



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

December 04, 2007

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First National Bank in Fredonia
Charter Number: 14370

730 Madison Street
Fredonia, KS 66736

Office of the 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.

INSTITUTION'S CRA RATING: This institution is rated Satisfactory.

- The First National Bank in Fredonia's level of lending is adequate. The bank's quarterly average loan-to-deposit ratio is 52%.
- The majority of the bank's loan products have been granted in the assessment area. Based on management reports, 79% of the number and 76% of the dollar amount of loans were granted in the assessment area.
- The First National Bank in Fredonia's level of residential real estate lending to borrowers of different incomes is good. The assessment area demographics reveal that 21% of the families are low-income and 20% of the loans in the sample were to low-income borrowers. Lending to moderate-income borrowers is above demographic data showing that 25% of families are moderate-income and 30% of the loans in the sample were to moderate-income borrowers.
- The First National Bank in Fredonia's level of consumer lending to borrowers of different incomes is excellent. The assessment area demographics reveal that 27% of households are low-income and 40% of the loans in the sample were to low-income borrowers. Lending to moderate-income borrowers is above demographic data as 19% of households are moderate-income and 35% of the loans in the sample were to moderate-income borrowers.

SCOPE OF EXAMINATION

We performed a full-scope evaluation of First National Bank in Fredonia's (FNBF) assessment area using small bank Community Reinvestment Act procedures.

DESCRIPTION OF INSTITUTION

The First National Bank in Fredonia is a \$71 million bank located in Wilson County, Kansas. The bank does not have any branch locations and operates one automated teller machine in the main office. FNBF is a wholly owned subsidiary of First National Bancshares Corporation, a one-bank holding company located in Fredonia, KS. As of September 30, 2007, the holding company had total assets of \$71 million. There have been no changes in the bank's corporate structure.

FNBF is a full-service bank providing a variety of loan products with an emphasis on residential real estate and consumer purpose loans. On September 30, 2007, net loans represented 48% of the bank's total assets. The bank's \$34.5 million loan portfolio has the following composition: 41% real estate loans, 28% consumer loans, 18% commercial loans, and 13% agricultural loans. The bank has not changed any existing loan products, or offered any new products, since the previous Community Reinvestment Act (CRA) examination. Examiners determined the primary loan products, based on the number and dollar volume granted during the previous two calendar years and year-to-date 2007 are residential real estate loans and consumer loans.

FNBF's financial condition, size, and local economic conditions allow it to help meet the credit needs of its assessment area. We assigned a "Satisfactory" rating at the July 21, 2003, CRA examination.

DESCRIPTION OF ASSESSMENT AREA

FNBF's assessment area (AA) consists of Wilson County, Kansas. The county is not in a Metropolitan Statistical Area (MSA). The AA contains four middle-income census tracts. The AA complies with the regulation and does not arbitrarily exclude any low- or moderate-income areas.

The 2000 U.S. Census population of the AA was 10,332. The Kansas state-wide non-MSA median family income for 2007 is \$47,500. The income distribution for families in the AA is 21% low-income, 25% moderate-income, 26% middle-income, and 28% upper-income. Of the 4,214 households in the AA, 37% receive social security, 13% have income below poverty level, and 4% receive public assistance. Thirty percent (30%) of the population is not in the work force and 20% is over the age of 65.

The median housing value is \$41,873 and 66% of the housing units are owner-occupied. The local economy is stable. While it is still dependent on agriculture, increased gas exploration has benefited the area. Expected expansion of industries in the local area, as well as nearby larger towns such as Chanute, Parsons, and Independence, provide employment diversity and stability in the local economy. The Kansas unemployment rate of 3.8% for October 2007 is well below the nationwide rate of 4.7%.

The level of competition in the bank's AA is driven by a number of other banks and several financial institutions with offices in the AA. With 30% of the area's deposits, the bank ranks first in deposit market share.

Examiners contacted one community professional. The contact indicated that FNBF is actively involved in the community. The contact identified residential real estate and consumer loans as two of the area's primary credit needs, and indicated that area banks are meeting those needs.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

FNBF's level of lending is adequate. The bank's quarterly average loan-to-deposit ratio (LTD) since the last CRA examination is 52%. The average quarterly LTD ratio for two similarly situated banks in the AA is 87%. The average quarterly LTD ratio for the peer banks range from 84% to 90%.

While FNBF's quarterly average LTD ratio is below that of peer banks, it is still considered adequate. The average LTD ratio for FNBF has historically been below peer. FNBF has only one location while one of the peer banks in the area has multiple locations with the ability to lend in areas outside the AA through branches. Also, while

the second peer bank only has one banking location in the AA, it has a loan office in the Wichita MSA which originates a large portion of its loan volume.

Lending in Assessment Area

The bank’s lending in the AA is good as it extends a majority of its primary loan products to borrowers located in the AA. Specifically, we found that FNBF made 79% of the number and 76% of the dollar amount of loans in the assessment area. This was based on management reports which included all loans originated during 2005, 2006, and through September 30, 2007. Examiners tested these reports for accuracy and found them to be reliable.

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

Lending levels to residential real estate and consumer borrowers of different incomes is good. To assess the bank’s performance, examiners selected a sample of 20 real estate loans and 20 consumer loans. These products represent the majority of loans originated from January 1, 2005 to year-to-date 2007.

FNBF’s level of residential real estate lending to borrowers of different incomes is good. Lending to low-income borrowers is in line with area demographics. The AA demographics reveal that 21% of the families are low-income and 20% of the loans in the sample were to low-income borrowers. Lending to moderate-income borrowers is excellent with demographic data showing that 25% of families are moderate-income and 30% of the loans in the sample were to moderate-income borrowers.

| Borrower Distribution of Residential Real Estate Loans in Fredonia Assessment Area | | | | | | | | |
|---|------------------|----------------------|------------------|----------------------|------------------|----------------------|------------------|----------------------|
| Borrower Income Level | Low | | Moderate | | Middle | | Upper | |
| | % of AA Families | % of Number of Loans | % of AA Families | % of Number of Loans | % of AA Families | % of Number of Loans | % of AA Families | % of Number of Loans |
| 1-4 Family Residential RE | 21% | 20% | 25% | 30% | 26% | 30% | 28% | 20% |

Source: Loan Sample and 2000 U.S. Census data.

The bank’s level of consumer lending to borrowers of different incomes is excellent. Lending to low-income borrowers is well above area demographics. The AA demographics reveal that 27% of households are low-income and 40% of the loans in the sample were to low-income borrowers. Lending to moderate-income borrowers is above demographic data as 19% of households are moderate-income and 35% of the loans in the sample were to moderate-income borrowers.

| Borrower Distribution of Consumer Loans in Fredonia Assessment Area | | | | | | | | |
|--|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|
| Borrower Income Level | Low | | Moderate | | Middle | | Upper | |
| | % of AA Households | % of Number of Loans | % of AA Households | % of Number of Loans | % of AA Households | % of Number of Loans | % of AA Households | % of Number of Loans |
| Consumer loan | 27% | 40% | 19% | 35% | 21% | 20% | 33% | 5% |

Source: Loan Sample and 2000 U.S. Census data.

Geographic Distribution of Loans

An analysis of the distribution of credit within the assessment area would not be meaningful, as the AA does not have any low- or moderate-income tracts.

Responses to Complaints

The First National Bank in Fredonia has not received any CRA-related complaints since the previous CRA examination.

Fair Lending or Other Illegal Credit Practices Review

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