



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

August 26, 2002

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First National Bank & Trust Company in Larned
Charter Number 7125**

**102 West 6th Street
Larned, KS 67550**

**Comptroller of the Currency
Assistant Deputy Comptroller C. Scott Schainost
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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.

- First National Bank & Trust in Larned's quarterly average loan-to-deposit ratio of 71 percent is satisfactory, compared to 67 percent for its peer bank group.
- First National Bank & Trust in Larned's lending within the assessment area is satisfactory. Examiners sampled 20 consumer used automobile and 20 agricultural loans. The sample indicates the bank grants a majority of its primary loan products within the assessment area.
- First National Bank & Trust in Larned demonstrates a satisfactory level of lending to low- and moderate-income borrowers and to businesses and farms of different sizes. The distribution for each primary loan product in the assessment area is satisfactory.

DESCRIPTION OF INSTITUTION

First National Bank & Trust in Larned ("the bank") is a \$75 million bank headquartered in Larned, Kansas. In addition to its main office, the bank has a branch office in Macksville, Kansas, which was acquired in January 2000. Each location is equipped with a drive-up facility. The bank operates a deposit-taking automated teller machine (ATM) at the main office and a cash-dispensing ATM at the Macksville branch. Another deposit-taking ATM is located at the Larned State Hospital. The bank is a wholly owned subsidiary of Pawnee Bancshares Corporation, a one-bank holding company headquartered in Larned, Kansas. At June 30, 2002, the holding company has total assets of \$6 million. In addition to the holding company, the bank has the following affiliates: Pawnee Investment Corporation, Pawnee Bancshares Inc. Employee Stock Option Plan (ESOP), and Lanbank Insurance Agency.

The bank is a full-service bank offering a variety of loans. At June 30, 2002, net loans represent 57 percent of the bank's total assets. The bank's \$43 million loan portfolio has the following composition: agricultural 76 percent; commercial and industrial 11 percent; residential real estate seven percent; consumer five percent; and municipal one percent. The bank has not changed, or offered any new products since the previous CRA examination. Examiners determine the bank's primary loan products, by the number and the dollar volume granted from April 2001 to June 2002, are consumer used automobile loans and agricultural loans.

The bank's financial condition, size, and local economic conditions allow it to help meet the credit needs of its assessment area. At the February 5, 1998, CRA examination, examiners assigned a "Satisfactory" rating.

DESCRIPTION OF ASSESSMENT AREA

The bank's assessment area (AA) consists of Pawnee and Stafford Counties. The AA contains five middle-income block numbering areas (BNAs), which are 9701 – 9703, 9706, and 9707. The AA does not contain any low-, moderate-, or upper-income tracts. The AA complies with regulation and does not arbitrarily exclude any low- or moderate-income tracts.

The AA has a population of 12,920 and is not part of a Metropolitan Statistical Area (MSA). The Kansas statewide non-MSA median family income for 2001 is \$44,200. The AA has the following income distribution for families:

Distribution of Family Income in the Assessment Area	
Income Level	Percentage
Low-income Families	18
Moderate-income Families	21
Middle-income Families	25
Upper-income Families	36
Total	100

Thirteen percent of the households have incomes below the poverty level, 37 percent receive

social security, and six percent are on public assistance. Thirty-two percent of the population is not in the work force and 21 percent is over the age of 65.

The median housing value is \$29,817 and 62 percent of the housing units are owner-occupied. Agricultural production dominates the local economy. Although the area has been adversely affected by a recent drought, major employers such as the Larned State Hospital and Larned State Correctional Facility help provide employment diversity and stability in the local economy. Other major employers in the AA are local governments and the Unified School Districts. The Kansas unemployment rate for May 2002 is 4.4 percent, compared to 5.8 percent nationwide.

The bank faces moderate competition in the area. In addition to the bank, 11 other financial institutions have offices in the AA, with assets ranging from \$24 million to \$13 billion. Examiners selected five institutions as peer banks since the majority of the deposits are in the AA. The asset size of the peer banks ranges from \$30 million to \$88 million, with the bank ranking second among this group. With 25 percent of the area deposits, the bank ranks first in deposit market share.

Examiners contacted one community economic development professional. The contact identified agricultural, business, and consumer-purpose loans as the community's credit needs. The contact also indicated that area banks are meeting these needs.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The bank's lending level is satisfactory. The bank's quarterly average loan-to-deposit ratio for the past 12 quarters ended June 30, 2002, was 71 percent, compared to 67 percent for peer banks. For peer banks, we selected five banks that had the majority of their deposits in the AA. The average loan-to-deposit ratio for the peer banks ranges from 58 percent to 78 percent.

Lending in Assessment Area

The bank's lending in its AA is satisfactory. To determine the distribution, examiners selected a sample of 20 consumer used automobile loans and 20 agricultural loans granted from April 2001 to June 2002. The table below shows the bank has an adequate distribution in terms of the number of loans granted and a lower distribution in terms of the dollar volume. The lower distribution occurred because our sample contains five large agricultural loans granted to farms located in adjacent counties to the south and west of the bank's AA. Banks in these counties do not have the lending capacity and expertise to serve the credit needs of these large farm operations.

Percentage of Sample of Loans Granted Within the Assessment Area	
Percentage by Number	Percentage by Dollar
60	26

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

Lending to borrowers of different income levels and farms of different sizes is satisfactory. The distribution for each loan product is satisfactory. Examiners selected a sample of 20 consumer used automobile loans and 20 agricultural loans, as these loan products represent the majority of loans originated from April 2001 to June 2002. The community contact identified agricultural, business, and consumer-purpose loans as the primary credit needs.

Lending to borrowers of different income levels for consumer used automobiles is satisfactory. The following table indicates the bank's lending to low- and moderate-income borrowers is satisfactory, as it is slightly above the demographics.

Sample of Consumer Used Automobile Loans in the Assessment Area			
Borrower Income Level	Percentage of Number	Percentage of Dollar	Percentage of Households in Income Category
Low-income	30	19	23
Moderate-income	20	10	17
Middle-income	25	28	20
Upper-income	25	43	40
Total	100	100	100

Lending to farms of different sizes in the AA is satisfactory. The table below indicates the bank grants 95 percent of its agricultural loans to farms with annual gross farm revenues of \$1 million or less. The bank's performance matches the Dunn & Bradstreet 2001 demographic data, which indicates 95 percent of the farms in the AA have annual gross farm revenues of less than \$1 million.

Sample of Agricultural Loans Granted in the Assessment Area		
Annual Gross Farm Revenues	Percentage of Number	Percentage of Dollar
Less than \$100,000	35	32
\$100,000 - \$250,000	30	32
\$250,001 - \$500,000	15	14
\$500,001 - \$1,000,000	15	16
Over \$1,000,000	05	06
Total	100	100

Geographic Distribution of Loans

The geographic distribution of loans would not be meaningful, as the bank's AA does not contain any low- or moderate-income tracts.

Responses to Complaints

The bank has not reported any CRA-related complaints since the last CRA examination.

Fair Lending Review

An analysis of 1999, 2000, 2001 and first half of 2002 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 1998.