

## **PUBLIC DISCLOSURE**

May 10, 1999

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

**The First National Bank of Smith Centre  
Charter Number 3546**

**133 South Main Street  
Smith Center, Kansas 66967**

**Office of the Comptroller of the Currency  
Kansas City Field Office  
6700 Antioch Road, Suite 450  
Merriam, Kansas 66204-1200**

**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 Smith Centre, Smith Center, Kansas, (FNB )** prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **May 10, 1999**. 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**.

We base FNB's CRA rating on the following factors:

- FNB has a reasonable record of lending to farms and businesses in the lower revenue categories within its assessment area.
- The bank's dispersion of loans throughout all segments of its assessment area is acceptable given the bank's primary credit products and the location of customers needing these products.
- FNB's loan-to-deposit ratio is reasonable when compared to the ratios of similarly situated banks and the assessment area is credit needs.
- A majority of the bank's loan originations benefit borrowers living within the assessment area.

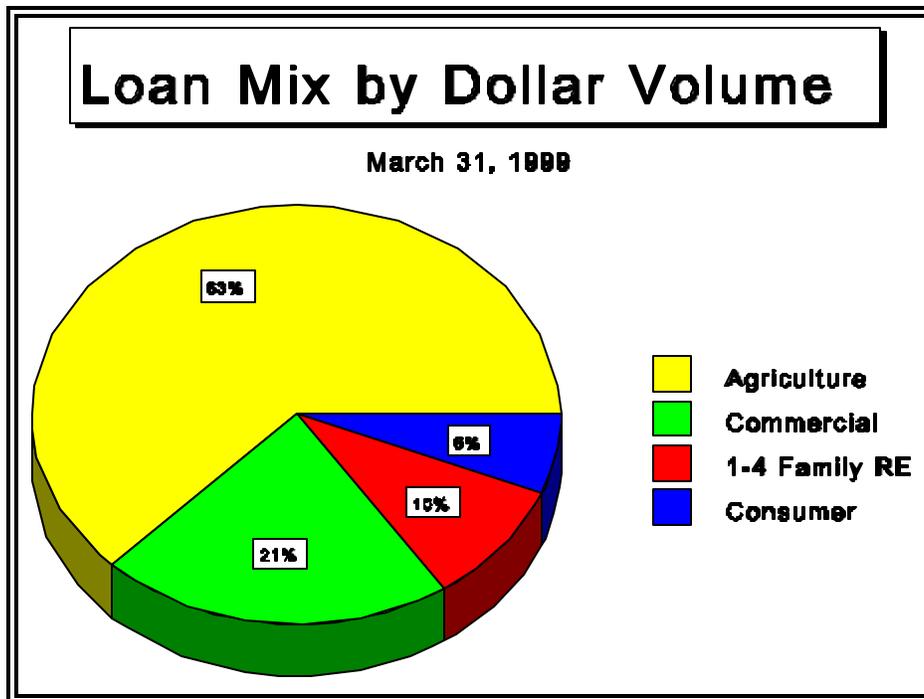
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***DESCRIPTION OF INSTITUTION***

FNB is a \$38 million institution based in Smith Center, the county seat of Smith County. The bank is wholly-owned by Smith Center Bancshares, Inc., a one-bank holding company with no other significant assets. First Insurance, Inc., is an affiliate of both the bank and the holding company through common ownership and directorship. FNB has a drive-up facility across the street from the main office. The bank does not have an automated teller machine. No legal constraints, financial conditions, or other factors inhibit the bank's ability to help meet the credit needs of its assessment area. The institution Satisfactory Record of Meeting Community Credit Needs' rating at its last CRA examination dated June 30, 1995.

FNB's net loans total \$17 million as of March 31, 1999, and represent 43 percent of its total assets. The bank's primary credit products by both number and dollar volume are loans for various agricultural purposes. Commercial loans also comprise a significant portion of FNB's loan portfolio. The following table shows the bank's loan portfolio composition as a percentage of gross loans:



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**Bank***The First National Bank of Smith Centre****DESCRIPTION OF ASSESSMENT AREA***

FNB has designated all of Smith County as its assessment area (AA). This designation meets the requirements of the CRA regulation and does not arbitrarily exclude any low- or moderate-income geographies. Competition in Smith County includes the head office of a state bank and its branch, and branches of two national banks chartered outside the county. Each of these banks have total assets of \$60 million or less. FNB also competes with the Federal Land Bank for agricultural loans.

