



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

July 21, 2003

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First National Bank In Fredonia
Charter Number 14370**

**730 Madison
Fredonia, KS 66736**

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

DESCRIPTION OF INSTITUTION

The First National Bank in Fredonia (FNB or “the bank”) is a \$70 million financial institution located in Fredonia, Kansas. The bank has no branches and operates one automated teller machine at the main office. FNB is a wholly owned subsidiary of First National Bancshares Corporation, a one-bank holding company located in Fredonia. On December 31, 2002, the holding company had total assets of \$70 million. There are no significant subsidiaries of the holding company. There have been no changes to the bank’s corporate structure.

FNB is a full service bank providing a variety of loan products with an emphasis on residential real estate and consumer purpose loans. On March 31, 2003, net loans represented 41% of total assets. The bank’s \$29 million loan portfolio has the following composition: 28% consumer; 26% residential real estate; 22% agricultural; 19% commercial; and 5% other real estate. The bank has not changed any existing loan products, or offered any new products since the previous CRA examination. Examiners determined the primary lending products were residential real estate and consumer purpose loans.

The bank’s financial condition, size, and local economic conditions allow it to help meet the credit needs of its assessment area. Examiners assigned a “Satisfactory” rating at the April 5, 1999, CRA examination.

DESCRIPTION OF ASSESSMENT AREA

The bank’s assessment area (AA) consists of Wilson County, Kansas. The county is not in a Metropolitan Statistical Area. The AA contains block numbering areas 9971 – 9974 and is comprised of 1 (25%) moderate-income and 3 (75%) middle-income areas. The AA complies with regulation and does not arbitrarily exclude any low- or moderate-income areas. The Kansas statewide non-MSA median family income for 2002 is \$44,200. The unemployment rate for the AA in May of 2003 is 3.4% compared to 6.2% nationwide.

Examiners made one community contact with a local business professional in the AA. The contact identified home loans and consumer loans as two of the areas primary credit needs. The contact stated the local financial institutions are active in the community and knew of no unmet credit needs.

The AA has a population of 10,289. The income distribution for families in the AA is 23% low-income, 24% moderate-income, 24% middle-income, and 29% upper-income. The weighted-average median housing value is \$22,934. Sixty-three percent of homes in the AA are owner-occupied. Three other banks and one thrift provide competition in the AA. The asset sizes of the banks and financial institutions range from \$10 million to \$416 million. FNB has 30% of the area’s deposits ranking it 1st in deposit market share.

The local economy is dependent upon the agricultural industry including both row crops and

cattle ranching. Consecutive below average crop harvests, combined with poor cattle prices have affected the local economy. Nearby larger towns such as Chanute, Parsons, and Independence provide additional employment opportunities.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

FNB's level of lending is adequate. The bank's quarterly average loan-to-deposit ratio (LTD) since the last examination ending March 31, 2003, is 58%. Examiners compared this ratio to that of similarly situated banks in and adjacent to the AA. For peer banks, examiners analyzed the ratios over the same time period for a group of five banks. The quarterly average ratio for this group is 77%. The quarterly average ratios for the banks within the peer group range from 54% to 90%.

While FNB's average LTD ratio is below that of similarly situated banks, it is still considered adequate. Management stated an influx of deposits over the past year has caused the bank's LTD ratio to drop. Additionally, management stated that other banks in the AA have the ability to purchase loan participations not available to FNB. Management stated they are active in the community and attempt to meet all the area's credit needs. The community contact affirmed management's statement.

Lending in Assessment Area

FNB's lending in its AA is satisfactory as it extends the majority (81% of both the number and dollar) of its loans in the AA. Examiners utilized management reports detailing the bank's lending in its AA from 2000 through 2002.

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

The level of lending to residential real estate and consumer borrowers of different incomes is good. Examiners utilized a sample of 20 residential real estate and 20 consumer purpose loans, originated from 2000 through 2002, to assess the bank's performance in this area. These loan products were selected because they represent the primary lending products of the bank.

The bank's level of lending to residential real estate borrowers is good. Lending to low-income borrowers is adequate (20% of the sample) compared to family income demographics of 23%. Lending to moderate-income borrowers representing 35% of the sample is well above demographic data showing 24% and represents excellent performance.

Lending to consumer borrowers of different incomes is excellent. Lending to low-income borrowers is excellent as the bank extended 40% of the sample to low-income borrowers compared to household demographic data showing 29%. Lending to moderate-income borrowers representing 40% of the sample is well above household demographic data showing 20% and also represents excellent performance.

Geographic Distribution of Loans

An analysis of the geographic distribution of loans within the AA indicates the bank has

adequate penetration in low- and moderate-income areas considering the bank's location and competition. Examiners reviewed bank generated data showing 3.08% of the number and 1.39% of the dollar of loans granted from 2000 through 2002 were to borrowers in the moderate-income area. This is below demographic data showing 30% of owner occupied housing units and 35% of households in the moderate-income area.

While the bank's penetration into the moderate-income area is below demographic data, it is still considered adequate. Penetration by number increased from 1% at the previous examination. Neodesha, Kansas is located in the moderate-income area and has three financial institutions. Management indicates there are limited opportunities to grant loans in this area and that the majority of the bank's lending activities are in the areas closely surrounding Fredonia. Additionally, the moderate-income area is approximately 15 miles away from Fredonia.

Responses to Complaints

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

Fair Lending Review

We found no evidence of illegal discrimination or other illegal credit practices.