

PUBLIC DISCLOSURE

May 17, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The First National Bank of Washington
Charter Number 2912**

**101 Commercial
Washington, Kansas 66968-1904**

**Office of the Comptroller of the Currency
Kansas City North Field Office
6700 Antioch Road, Suite 450
Merriam, Kansas 66204-1277**

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 **The First National Bank of Washington, Washington, Kansas (First National)**, prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **May 17, 1999**. 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**."

First National's overall rating is based on the following factors:

- C First National has a good record of lending to agricultural business borrowers of diverse revenues. 90 percent of the agricultural loans in our sample were made to farmers with annual gross farm revenue of less than \$200 thousand. 80 percent of the business loans in our sample were made to businesses with revenues of less than \$500 thousand.
- C The bank's lending distribution to low- and moderate-income residential real estate borrowers is reasonable based on area demographics.
- C 79 percent of the bank's loan originations since the October 1, 1996 benefited borrowers within the assessment area.
- C The bank has filed 29% of the mortgages filed in Washington County since July 7, 1996. This represents the largest percentage of any bank in the assessment area.
- C First National maintains an acceptable loan-to-deposit ratio given the limited lending opportunities within the bank's assessment area. The bank's assessment area has a declining and aging population with limited credit needs.

DESCRIPTION OF INSTITUTION

The First National Bank of Washington (First National) is a \$50 million institution located in Washington, Kansas. First National has no branch locations and one automated teller machine (ATM), which is located in a Washington, KS convenience store. Washington 1st Banco, Inc., a one-bank holding company, owns 99 percent of the Bank's stock. There are seven other financial institutions with headquarters or branches in the assessment area ranging in asset size from \$2.7 million to \$249 million. First National is a full service bank and offers a variety of loans with an emphasis on agricultural loans, commercial loans, and 1-4 family real estate loans. As of March 31, 1999, net loans are 24.8 percent of total assets or \$12.4 million. This compares to 22.2 percent, or \$11 million, at the previous evaluation. Examiners interviewed three individuals in service and retail industries within the local community. These contacts indicated the primary credit needs of the area are residential real estate, agricultural, and start-up business loans.

There are no legal or financial factors impeding the bank's ability to meet the credit needs of the community. At the previous CRA examination dated August 23, 1996, First National received a "Satisfactory Record of Meeting Community Credit Needs" rating.

The following table illustrates the loan portfolio is composed primarily of agricultural and commercial loans at 68 percent combined. It also illustrates the increase in commercial loans and the decline in agricultural loans since the previous evaluation, dated August 23, 1996.

Loan Distribution by Type			
Loan Type	Dollar Amount as of 03/31/99	Percent of Loan Portfolio as of 03/31/99	Percent of Loan Portfolio as of 3/31/96
Agricultural Loans	\$5,984M	45%	59%
Commercial Loans	\$3,058M	23%	12%
Residential Real Estate Loans	\$2,393M	18%	16%
Individuals Loans	\$1,729M	13%	12%
Other Loans and Leases	\$133M	1%	1%
Total (gross loans)	\$13,297M	100%	100%

DESCRIPTION OF ASSESSMENT AREAS

The bank's assessment area consists of Washington County. The assessment area is located in north central Kansas, has with a population of 7,073, and has an economy which is agricultural based. Washington County's population decreased 17 percent between the 1980 and 1990 census. The Census Bureau estimates the county's population has decreased an additional seven percent between 1990 and 1997. Washington, Kansas is the county seat for Washington County and is not in a Metropolitan Statistical Area (MSA). The assessment area consists of two block numbering areas (BNA). Both are considered middle income tracts. There are no low- or moderate-income tracts in the assessment area. The assessment area contains households below the poverty level of 16.5% and households receiving social security of 43 percent. In addition, 26 percent of the population is over the age of sixty-five. The assessment area complies with the regulation and does not arbitrarily exclude any low- or moderate-income areas.

The assessment area's economy is dominated by agriculture. Small retail businesses and light industry in Washington provide limited diversification. In addition, local county and city government, the public school system, and medical/nursing care centers provide employment opportunities. Unemployment for the area is low.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Loan-to-Deposit Ratio

The bank's lending level reflects an acceptable responsiveness to the assessment area's credit needs. Examiners compared First National's quarterly average loan-to-deposit ratio since the previous evaluation of 31 percent to seven other financial institutions with headquarters or branches in Washington County. These institutions have an average loan-to-deposit ratio of 60 percent, ranging from 14 percent to 85 percent. The institution with a 14 percent loan-to-deposit ratio is the only other institution without a location outside of Washington County. All other comparable institutions have a significantly higher average loan-to-deposit ratio, however, each institution with a higher ratio is based in and/or have one or more branches in Marshall or Cloud County. Both counties have significantly different demographics than Washington County. The different demographics indicate a higher demand for credit products in these counties. Marysville, the county seat of Marshall County and Concordia, the county seat of Cloud County, have experienced economic growth during the 1990's. During this same period, Washington County continued to experience a declining local economy. Lending opportunities and needs are much greater in a growing economy versus a declining economy.