The total population of the AA, based on 1990 U.S. Census information, is 5,078. The assessment area is divided into three block numbering areas (BNAs): 9756 and 9757 are designated as moderate-income BNAs, and 9758 is designated as middle-income. FNB is located in BNA 9758. The following table provides additional information on the bank's assessment area.

1990 Demographic Information on the Assessment Area					
BNA and City	Income Designation	Median Family Income	Income as % of 1990 MSA Median \$28,068	Total Housing Units	% Owner-Occupied Housing
9756 (Lebanon, Cora)	Moderate	\$21,449	76%	625	62%
9757 (Kensington, Gaylord)	Moderate	\$21,419	76%	862	66%
9758 (Smith Center)	Middle	\$23,925	85%	1,128	68%
AA Totals/Averages	—	\$22,482	80%	2,615	66%

The U.S. Census reports that 1,479 families reside in the assessment area. Eleven percent of these families have income below the poverty level. Approximately 24 percent of the families are designated as low-income, 26 percent are moderate-income, 25 percent are middle-income, and 25 percent are upper-income. Income designations are based on 1990 median family income levels as a percentage of the weighted average of non-metropolitan median family income of \$28,068. The 1998 non-metropolitan updated median family income figure is \$38,200. The 1998 median family income figure is estimated and updated by the Department of Housing and Urban Development on an annual basis. The Census data reports the median housing value for the AA as \$20,780. The median year homes were built in the AA is 1945. Sixty-six percent of the area's housing units are owner occupied.

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***DESCRIPTION OF ASSESSMENT AREA - CONTINUED***

The local economy has been relatively stable, despite its reliance on agriculture. Major agricultural products include wheat, corn, milo, and cattle. Major employers in the AA include Peterson Industries, Arlwin Manufacturing, and various local governmental entities. According to the Kansas Department of Human Resources, the March 1999 preliminary unemployment rate for Smith County is low at 1.7 percent.

While the local economy is stable, demographics of the assessment area are not conducive to heavy loan demand. The County Economic Vitality and Distress Report, prepared by Kansas, Inc., ranks the vitality and distress of each Kansas county using several economic indicators. These indicators include: the net population change, long-term employment growth, and short-term employment growth from 1988 to 1997; and the population age 65 and over, the labor force, per capita property valuation, per capita income, and Aid for Dependent Children/General Assistance recipients for 1997. Smith County shows a relatively high level of distress based on these economic indicators. The county received an overall rank of 89 out of 105 counties. Only 15 percent of Kansas counties showed greater levels of economic distress. The county experienced 12 percent population loss for the last ten years, ranking it 93. Twenty-eight percent of the county's population is age 65 and over, ranking it 104. Less than half of the county's population is age 20 to 64 years, with a rank of 89. The county experienced long-term and short-term employment loss at 14 percent (rank of 91) and 9 percent (rank of 99), respectively.

We contacted two individuals within the community to discuss local credit needs and the performance of financial institutions in the area. These individuals work for the county/state government. Through these community contacts, we confirmed one of the primary credit needs of the area as loans for various agricultural purposes. Our contacts identified no unmet credit needs in the assessment area.

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***CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA*****Lending to Farms and Businesses of Different Revenue Sizes**

Our review determined the bank's primary credit products are loans for various agricultural purposes and commercial loans. Our contacts identified agricultural loans as a primary credit need within the assessment area. As a result, we focused our analysis on agricultural and commercial loans to assess the bank's lending performance.

The analyses and conclusions drawn during this review are based upon information and data provided by the bank. Management generally requires annual revenue information only on borrowers with commercial or agricultural loans in excess of \$50 thousand. Established commercial or agricultural customers with loan amounts of less than \$50 thousand are not usually required to provide and/or update their revenue information. We selected our sample from loans originated between April 1, 1995 and March 31, 1999 whose files contained revenue information. The bank's computer system does not retain information on loans paid in full prior to January 1, 1999, therefore, those loans were excluded from our sample.

*Agricultural Lending:*

FNB has a reasonable record of lending to farms in the lower revenue categories within its assessment area. We reviewed the revenue distribution of 20 agricultural (Ag) borrowers with loan originations between April 1, 1995 and March 31, 1999. For the period under review, these borrowers originated 82 loans totaling \$2.8 million. Our agricultural loan sample represented seven percent by number and ten percent by dollar volume of agricultural loans originated in the assessment area during this time period. The table on the following page shows a more detailed analysis of the agricultural borrower revenue distribution.

