

PUBLIC DISCLOSURE

April 5, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First National Bank in Fredonia
Charter Number 14370**

**730 Madison
Fredonia, Kansas 66736**

**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 in Fredonia, Kansas**, prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of April 5, 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.

- < Lending to businesses of different sizes and borrowers of different incomes was satisfactory. A sample of residential real estate loans and automobile loans indicate 43% and 91%, respectively, were advanced to low- and moderate-income individuals.
- < The bank's 57% quarterly average loan-to-deposit ratio is satisfactory.
- < Eighty-five percent of the number of loans are within the bank's assessment area.
- < The bank's geographic distribution of loans to the moderate-income track within its assessment area is acceptable.

DESCRIPTION OF INSTITUTION

The First National Bank in Fredonia (First National) is a \$51 million financial institution located in Fredonia, Kansas. First National has no branch location and one automated teller machine (ATM) located at the main bank. First National Bancshares Corporation, a one-bank holding company, owns 100% of the bank. The bank is a full service financial institution, providing a variety of loan products with an emphasis on consumer and agricultural loans. Net loans represent 48% of total assets or \$24.6 million. In addition, First National has 26% of the deposits of Wilson 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. At the previous CRA examination dated February 8, 1996, First National received a "Satisfactory Record of Meeting Community Credit Needs" rating.

The following table illustrates that the loan portfolio is composed primarily of consumer and agricultural loans at 67% combined. It also illustrates the increase in consumer loans and the decline in residential real estate loans since the previous evaluation, dated February 8, 1996.

Loan Distribution by Type			
Loan Type	Dollar Amount as of 12/31/98	Percent of Loan Portfolio as of 12/31/98	Percent of Loan Portfolio as of 3/31/96
Consumer Loans	\$8,986M	36%	23%
Agricultural Loans	\$7,738M	31%	34%
Commercial Loans	\$5,241M	21%	21%
Residential Real Estate	\$2,995M	12%	22%
Total (gross loans)	\$24,960M	100%	100%

DESCRIPTION OF ASSESSMENT AREA

The bank's assessment area consists of Wilson County, Kansas. The assessment area is located in southeast Kansas with a population of 10,289, and is agricultural dependent. In 1997 Wilson County had 540 farms with 314,000 acres in production. Soybeans represent 24% of total agricultural production value in Wilson County, while cattle and wheat represent 24% and 20%, respectfully. Wilson County has four block numbering areas (BNA). BNA 9974 is considered a moderate-income tract while BNA 9971, 9972, and 9973 are considered middle-income tracts.

The assessment area does not arbitrarily exclude any low- or moderate-income areas. Households with income below the poverty level represent 17% of the total households. The median housing cost for the assessment area is \$22,934, and 64% of the houses are owner occupied. There are four banks and two savings and loan institutions in the assessment area. These banks range in size of total assets from \$40 million to \$57 million.

City and county government, light manufacturing companies, and small retail stores provide the bulk of local employment base. Major employers in Fredonia include: The Fredonia school district, employing approximately 162; Lafarge cement, employing approximately 120; Fredonia regional hospital, employing approximately 87; and Kansas bank note, employing approximately 63. Wilson County's unemployment rate as of February 1998 equaled 3.8%. The Kansas statewide nonmetropolitan median family income is \$38,200 for 1998.

