and Businesses of Different Sizes

The bank's record of lending to individuals of various income levels and businesses of different sizes meets the standards for satisfactory performance. The demographics of the bank's assessment area reflect a presence of all income levels within the population as indicated in the table below. Our analysis revealed the bank lends to all members of its community equitably and its overall lending reflects the demographics of the assessment area.

The bank's manual reports used the 1990 census area median family income to categorized loan originations by income for individuals rather than the 1998 updated HUD family income data. Therefore, we reviewed an 8% random sample of consumer loans originating from December 1997 through September 1998 and a 35% sample of residential loans originating from January 1997 through September 1998. We expanded the time frame for our residential sample in order to obtain a reasonable sample. The following tables illustrate our findings in each area.

LOAN DISTRIBUTION BY BORROWER INCOME LEVEL				
	LOW	MODERATE	MIDDLE	UPPER
	<\$18,050	\$18,051-\$28,879	\$28,880-\$43,319	\$43,320+
% of Families within the assessment area by income level (updated 1998 HUD data)	15%	19%	25%	41%
Consumer Loans (39 loans sampled)	15%	16%	33%	36%
Residential Real Estate Loans (43 loans sampled)	5%	28%	25%	42%

Our consumer loan sample reveals the level of bank loans to low- and moderate-income individuals is reflective of the demographics in the bank's assessment area. Our findings showed 31% of the bank's consumer loan originations were made to low- and moderate-income individuals. This level of lending is comparable to the assessment area demographics which reports 34% of the families are low- and moderate-income.

Our sample of residential real estate loans shows the bank's lending profile is also reflective of the demographics of its assessment area. During this rating period, the bank originated 33% of their housing loans to borrowers with low- and moderate-incomes. Again, the demographics of the assessment area indicates 34% of the families have low- and moderate-income levels. The bank is not an active mortgage lender as residential real estate loan originations represented only 4% of the total number of loan originations made during the January 1997 through September 1998.

The bank's distribution of commercial and agriculture loan originations between January 1997 and September 1998 to businesses and farms of different sizes is very good. Our analysis of the bank's manual monthly reports shows 83% of the agriculture loan originations were made to "small farms" and 89% of the commercial loan originations were made to "small businesses." The Office of the Comptroller of the Currency defines "small business" as a business with gross revenues less than one million dollars and "small farms" as an agricultural operation with gross revenues less than five hundred thousand. We verified the accuracy of internal reports by reviewing the September 1998 loan activity report.

Loan-To-Deposit Ratio

The bank's loan-to-deposit ratio is reasonable given the bank's size, financial condition, and assessment area credit needs. We focused on loan-to-deposit ratios as of June 30, 1998 because September 30, 1998 financial information for local institutions was not available. At June 30, 1998, FNBL's loan-to-deposit ratio was 55.61%. Over the last ten quarters, the evaluation period for this rating, FNBL's average ratio was 58.69%. Local area competitors had a loan-to-deposit ratio of 73.61% at June 30, 1998 and an average of 68.81% over the last ten quarters. During 1998, the bank sold \$2.3 million in residential mortgage loans to the secondary market. Additionally the bank has experienced rapid growth in public fund deposits over the last couple of years. Loan growth and demand have remained at consistent levels.

Lending in the Assessment area

FNBL has done a good job of lending within its assessment area. Of the loan originations, 72% of the total number of loan originations were in the bank's assessment area. This translates to approximately \$41 million or 48% of the bank's dollar loan volume originated inside the assessment area. The difference between the two percentages is mainly attributed to large agricultural loans in Johnson, Kansas, which is outside the assessment area. We verified the accuracy of this information by testing data in the bank's system generated loan reports.

Geographic Distribution of Loans

FNBL's geographic distribution of loans within Seward and Stevens Counties is reasonable. From January 1997 through September 1998, the bank had a total of 2,900 loan originations centered in the following: commercial (683), agriculture (672), residential real estate (123) and consumer (1,422). Of these, 2,231 loan originations were made within the bank's assessment area (AA). We found management manual reports were accurate and revealed that loans were made in all BNA in both counties with 14% made to the moderate-income BNA. No geographic areas have been excluded. This is reflective of the demographics of the area as indicated in the table below.

GEOGRAPHIC DISTRIBUTION OF ASSESSMENT AREA LOAN ORIGINATIONS				
Income Designation of BNA	% of BNA Tracts	% of AA Population	# of Loans Orig. in AA	% of Loans Orig. in AA
Low	0%	0%	0	0%
Moderate	14%	16%	318	14%
Middle	72%	69%	1,520	68%
Upper	14%	15%	393	18%
Total	100%	100%	2,231	100%

Response to Complaints

During the evaluation period, FNBL did not receive any complaints from the public regarding its CRA performance. The bank is in compliance with the substantive provisions of anti-discrimination laws and regulations. Our Fair Lending review did not indicate any evidence of apparent disparate treatment or other illegal credit practices.

SERVICES

FNBL was one of the sponsors of the Farming for the Future II Crop Management Conferences & Trade Show held annually. The most recent conference was held on January 21, 1998 at the Seward County Activity Center. The presentation was given by the Great Plains Crop Residue Management Alliance. Their mission was to provide information and education to agricultural producers and others to encourage and promote better management practices in Seward County and the surrounding areas.

FNBL co-sponsored a Crop Revenue Seminar and luncheon on February 5, 1998, at the Gateway Inn in Liberal. The presentation was given by Mr. Clark Redding, a district representative of the American Agrisurance, Inc. He discussed significant changes in the 1998 Crop Revenue Coverage insurance program and the impact they might have on agricultural risk management.

FNBL presented a free home ownership workshop on March 27, 1997, at the Gateway Inn in Liberal. The presentation addressed topics such as: How much down payment will I need? What are closing costs? Will I qualify for a loan? and How much payment will I qualify for?

The Kansas district office of the U.S. Small Business Administration (SBA) recognized FNBL as an outstanding advocate of small businesses for their participation in the 1996 SBA programs. The following awards were presented to the bank on May 29, 1997:

- 1996 Highest Volume of Loans of Minority Businesses - By a Rural Lender,
- 1996 Co-Winner Highest Volume of Loans By a Rural Lender, and
- 1996 Co-Winner Highest Volume of Women Owned Business Loans By a Rural Lender.