The following tables indicate the differences in the economies of Washington, Marshall, and Cloud Counties. The tables indicate Marshall and Cloud Counties' economy are larger and stronger than Washington County. The first table also indicates the strong retail growth in the Marshall and Cloud Counties.

Nominal Taxable Retail Sales			
County:	1990	1996	Percent Change
Washington	\$19,500M	\$19,900M	2%
Cloud	\$58,100M	\$78,100M	34%
Marshall	\$54,300M	\$214,800M	296%

Source: CEDBR Database, Center for Economic Development and Business Research, W. Frank Barton School of Business, Wichita State University.

Indicators of Strength/Size of Economy			
Statistic:	Washington Co.	Marshall Co.	Cloud Co.
Number of Businesses (1996)-1	247	397	346
Total Annual Payroll (1996)-1	\$19,043M	\$61,102M	\$53,198M
Employed Residences (1997)-2	3,275	5,657	4,876
Avg Wage Per Job (1996)-3	\$13,450	\$19,205	\$16,767
Retail Pull Factor* (1997)-4	.35	.73	.91

Sources:

- 1 U.S. Bureau of the Census
- 2 Kansas Department of Human Resources, Labor Market Information Services
- 3 U.S. Bureau of Economic Analysis, Regional Economic Information System (REIS)
- 4 Kansas Direct Program, Kansas State University Cooperative Extension Service.

* Retail pull factor is an indicator of how much of each dollar spent by residents of each county is being spent in the county.

Management researched all real estate mortgage filings by banks since July 7, 1996. As indicated below, there have been 381 mortgages filed with the Washington County Register of Deeds, First National has filed 110 or 29%. Management considers this analysis to be a more accurate representation of the bank's responsiveness to the credit needs of the community. This analysis only includes loans made in Washington County. The loan-to-deposit ratio analysis includes loans made

outside of Washington County. Management considers their penetration of the local market for other loan products to be similar to the mortgage loan penetration.

Mortgage Filings Since the Previous Evaluation			
Financial Institution	Number of Mortgages Filed	Percentage of Mortgages	Percentage of Deposits
First National of Washington	110	29%	30%
Peoples National Bank of Clay Center	81	21%	18%
Bank of Palmer	69	18%	12%
Citizens State Bank of Hanover	63	17%	14%
Citizens National of Greenleaf	47	12%	17%
First National of Clifton	11	3%	7%
Citizens State Bank of Haddam	0	0%	2%
Total	381	100%	100%

First National's quarterly average loan-to-deposit ratio has improved from 23 percent at the previous evaluation in 1996. Bank management attributes a portion of this improved loan-to-deposit ratio to new lending relationships. According to bank management, 106 new loan customers have been established since the previous evaluation in 1996. This represents significant growth in an assessment area with only 2,865 households. This indicates 1 out of ever 27 households obtained credit for the first time at this bank since the previous evaluation. These new relationships represent a household that had not obtained credit in the past or a household who was obtaining credit elsewhere. Since Washington County has a declining and aging population base, (see Description of Assessment Areas section of this evaluation for additional information) the growth indicates the bank has been able to provide credit products to residents of the assessment area not previously served, or obtained customers, who had credit relationships elsewhere.

The bank developed a reputation as a conservative lender in the mid 1980's. During this period of time the bank significantly tighten loan underwriting standards due to the weaknesses in the agriculture economy, resulting in a dramatic decrease in the loan portfolio. The bank was not pursuing loan demand during this period and allowing the loan portfolio to shrink. The loan portfolio decreased by 55 percent from its high of \$19 million in June of 1985 until current management assumed control of the lending function in June of 1995. Since the current management team has been in place, the bank has increased the loan portfolio by 54 percent as December 31, 1998.

In an effort to further increase loan volume, the bank offers a low down payment loan program for residential real estate. Management stated the bank's information systems do not identify loans associated with this program. However, management indicated most customers do not use this program given the higher interest rates involved. Instead the loan officers work with the customers to help the customer qualify for a traditional product resulting in a lower cost of credit for the customer. Management is also pursuing additional loans through personal contacts with members of the community and involvement in community organizations and activities.