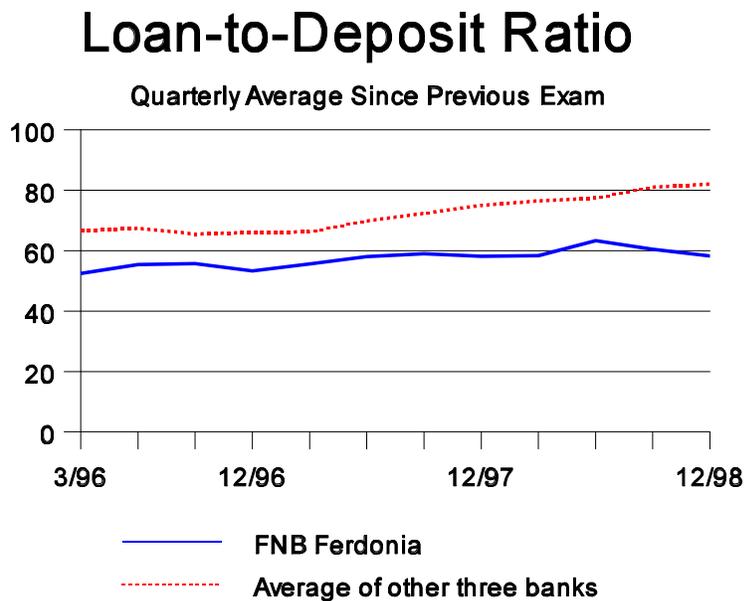
Examiners conducted an interview with two community contacts in the service and retail industries. The contacts did not identify any specific credit needs but did indicate the local financial institutions were effectively meeting the credit needs of the area.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Loan-to-Deposit Ratio

The bank's level of lending is reasonable. Since the previous CRA exam, the bank's quarterly average loan-to-deposit ratio was 57%. This was lower than the quarterly average loan-to-deposit ratio of

72% for the three other banks located in Wilson County. The other three banks have quarterly average loan-to-deposit ratios ranging from 58% to 82%.



Lending in Assessment Area

First National extends a majority of its loans within the assessment area. Bank records indicate 85% of the number and 80% of the dollar amount of all loans are in the assessment area. Examiners used loan sample and management generated reports to support findings.

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

Lending levels to businesses of different sizes is good. Examiners reviewed a sample of 20 agricultural loans granted from August 1, 1996, to March 8, 1999. Management considers farms with annual gross revenues of \$100,000 or less to be small operations. The following table shows the distribution of agricultural loans by annual gross revenues.

Agricultural Annual Gross Revenues	Number of Loans	Percentage
Less than \$100,000	12	60%
\$100,000 to \$200,000	5	25%
More than \$200,000	3	15%
TOTAL	20	100%

The bank has an excellent record of granting consumer loans to borrowers of different income levels. The following table depicts distribution by income level of automobile loans granted from August 1, 1996 to March 8, 1999. The table illustrates the bank's lending to low- and moderate-income individuals exceed the demographics of its assessment area.

Distribution of Automobile Loan Sample by Income Levels			
Income Levels	Number of Customers	Percentage of sample	Percentage of Families in Income Category
Low	10	48%	23%

Distribution of Automobile Loan Sample by Income Levels			
Moderate	9	43%	24%
Middle	2	9%	24%
Upper	0	0%	29%
Total	21	100%	100%

The bank has a satisfactory record of granting residential real estate loans to borrowers of different income levels. The following table depicts the distribution by income level of refinanced residential real estate loans granted in 1996, 1997, and 1998. Year-to-date 1999 information was not available at the time of exam. The following table shows the bank has a good record of lending to moderate-income borrowers and lending to low-income borrowers is adequate.

Distribution of Refinanced Residential Real Estate Loan by Income Levels			
Income levels	Number of Customers	Percentage of sample	Percentage of Families in Income Category
Low	17	18%	23%
Moderate	23	25%	24%
Middle	38	41%	24%
Upper	15	16%	29%
Total	93	100%	100%

Geographic Distribution of Loans

An analysis of the geographic distribution of credit within the assessment area found the bank had granted twenty-four loans in the moderate-income tract. This represents 1% of the number of loans granted in the assessment area. The population of the moderate-income BNA is 3,451, which represents 34% of the assessment area's population. Neodesha, Kansas is located in the moderate-income BNA and has three financial institutions. Management indicates there are limited opportunities for the bank to extend credit in this BNA, given the number of financial institutions in the BNA.

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.