



Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

February 25, 1997

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First National Bank
Charter Number 11968**

**Post Office Box 9
Palco, Kansas 67657**

**Office of the Comptroller of the Currency
Salina Duty Station
Post Office Box 616
Salina, Kansas 67402-0616**

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 **First National Bank, Palco, Kansas (FNB)** prepared by The Comptroller of the Currency, the institution's supervisory agency, as of February 25, 1997. 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” .

FNB’s rating is based on the following factors:

- The bank has a strong record of extending credit to individuals of different income levels, especially low- or moderate-income applicants;
- The geographic distribution of loans reflects good dispersion throughout the assessment area, and;
- The average loan-to-deposit ratio is reasonable.

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

SMALL INSTITUTION ASSESSMENT CRITERIA	<u>First National Bank</u> PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does not meet Standards for Satisfactory Performance
Loan to Deposit Ratio		X	
Lending in Assessment Area	X		
Lending to Borrowers of Different Incomes and to businesses of Different sizes	X		
Geographic Distribution of Loans		X	
Response to Complaints	The bank received no complaints since last examination		

DESCRIPTION OF INSTITUTION

FNB is a \$23 million institution with its main office in Palco, Kansas and a branch located in Hays, Kansas. The Hays location includes a drive-up and ATM. Bank management expanded its primary product emphasis from agriculture to include small business when they opened the Hays location in 1994. FNB continues to experience strong growth after opening the Hays location due to its ability to provide small bank customer service. Loans represent 66 percent of the bank's total assets. Based on loan originations for 1996, the loan portfolio break out is as follows: commercial loans-49% by dollar and 31% by number; consumer loans-18% by dollar and 41% by number; real estate loans-23% by dollar and 11% by number; and agriculture loans-11% by dollar and 18% by number. FNB sells 1-4 family real estate loans to the secondary market.

There are no financial or legal impediments limiting the bank's ability to help meet the credit needs of its assessment area. The bank received a "Satisfactory" rating at the last CRA examination dated June 14, 1994.

DESCRIPTION OF ASSESSMENT AREA (AA)

The bank's AA consists of two contiguous counties in Kansas, Rooks and Ellis Counties. Based on 1990 census data, the population of the AA is approximately 32 thousand. The AA contains seven block numbering areas (BNAs), two in Rooks County and five in Ellis County. One BNA (14%) is moderate-income, five BNAs (71%) are middle-income, and one (14%) is high-income. The moderate-income BNA is located in Ellis County and contains a state college. Income levels in this BNA are impacted by the number of resident college students. The Department of Housing and Urban Development's 1996 statewide non-metropolitan Median Family Income is \$34,300.

The economy of the AA is dependent on agriculture and agricultural related industries. In an effort to achieve growth, the bank opened a branch in Hays. Hays, the county seat of Ellis County, is approximately 40 miles southeast of Palco. The economy in Hays is growing compared to Palco which is declining. Hays has recently attracted new businesses to the city which have added many jobs. Hays is experiencing a housing shortage due to the influx of individuals for area jobs. Competition in Hays is provided by several large regional bank affiliates. A recent contact with a member of the Hays Chamber of Commerce made by another regulatory agency indicated the area needs are low-cost housing.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA :

Loan-to-Deposit Ratio (LTD)

The bank's eight quarter average LTD ratio of 70% is reasonable. This is for the time period 12/31/94 through 9/30/96. FNB ranked second among the eight comparable banks in the AA. The LTD for the other banks ranged from 27%-91%.

Lending in Assessment Area

The bank originates a significant majority of its loans to borrowers located inside of its AA. We reviewed a sample of loan originations for 1996 for the bank's primary product lines, consumer and commercial loans. Of the 44 consumer loans, 91% by number and 88% by dollar are within the AA. Of the 17 commercial loans, 94% by number and 76% by dollar are within the AA.

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

FNB's penetration to borrowers of different incomes is excellent, especially to low- or moderate-income borrowers. Lending to businesses of different revenue sizes is reasonable. We sampled 39 consumer loans (30% by number) and 17 commercial loans (17% by number) originated within the AA in 1996. The loans represented customers in both Palco and Hays.

The following table indicates the bank's lending to low- or moderate-income borrowers is higher than the local demographics.

Family Income Level	% of Population	# of loans	% by number	\$ of loans	% by dollar
Low-income	19%	11	28%	54,205	23%
moderate-income	17%	12	30%	69,182	29%
middle-income	24%	8	21%	36,317	15%
high-income	40%	8	21%	75,183	32%
TOTAL	100%	39	100%	234,877	100%

The following table represents the bank's penetration to businesses of various sizes based on gross annual revenues.

Annual Revenues	Commercial Borrowers	
	Number	Dollars
Less than \$100,000	31%	16%
\$100,000-\$250,000	31%	26%
\$250,000-\$500,000	13%	8%
\$500,000-\$1,000,000	19%	33%
Greater than \$1,000,000	6%	17%

Geographic Distribution of Loans

FNB's geographic distribution of loans reflects good dispersion throughout the AA. To determine the geographic distribution, we sampled consumer loans originated in 1996 from the Hays location. Loans originated in Palco were excluded since all the geographies around Palco are middle-income. The following table shows the bank's penetration in BNAs of various income levels. The loan distribution closely matches the BNA income level distribution.

	BNA Income Level		% of Loans	
	by #	by %	by #	by \$
Moderate-income	1	20%	21%	19%
Middle-income	3	60%	71%	71%
High-income	1	20%	8%	10%

Compliance with Antidiscrimination Laws and Regulations

We found the bank in compliance with both substantive and technical provisions of antidiscrimination laws and regulations.