



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

August 06, 2001

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The Farmers National Bank of Stafford
Charter Number 8883**

**200 S. Main
Stafford, KS 67578**

**Comptroller of the Currency
Wichita Field Office
3450 North Rock Road, Suite 505
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.

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INSTITUTION'S CRA RATING

This institution is rated Satisfactory.

- A significant portion of the bank's agricultural credit is advanced to small agricultural borrowers. All twenty-one loans sampled had gross annual revenues less than \$1 million.
- Lending to borrowers of different income levels is satisfactory. A sample of residential real estate loans indicates lending to low- and moderate-income borrowers is comparable to Assessment Area demographics.

DESCRIPTION OF INSTITUTION

The Farmers National Bank of Stafford is a \$62 million bank located in Stafford, Kansas. The bank maintains the main office and one Automated Teller Machine (ATM) in Stafford, a branch and one ATM in Buhler, Kansas, a branch and one ATM in Inman, Kansas, a branch in Bushton, Kansas, and two ATMs in Hutchinson, Kansas. Farmers National Bancshares, Inc., a one-bank holding company, owns 100% of the bank's stock.

The bank is primarily an agricultural lender, but also offers a variety of loan products for commercial, residential real estate, and consumer credit needs. As of June 2001, net loans represent 53% of total assets. Refer to the table below for a specific breakdown of the bank's \$33 million loan portfolio.

Loan Distribution by Type			
Loan Type	Dollar Amount June 2001	Percentage of Loan Portfolio June 2001	Percentage of Loan Portfolio June 1997
Agricultural	\$15,491,000	47%	44%
Commercial	\$8,093,000	25%	26%
Residential Real Estate	\$6,732,000	21%	22%
Consumer	\$2,315,000	7%	8%
Gross Loans	\$32,685,000	100%	100%

The bank's financial condition, size, local economic conditions, and other factors allow it to help meet the community credit needs. The bank has opened two branch locations and three ATMs since the previous examination on June 3, 1997. Examiners assigned a "Satisfactory" rating at that time.

DESCRIPTION OF THE BANK'S ASSESSMENT AREA

The bank's Assessment Area (AA) comprises four counties in central Kansas, which includes all of Stafford and Reno Counties and portions of McPherson and Rice Counties. Populations of the counties are as follows: Stafford (5,539), Reno (64,983), McPherson (26,855), and Rice (11,900). The bank's AA is not in a Metropolitan Statistical Area. The AA complies with the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income areas. Reno County contains three moderate-income tracts. Refer to the tables below for a specific breakdown of income tracts and distribution of family income in the AA.

Updated Non-MSA Median Family Income	\$41,100
Median Housing Value	\$37,949
Owner Occupied Housing	65%
Low-income Tracts	0 tracts
Moderate-income Tracts	3 tracts - 13%
Middle-income Tracts	12 tracts - 52%
Upper-income Tracts	7 tracts - 31%
NA	1 tract - 4%

Distribution of Family Income in Assessment Area	
Low-income Families	16%
Moderate-income Families	18%
Middle-income Families	25%
Upper-income Families	41%

The local economy is dependent on agriculture, mainly wheat, corn, mile, and cattle. Hutchinson, the largest city in the AA, offers economic diversity with manufacturing, retail, and service industries.

In addition to the Farmers National Bank, seventeen comparable financial institutions are located in Stafford, Reno, McPherson, and Rice Counties. Examiners contacted two community organizations within the bank's AA. The contacts indicated the primary credit needs of the community are residential real estate and assisted living. One contact indicated the local financial institutions are adequately meeting the community's credit needs, while the other contact stated more low-income real estate lending could be done.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The bank's lending level is satisfactory with a quarterly, average loan-to-deposit ratio of 55% since the previous examination. Comparable financial institutions located in Stafford, Reno, McPherson, and Rice Counties had an average loan-to-deposit ratio of 71%. Loan-to-deposit ratio averages for these banks ranged from 91% to 43% over the last twelve quarters. The bank

does have a significant amount of public deposits. As of June 2001, public deposits total \$11 million, or 20% of the bank's total deposits.

Lending in Assessment Area

The bank extends a majority of its loans within its AA. Examiners reviewed all loans granted since January 1998. The report listed loans outstanding instead of originations due to availability. The following table depicts the loan distribution percentage by number and dollar amount.

Percentage of New Loans Granted Within the Assessment Area	
Percentage by Number	Percentage by Dollar
81%	79%

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

Lending levels to businesses of different sizes is good. Examiners randomly sampled twenty-one agricultural loan customers granted from 1998 to 2001. The sample included customers from each branch location in the bank's AA. Management identifies nineteen of these borrowers as small farmers and two as large farmers. All twenty-one loans had annual gross revenues below \$1 million. The following table displays the distribution of gross annual revenues for the sample.

Agricultural Gross Annual Revenue Distribution	
\$0 to \$100,000	9
\$100,001 to \$300,000	8
\$300,001 to \$500,000	2
\$500,001 and above	2

Lending to borrowers of different income levels is satisfactory. Examiners randomly sampled twenty-one residential real estate loans granted from 1998 to 2001. The sample included customers from each branch location located in the bank's AA. The following table displays the distribution of income on the real estate loan sample. Income percentages for the sample are based on the gross income of the borrowers.

Distribution of Real Estate Loans		
Income Levels	Percentage of Sample in Income Category	Percentage of Families in Income Category
Low	14%	16%
Moderate	19%	18%
Middle	53%	25%
Upper	14%	41%
Total	100%	100%

Geographic Distribution of Loans

An analysis of the geographic distribution of credit within the AA indicates the bank has a

satisfactory penetration of the three moderate-income tracts located in Reno County. The bank has granted seven loans, or \$690 thousand, to borrowers in these tracts in the southern part of Hutchinson, even though the Buhler and Inman branches are not close in proximity.

Responses to Complaints

The bank has not received any relevant consumer complaints since the previous examination.

Fair Lending Review

An analysis of 1998 to July 2001 public comments and consumer complaint information was performed according to the OCC's risk based fair lending approach. Based on its analysis of the information, the OCC decided that a comprehensive fair lending examination would not need to be conducted in connection with the CRA evaluation this year. The latest comprehensive fair lending exam was performed in 1997.