We contacted three members of the local community who were familiar with the credit needs of the community and each bank's efforts to meet the credit needs of the community. We asked each contact to identify by name any bank that was not meeting the needs of the community. One community contact stated First National is not meeting the credit needs of the assessment area. However, the other two community contacts did not draw the same conclusion.

Lending in Assessment Area

The bank extends a majority of its loans within the assessment area. Examiners found that 89 percent of the number and 79 percent of the dollar volume of all loans originated from October 1, 1996 through March 16, 1999 were in the assessment area. Examiners selected a sample to verify the bank's data.

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

The bank has achieved an adequate penetration among borrowers of different incomes and businesses of different sizes. The 1998 Kansas statewide nonmetropolitan median family income (MFI) of \$38,200 is used for borrower distribution analysis. The following table provides information on how each income level is defined.

Income Level Analysis		
Income Level	Percent of MFI	Income Range
Low	Less than 50 percent	Less than \$19,100
Moderate	50 percent to 80 percent	\$19,100 to less than \$30,560
Middle	80 percent to 120 percent	\$30,560 to less than \$45,840
Upper	120 percent and over	\$45,840 and over

The following table reflects the lending distribution of the automobile loan sample reviewed. In addition, the table includes the percentage of families within each income level according to 1990 Census data. A sample of twenty-one used automobile loans, which accounts for 5 percent of the automobile loans granted since October 1, 1996, indicates the bank is lending to individuals of different income levels. The bank's lending to low-income individuals is satisfactory while lending to moderate-income individuals is above the demographic data from the 1990 Census.

Income Level Distribution of Automobile Loan Sample			
Income Level Distribution	Number of Customers	Percentage of Loan Sample	Percentage of Families in Income Category
Low-Income	5	24%	24%
Moderate-Income	6	28%	22%
Middle-Income	9	43%	25%
Upper-Income	1	5%	29%
Total	21	100%	100%

The following table reflects the lending distribution of the 1-4 family real estate loan sample reviewed. A sample of twenty-four loans to finance residential real estate purchases indicates the bank is effectively lending to borrowers of different incomes. This sample represents approximately 20 percent of the loans granted from October 1, 1996 to April 16, 1999 that are secured by 1-4 family residential real estate. The bank's lending to low-income individuals is satisfactory, while lending to moderate-income individuals is above the demographic data from the 1990 Census.

Income Level Distribution of 1-4 Family Real Estate Loan Sample			
Income Level Distribution	Number of Customers	Percentage of Loan Sample	Percentage of Families in Income Category
Low-Income	6	25%	24%
Moderate-Income	7	29%	22%
Middle-Income	7	29%	25%
Upper-Income	4	17%	29%
Total	24	100%	100%

The following table reflects the lending distribution of the agricultural loan sample reviewed. A sample of twenty agricultural loan customers shows the bank is lending to businesses of different sizes. Management stated farms with less than \$100,000 in gross annual revenue are considered a small operation. Therefore, 50 percent of the agricultural loans sampled are to small operations.

Gross Annual Revenue Distribution of Agricultural Borrower Sample		
Gross Annual Revenue	Number of Customers	Percentage of Loan Sample
\$0 to \$50,000	6	30%
\$50,001 to \$100,000	4	20%
\$100,001 to \$150,000	3	15%
\$150,001 to \$200,000	5	25%
above \$200,001	2	10%
Total	20	100%

The following table reflects the lending distribution of the business loan sample reviewed. A sample of twenty business loan customers shows the bank is lending to businesses of different sizes. Management stated businesses with less than \$500 thousand in gross annual revenue are considered a small operation. The business loan sample indicates the bank is granting the majority of its business loans to small operations.

Gross Annual Revenue Distribution of Business Borrower Sample		
Gross Annual Revenue	Number of Customers	Percentage of Loan Sample
\$0 to \$100,000	5	25%
\$100,001 to \$200,000	4	20%
\$200,001 to \$300,000	4	20%
\$300,001 to \$500,000	3	15%
\$500,001 to \$1,000,000	2	10%
above \$1,000,000	2	10%

Gross Annual Revenue Distribution of Business Borrower Sample		
Total	20	100%

Geographic Distribution of Loans

An analysis of the distribution of credit within the assessment areas would not be meaningful as the assessment area includes only a middle-income tract.

Response to Complaints

The bank has not received any CRA related complaints since the previous CRA examination.

Compliance with Anti-Discrimination Laws and Regulations

We based our fair lending review on gender and reviewed six single female and twenty single male vehicle loans. Examiners did not find any evidence of prohibited discrimination or other illegal credit practices.