



Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

August 5, 1996

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The First National Bank of Centralia
Charter Number 3824**

**Fourth and Main
Centralia, Kansas 66415**

**Office of the Comptroller of the Currency
Kansas City Duty Station
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 CRA performance of The First National Bank of Centralia (FNB) prepared by the Office of the Comptroller of the Currency (OCC), the institution's supervisory agency, as of August 5, 1996. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 C.F.R. Part 25.

INSTITUTION'S CRA RATING: “Outstanding record of meeting community credit needs.”

FNB’s loans and originations show excellent distribution to borrowers of different incomes and businesses and farms of many different sizes. Its average loan-to-deposit ratio of 66 percent is very high considering limited credit needs of a community with a high elderly population percentage and moderate economic growth.

The following table shows the performance levels of FNB with respect to the five performance criteria:

SMALL INSTITUTION ASSESSMENT CRITERIA	THE FIRST NATIONAL BANK OF CENTRALIA PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does not meet Standards for Satisfactory Performance
Loan-to-Deposit Ratio	×		
Lending in Assessment Area	×		
Lending to Borrowers of Different Incomes and to Businesses of Different Sizes	×		
Geographic Distribution of Loans	Analysis not meaningful. ¹		
Response to Complaints	No complaints were received since the prior examination.		

1. FNB's assessment area is comprised of middle income block numbering areas only.

DESCRIPTION OF INSTITUTION

First Centralia Bancshares, Inc. owns FNB. At June 30, 1996, the bank had \$45 million in assets. On March 31, 1996, 36 percent of the bank's loans were agricultural, 34 percent were commercial, and 26 percent were residential and consumer instalment. The bank's main office and drive-up are in Centralia, Kansas, a town with population of approximately 500. Its full service branch is 10 miles away in Seneca, Kansas.

FNB can help meet various credit needs. It offers a broad range of agricultural, commercial, and consumer loan products described in its CRA public file. The bank's primary lending focus is agriculture and commercial, reflecting management's determination of the most pressing local credit needs. However, Centralia is experiencing unusual [middle-income] housing growth, and has increased its residential loan originations accordingly. No legal impediments keep FNB from meeting its CRA responsibility.

DESCRIPTION OF ASSESSMENT AREA ¹

FNB's assessment area consists of all three block numbering areas (BNAs) of Nemaha County, and a contiguous BNA in southeastern Marshall County, Kansas. All BNAs in the assessment area are designated as middle income. The assessment area is not in a metropolitan statistical area. Statewide nonmetropolitan median family income is \$34,300 [1996]. The area does not reflect illegal discrimination, and does not arbitrarily exclude low- or moderate-income geographies. Population for the four-BNA assessment area is 12,654. Low-, moderate-, middle-, and upper-income families are 21, 19, 27, and 33 percent of assessment area population. Agriculture is the predominant industry in the assessment area. Farm operations in the area vary widely in size. The approximate average gross revenue for farms in the assessment area is \$171,671. Centralia has moderate commercial and service activity. Centralia's retail activity is very limited; two downtown retail businesses closed in the past year.

1. Demographic information is from 1990 U.S. Bureau of the Census records or from 1996 U.S. Dept. of Housing and Urban Development (HUD) data.

A City of Centralia elected official told OCC examiners small businesses and small farms have the greatest need for credit in the area. Additionally, many new houses are being built in Centralia. The official said these needs were being met. The official said the city had applied for a grant from the state for demolition/rehabilitation funding. If the city receives the grant, he said the funds would need to be coupled with a loan program for housing rehabilitation.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA :

Loan-to-Deposit Ratio

FNB's 66 percent average loan-to-deposit ratio (average of eight quarters ending June 1996) is more than reasonable in its assessment area. Its March 31, 1996 ratio of 70 percent topped 10 similarly-situated local banks that had ratios ranging from 47 percent to 68 percent. FNB has made available to commercial businesses, farms, and homeowners an additional \$1.7 million in unused lines of credit. If funded, these loan commitments would raise the bank's loan-to-deposit ratio to 75 percent.

The bank's assessment area has many elderly residents. Area credit needs are consequently lower than they might otherwise be, as these residents are typically not users of large amounts of credit.

Lending in Assessment Area

A random sample of 53 of 641 loan originations within the past six months supports management's conclusion that a substantial majority of its loans are in its assessment area. The sample shows 83 percent of the number of loans and 74 percent of the dollar amount are in the assessment area. From July 1, 1995 through May 31, 1996, FNB originated 26 new home loans, 81 percent of which are in its assessment area.

