



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

March 11, 2013

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The Farmers National Bank of Stafford
Charter Number 8883

200 S. Main
Stafford, KS 67578

Office of the Comptroller of the Currency

Wichita Field Office
2959 N. Rock Road, Suite 510
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

- The Farmers National Bank of Stafford's (Farmers National) average quarterly loan-to-deposit (LTD) ratio of 61% reflects reasonable responsiveness to credit needs in its assessment area (AA).
- Farmers National extended a majority of its primary loan product to farms located inside the AA. We found the bank granted 90% of the number and 87% of the dollar amount of loans within the AA.
- Farmers National's lending to farms of different sizes in the AA reflects reasonable penetration. The loan sample indicated the bank's level of lending to small farms is near to the AA demographics.
- Farmers National's lending performance in moderate-income census tracts reflects reasonable dispersion. The agricultural loan sample did not contain any loans in moderate-income tracts; however, the bank has extended other loan products in these primarily urban geographies.

SCOPE OF EXAMINATION

The examination included a full-scope review of Farmers National's AA. The bank's primary loan product is agricultural loans. The evaluation of this lending product included a review of 20 agricultural loans originated in the bank's AA during 2010 and 2011. The bank's business strategy has not changed; therefore, the loans granted during these years are representative of all loans granted since the August 14, 2006 Community Reinvestment Act (CRA) examination.

DESCRIPTION OF INSTITUTION

Farmers National is a \$115 million bank headquartered in Stafford, Kansas. In addition to its main office, the bank has branches in Buhler, Hutchinson, and Inman, Kansas. The bank operates Automated Teller Machines (ATMs) at each of the branch locations as well as one additional ATM in Inman and two in Hutchinson, Kansas. Farmers National Bancshares, Inc., a \$10 million one-bank holding company, owns 100% of the bank.

Farmers National is a full-service bank offering a variety of loans. Net loans represent 51% of the bank's total assets. As of December 31, 2012, the bank's \$60 million loan portfolio had the following composition: 39% real estate, 35% agricultural, 20% commercial, and 6% individual loans.

The bank's financial condition, size, local economic conditions, and other factors allow it to meet the credit needs of its assessment area. We assigned a "Satisfactory" rating at the August 14, 2006 CRA examination.

DESCRIPTION OF ASSESSMENT AREA

The bank's Assessment Area (AA) comprises all of Stafford and Reno counties and portions of McPherson County (census tracts 9883 and 9887). The AA contains 21 census tracts; four are moderate-income tracts, 11 are middle-income tracts, and six are upper-income tracts. There are no low-income tracts. The bank's AA is not in a Metropolitan Statistical Area (MSA). The AA complies with the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income areas.

The 2011 Weighted Average of Housing and Urban Development (HUD) Updated MSA Median Family Income of the AA was \$53,700. The AA has the following income distribution for families: 17% low-income, 20% moderate-income, 25% middle-income, and 38% upper-income. Of the 30,768 households in the AA, 31% receive social security, 11% are below the poverty level, and 2% receive public assistance. Seventeen percent of the population is over the age of sixty-five, and 37% of the population consists of civilians not in the workforce. The median housing value is \$65,437 and 66% of the housing units are owner-occupied.

The AA is dependent on agriculture, although Hutchinson, the largest city in the AA, offers some economic diversity in the form of manufacturing, retail, and service industries. Major employers include the Hutchinson hospital and medical clinic, Dillons Companies, and the local school districts. The Bureau of Labor Statistics reflects a December 2012 unemployment rate for McPherson, Reno, and Stafford of 3.7%, 5.3%, and 4.3%, respectively. The unemployment rate in Kansas for the same period was 5.3%.

A portion of the bank's AA, Stafford County, has been designated a distressed and underserved nonmetropolitan middle-income geography for the years 2010 and 2011 by the Federal Financial Institutions Examination Council. During 2012, the distressed designation was removed, but Stafford County still qualified as underserved. Our loan sample revealed 40% of the number of loans were granted to farms located in Stafford County.

Examiners contacted one community professional in the AA. The contact indicated that Farmers National is extremely involved in the communities in which it serves and noted that the credit needs of the communities are adequately being met by the local financial institutions. The contact suggested the primary credit needs of the community are related to agriculture, small business, and residential real estate.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

Farmers National's average quarterly LTD ratio of 61% reflects reasonable responsiveness to AA credit needs. The LTD ratio ranged between 53% and 66% for

the period under review. The average quarterly LTD ratio over the same period for the bank’s competitors was 67%, with ratios ranging from 37% to 83%. While the bank’s LTD lags other banks with locations in the AA, its LTD ratio has increased from 50% reported at the prior examination.

Lending in Assessment Area

Farmers National extended a majority of its primary loan products to farms located within the AA. We found the bank granted 90% of the number and 87% of the dollar amount of loans within the AA.

Lending to Farms of Different Sizes

Farmers National’s lending to farms of different sizes in the AA reflects reasonable penetration. The loan sample indicated 90% of the number of loans were granted to farms with annual gross revenue of one million dollars or less. This is near the demographic ratio of 99%.

Borrower Distribution of Loans to Farms in AA				
Farm Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Farms	99%	0.5%	0.5%	100%
% of Bank Loans in AA by #	90%	5%	5%	100%
% of Bank Loans in AA by \$	89%	6%	5%	100%

Source: Loan Sample and 2011 Business Geodemographic Data

Geographic Distribution of Loans

Farmers National’s lending to farms located in geographies of different income levels reflects reasonable dispersion. While our agricultural loan sample did not include loans located in the moderate-income tracts, the bank has originated business and consumer loans in these geographies. The moderate-income tracts are primarily urban as opposed to rural or agricultural. The absence of agricultural loans in the sample does not detract from the overall rating for geographical distribution, as agricultural lending opportunities in moderate-income tracts are very limited. There are no low-income tracts.

Geographic Distribution of Loans to Farms in AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Farms	% of Number of Loans						
Farm Loans	0%	0%	3%	0%	70%	53%	27%	47%

Source: Loan sample and 2011 Business Geodemographic Data

Responses to Complaints

Farmers National has not received any CRA-related complaints since the last CRA examination.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. 25.28 (c), or 12 C.F.R. 195.28(c), in determining a national bank's (bank) or Federal savings association's (FSA) CRA rating, respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or FSA, or in any AA by an affiliate whose loans have been considered as part of the bank's or FSA's lending performance.

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.