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**Lending to Farms and Businesses of Different Revenue Sizes - Continued**

Agricultural Loan Customer Revenue Distribution				
Sample of 20 Agricultural Loan Customers with Loan Originations Between 4/1/95 and 3/31/99				
Revenue Category	Distribution of FNB Ag Loan Customers		Income Distribution of Farms in Assessment Area	
	No. of Customers	Percentage	No. of Farms	Percentage
\$0 - \$99,999	6	30%	487	78%
\$100,000 - \$249,999	11	55%	94	15%
\$250,000 - \$499,999	2	10%	28	4%
\$500,000 and Over	1	5%	17	3%
Totals	20	100%	626	100%

Based on our limited sample of agricultural borrowers, we determined that 85 percent of FNB's farm customers had gross annual revenues of less than \$250 thousand. We compared the revenue distribution of FNB's agricultural customers to area demographic information obtained from the 1992 Agricultural Census as compiled by the U.S. Bureau of the Census. The Agricultural Census reports 93 percent of farms in Smith County had revenues of less than \$250 thousand. FNB's proportion of small farm borrowers is reasonable in relation to local agricultural demographics.

*Commercial Lending:*

FNB has a reasonable record of lending to businesses in the lower revenue categories within its assessment area. We reviewed the revenue distribution of 20 commercial borrowers with loan originations between April 1, 1995 and March 31, 1999. For the period under review, these borrowers originated 62 loans totaling \$3.2 million. Our commercial loan sample represented 14 percent by number and 29 percent by dollar volume of commercial loans originated in the assessment area during this time period. The table on the following page shows a more detailed analysis of the

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commercial borrower revenue distribution.

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**Lending to Farms and Businesses of Different Revenue Sizes - Continued**

Commercial Loan Customer Revenue Distribution				
Sample of 20 Commercial Loan Customers with Loan Originations Between 4/1/95 and 3/31/99				
Revenue Category	Distribution of FNB Coml Loan Customers		Income Distribution of Businesses in AA	
	No. of Customers	Percentage	No. of Businesses	Percentage
\$0 - \$499,999	14	70%	154	87%
\$500,000 - \$949,999	3	15%	9	5%
\$1,000,000 - \$24,999,999	3	15%	14	8%
\$25,000,000 and Over	0	0%	0	0%
Totals	20	100%	177	100%

Based on our limited sample of commercial borrowers, we determined that 85 percent of FNB's commercial loan customers had gross annual revenues of less than \$1 million. We compared the revenue distribution of FNB's commercial loan customers to area demographic information as compiled by Dun & Bradstreet. Dun & Bradstreet's research indicates 92 percent of the businesses in Smith County had revenues of less than \$1 million. FNB's proportion of small business borrowers is reasonable in relation to local business demographics.

**Bank***The First National Bank of Smith Centre***Geographic Distribution of Loans**

The geographic distribution of loans originated by the bank reflects reasonable dispersion throughout the assessment area. We reviewed the geographic distribution of 20 agricultural and 20 commercial loan customers in the assessment area with loan originations between April 1, 1995 and March 31, 1999.

We determined the bank originated 90 percent by number and 85 percent by dollar volume, of its agricultural loans to customers in moderate income tracts. Demographic information detailing the number of farms in each income designation was not available. The following table summarizes agricultural penetration within the assessment area.

Geographic Distribution of Agricultural Loans				
By Number and Dollar Amount				
Sample of 20 Agricultural Loan Customers with Loan Originations Between 4/1/95 and 3/31/99				
BNA Income Designation	Ag Loan Customers by Number of Loans		Ag Loan Customers by Dollar Amount of Loans	
	No. of Loans	Percentage	Amount of Loans	Percentage
Low	0	0%	\$0	0%
Moderate	18	90%	\$806,790	85%
Middle	2	10%	\$146,600	15%
Upper	0	0%	\$0	0%
Total	20	100%	\$953,390	100%

The table on the following page summarizes commercial loan penetration within the assessment area.