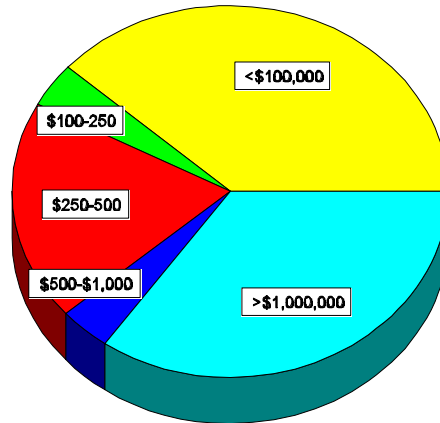
Management's April 1996, detailed analysis shows 83 percent of the number of the bank's loans are in its assessment areas, and 80 percent of the dollar amount. While many of these loans are recently originated, these figures depict loans on the bank's books, and not necessarily recent loan originations. Bank personnel label as "in" or "out" the loans they record on the bank's computer.

Lending to Borrowers of Different Incomes and Businesses of Different Sizes

Its loan distribution shows FNB has an excellent record of lending to businesses, farms, and borrowers with wide-ranging incomes and revenues.

Commercial Loans

(% of sample by # of loans)



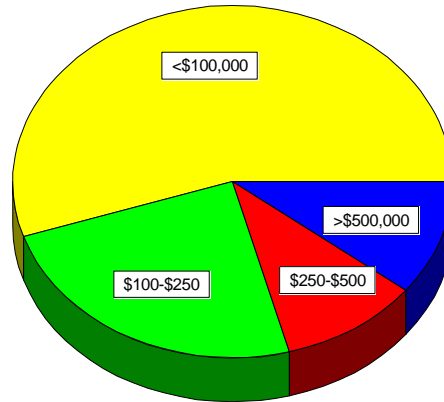
Commercial loans

OCC random sampling of 26 of all 128 commercial loans made in the past six months shows 38 percent of the number of loans are to businesses with gross annual revenues less than \$100,000; 4 percent to businesses with revenues between \$100,000 and \$250,000; 19 percent to businesses with revenues between \$500,000 and \$1,000,000; and 35 percent to businesses with revenues greater than \$1,000,000.

Of the bank's existing loans, five Small Business Administration (SBA) guaranteed loans had original amounts ranging from between \$105,000 and \$220,000.

Agricultural Loans

(% of sample by # of loans)



Agricultural loans

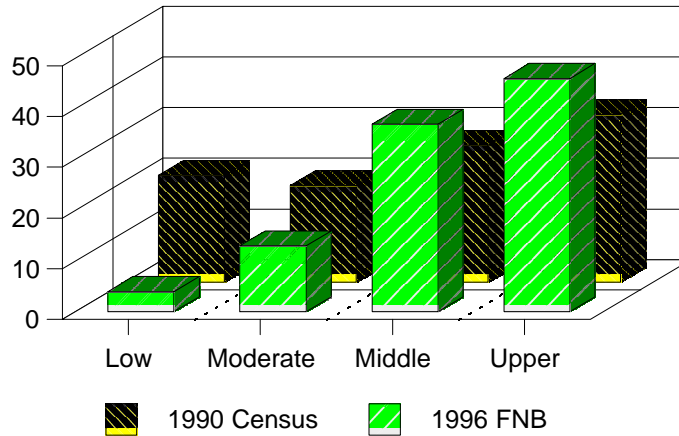
OCC random sampling of 29 of all 221 agricultural loans made in the past six months shows 55 percent of the number of FNB loans are to farms with gross annual revenues less than \$100,000; 24 percent to farms with revenues between \$100,000 and \$250,000; 10 percent to farms with revenues between \$250,000 and \$500,000; and 10 percent to farms with revenues greater than \$500,000. Its June 1995 Call Report shows that through June 30, 1995 the bank originated: 88 percent of its existing agricultural loans at less than \$100,000, 52 percent by dollar volume; 11 percent at between \$100,000 and \$250,000, 39 percent by dollar volume; and 1 percent at between \$250,000 and \$500,000, 9 percent by dollar volume.

Of the bank's existing loans, thirty Farmers Home Administration (FmHA) loans had original amounts ranging between \$19,000 and \$230,000.

Kansas Farm Management Association information for 1995 shows average gross farm income per farm for Nemaha County is \$187,823, and for Marshall County is \$155,519. The average of these two is \$171,671. Average gross farm income per farm in the OCC random sample, which includes farms in Nemaha and Marshall counties, is \$143,000.

Residential Loans

(% of # of originations to different income families)



Residential real estate loans

FNB is the predominant mortgage lender in Centralia. Nemaha County courthouse records show that from January 1, 1996 through June 17, 1996, 78 percent of all deeds, mortgages, and financing statements filed in Centralia are mortgages granted to FNB. OCC's random sampling of 24 of all 67 residential real estate loans made in the past six months shows the bank originated loans between \$16,000 and \$86,000. The average loan amount is \$46,500. FNB made 4 percent of the number of these loans to low-income families; 13 percent were to moderate-income families; 37 percent were to middle-income families; 46 percent were to upper-income families. This lending activity shows the bank helps meet varying credit needs characteristic of its assessment area. Management believes the percentage of middle- and upper-income families is higher in 1996 than it was in 1990. The 1990 census information does not reflect recent demographic changes caused by higher income families and retirees moving to the assessment area. And, according to its experience with applications for home loans, management believes the 1990 census percentage populations of low- and moderate-income families do not require respectively corresponding percentages of the bank's home loan originations. The number of loan originations in the past six months to middle- and upper-income families is higher as these families use a greater volume of the bank's home loans.

Consumer loans

Of all 200 consumer instalment loans FNB originated in the past six months, 54 were in amounts equal to or less than \$1,000. Loans in this size range typically are to borrowers of low- or moderate-income. The loans serve unique credit needs in FNB's assessment area, such as financing appliances, cars, and medical bills.

Investments

FNB's investment record shows an excellent response to unique community credit needs. FNB bought \$175,000 in City of Centralia, Kansas Industrial Revenue Bonds (Series 1989) for the Centralia Community Health Care Services, Inc. (CCHCSI) Project. The proceeds of the bonds were used to acquire real estate and to purchase, construct and install an intermediate care nursing facility. This facility specifically benefits low- and moderate-income elderly, and Medicaid recipients. CCHCSI also built a medical arts building next to the nursing facility to address the community's health services needs, providing easier geographic and financial access for low- and moderate-income residents.

To help CCHCSI fund its operating deficit, FNB's holding company donated \$20,000 in 1994. FNB partnered with the City of Centralia in a building campaign. The bank pledged \$100,000 in 1996 to help CCHCSI build additional space to house an Alzheimer/Dementia unit in the nursing facility, to provide funding to help the facility get Medicare skilled care certification, and to add a physical fitness facility. The city committed to purchase \$25,000 in exercise equipment for the new facility.

FNB participates in the Kansas Development Finance Authority Beginning Farmer Loan Program. The program helps beginning farmers in Kansas purchase agricultural property at lower interest rates. The maximum amount of bank investment per borrower is \$250,000. FNB's initial investment is a \$46,000 bond to finance a small farm.

Services

FNB is an active participant in FmHA and SBA guaranteed loan programs. These loans are considered in the previous discussion of the bank's lending.

FNB provides regular and ongoing technical assistance to its FmHA and SBA borrowers. It routinely helps applicants for these programs in gathering financial information, preparing financial reports, analyzing business structure, compiling past records, and determining sources and uses of funds and specific credit needs. FNB helps borrowers in preparing profit/loss projections, and it identifies suitable marketing techniques and available government assistance programs. Before an application is submitted by an applicant, a loan officer analyzes it and makes suggestions on the best possible presentation of the application. After an applicant receives a loan under either of the programs, FNB helps the borrower in tracking financial performance, improving profitability, and selecting appropriate accounting methods. These services provided by the bank increase the availability of credit for small businesses and farms that otherwise would have difficulty obtaining it. The thirty-five loans under these two programs have outstanding balances on March 31, 1996 of \$3,098,175.

Members of FNB's loan staff completed SBA training so the bank now offers SBA's LODOC program. This program specifically promotes credit availability for very small businesses (maximum loan size is \$50,000) by cutting documentation requirements that can hinder smaller concerns from accessing credit.

In 1994, the bank started a school savings program for children 12 years of age and under enrolled in area schools. The Penny Wise Saver Club promotes savings at an early age and helps youths set savings goals for special purchases. To encourage participation in the club, FNB advertises quarterly in local newspapers, sends quarterly newsletters to members, and gives prizes at the county fair to members that wear their Penny Wise T-shirts. More than 350 children currently belong to the program.

Compliance with Antidiscrimination Laws and Regulations

We found the bank in compliance with substantive provisions of antidiscrimination laws and regulations. We cited very few technical, disclosure-related violations that caused no harm to loan applicants.