**Bank***The First National Bank of Smith Centre***Geographic Distribution of Loans - Continued**

Geographic Distribution of Commercial Loans By Number and Dollar Amount Sample of 20 Commercial Loan Customers with Loan Originations Between 4/1/95 and 3/31/99						
BNA Income Designation	Commercial Loan Customers by Number of Loans		Commercial Loan Customers by Dollar Amount of Loans		Distribution of Businesses Within Each Income Designation	
	# Loans	Percentage	\$ Loans	Percentage	# Businesses	Percentage
Low	0	0%	\$0	0%	0	0%
Moderate	3	15%	\$221,712	15%	68	35%
Middle	17	85%	\$1,289,135	85%	125	65%
Upper	0	0%	\$0	0%	0	0%
Total	20	100%	\$1,510,847	100%	193	100%

The middle-income BNA encompasses the town of Smith Center. The other two BNAs in the county are moderate-income, and primarily rural. As expected, our sample revealed the bank made the majority of agricultural loans in the rural areas, and the majority of commercial loans in Smith Center, the largest town in the county. FNB's dispersion of loans throughout the moderate-income tracts within its assessment area is reasonable given the bank's primary credit products and the location of the customers needing these products.

**Loan-to-Deposit Ratio**

The bank's loan-to-deposit (LTD) ratio is reasonable. We compared FNB's quarterly average LTD ratio to three other financial institutions with offices in Smith County. Each of the banks in our comparison had total assets of \$60 million or less and no branches in metropolitan areas. The table on

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the following page summarizes the LTD ratios for these banks.

**Bank***The First National Bank of Smith Centre***Loan-to-Deposit Ratio - Continued**

Loan to Deposit Ratios Banks with Offices in Smith County			
	4Q95	1Q99	14 Qtr Avg
<b>FNB, Smith Center</b>	<b>47.51%</b>	<b>47.80%</b>	<b>48.43%</b>
Smith County State Bank, Smith Center	38.35%	39.96%	41.10%
Farmers NB, Osborne	45.35%	51.71%	49.28%
Farmers NB, Phillipsburg	60.76%	61.89%	64.30%

FNB's average LTD ratio of 48% is reasonable given the ratios of similarly situated banks and the demographics of the assessment area. The overall quarterly average LTD ratio for the four banks in our comparison was 51 percent. While the Phillipsburg bank listed above has an office within the county, it is not similarly situated to the other banks in the county. The Phillipsburg bank has three other offices in Phillips County, which are responsible for its higher LTD ratio. Demographics of Smith County are primarily responsible for the other banks low ratios. Our community contacts indicated 25 percent or more of the farmers in Smith County own the equipment and/or the land used in farming, which significantly decreases the demand for loans. Another contributing factor to the low ratios is the high percentage of population age 65 and over, as this group generally does not have significant credit needs.

**Lending in the Assessment Area**

A majority of the bank's loan originations are extended to borrowers living within the assessment area. Bank personnel generated reports during the examination which showed agricultural, commercial, residential real estate, and consumer loans originated between April 1, 1995 and March 31, 1999. Based on the borrower's address, we determined the dollar volume and number of loans originated within the bank's assessment area. FNB originated 329 agricultural loans totaling \$11 million, 167 commercial loans totaling \$6 million, 67 residential real estate loans totaling \$2 million, and 307 consumer loans totaling \$2 million during this period. We determined approximately 84 percent of these loan originations, by number, and 86 percent, by dollar volume, were to borrowers

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using loan proceeds within the assessment area. The table on the following page details our analysis of the bank's record of lending in the assessment area.

**Lending in the Assessment Area - Continued**

Assessment Area Analysis				
Based on 870 Loan Originations Between 4/1/95 and 3/31/99				
Type of Loan	No. of Loans in AA	Percentage of Loans in AA	\$ Volume of Loans in AA	Percentage of Loans in AA
Agricultural	277	84%	\$9,814,579	86%
Commercial	140	84%	\$5,171,428	87%
1-4 Residential RE	60	90%	\$1,491,605	90%
Consumer	251	82%	\$1,303,193	84%
Total	728	84%	\$17,780,805	86%

**Compliance with Antidiscrimination Laws and Regulations**

FNB has a satisfactory record of compliance with antidiscrimination laws and regulations. Concurrent with this CRA evaluation, we conducted a consumer compliance examination. This examination included a review of the bank's compliance with the Equal Credit Opportunity Act and the Fair Housing Act. Our review did not disclose substantive violations of fair lending laws or evidence of discriminatory practices.

**Response to Complaints**

FNB has not received any written complaints regarding its CRA performance since the previous examination dated June 30, 1995.

**Other Considerations**

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FNB, in conjunction with the other bank in Smith Center, formed Smith Center, Inc., a community development corporation (CDC). The CDC's purpose is to attract a business to the town to replace jobs lost when a major employer closed its doors.