

PUBLIC DISCLOSURE

August 23, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The Farmers National Bank of Lincoln
Charter Number 6672**

**100 West Lincoln
Lincoln, Kansas 67455**

**Office of the Comptroller of the Currency
Kansas City Field Office
6700 Antioch Road, Suite 450
Merriam, Kansas 66204-1200**

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 Farmers National Bank of Lincoln, Lincoln, Kansas, (FmNB)** prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **August 23, 1999**. 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: This institution is rated **Satisfactory**.

FmNB's overall CRA ratings are based on the following factors:

- ! FmNB has a reasonable record of lending to farms in the lower revenue categories within its assessment area. Its record of lending to low- and moderate-income families and individuals is also reasonable.
- ! The bank's quarterly average loan-to-deposit ratio is reasonable at 66 percent.
- ! A majority of FmNB's loan originations are extended to borrowers living within the assessment area.

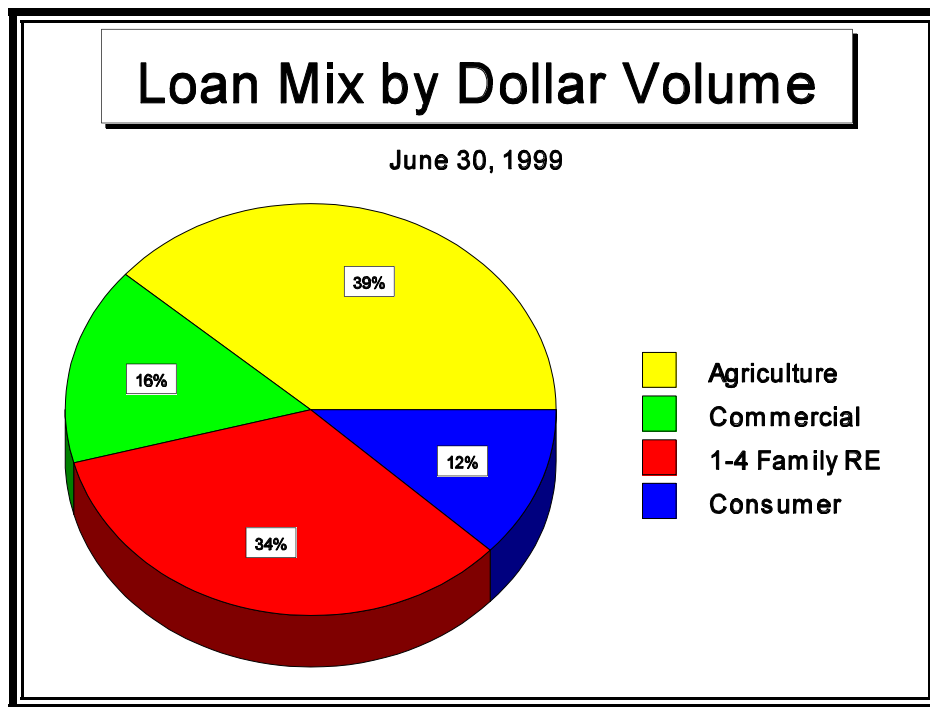
Bank

The Farmers National Bank of Lincoln, Lincoln, Kansas

DESCRIPTION OF INSTITUTION

FmNB is a \$17 million institution based in Lincoln, the seat of Lincoln County. The bank is wholly-owned by Farmers Bancshares, Inc., also of Lincoln. Farmers Bancshares also owns Beverly State Bank, Beverly, Kansas. The bank does not have any branches or automated teller machines. No legal constraints, financial conditions, or other factors inhibit the bank’s ability to help meet the credit needs of its assessment area. The institution received a “Satisfactory” rating at its last CRA examination dated May 9, 1996.

FmNB’s net loans total \$10 million as of June 30, 1999, and represent 61 percent of its total assets. The bank’s primary credit products are agricultural loans by dollar volume, and consumer loans by number. The following table shows the bank’s loan portfolio composition as a percentage of gross loans:



DESCRIPTION OF ASSESSMENT AREA

FmNB has designated all of Lincoln County as its assessment area (AA). This designation meets the requirements of the CRA regulation and does not arbitrarily exclude any low- or moderate-income geographies. Loan and deposit competition in Lincoln County includes a credit union, the head office of two state banks, and two branches of another state bank chartered outside the county. The assets of these banks range from \$9 million to \$121 million. FmNB also competes with the Farm Credit Services for agricultural loans.

Total population of the AA, based on 1990 U.S. Census information, is 3,653. The assessment area consists of block numbering area (BNA) 9861, which is designated as middle-income. BNA 9861 has a median family income of \$25,223, which represents 90 percent of the weighted average of non-metropolitan 1990 Census median family income of \$28,068. There are 1,864 total housing units in BNA 9861, 65 percent of which are owner occupied.

The U.S. Census reports 1,073 families residing in the assessment area. Eleven percent of these families have income below the poverty level. Approximately 25 percent of the families are designated as low-income, 20 percent are moderate-income, 25 percent are middle-income, and 30 percent are upper-income. Income designations are based on median family income levels as a percentage of the weighted average of the 1999 non-metropolitan census median family income of \$38,700. The 1999 median family income figure is estimated and updated by the Department of Housing and Urban Development on an annual basis. The Census data reports the median housing value for the AA as \$16,900. The median year houses within the AA were built is 1939.

The local economy has been relatively stable, despite its heavy reliance on agriculture. Major agricultural products include cattle, hay, and grains. Major employers in the AA include Quartzite Stone Company, Century Manufacturing Company, and various governmental entities. According to the Kansas Department of Human Resources, the July 1999 preliminary unemployment rate for Lincoln County is low at 1.8%.

We contacted an individual within the community to discuss local credit needs and the performance of financial institutions in the area. This person works for the county/state government. Through this community contact, we confirmed one of the primary credit needs of the area as loans for various consumer purposes. Our contact identified no unmet credit needs in the assessment area.

Community Reinvestment Act Performance Evaluation
Bank
The Farmers National Bank of Lincoln, Lincoln, Kansas

Small

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Lending to Farms of Different Revenue Sizes and Borrowers of Different Income Levels

Our review determined the bank’s primary credit products are loans for various agricultural purposes and consumer loans. Our contact identified consumer loans as a primary credit need within the assessment area. As a result, we focused our analysis on agricultural and consumer loans to assess the bank’s lending performance.

The analyses and conclusions drawn during this review are based upon information and data provided by the bank. Our sample was taken from loans originated between April 23, 1996 and August 23, 1999. Due to constraints of the bank’s computer software, these originations include only loans that were not paid in full prior to December 27, 1998.

Agricultural Lending:

FmNB has a reasonable record of lending to farms in the lower revenue categories within its assessment area. We reviewed the revenue distribution of 20 agricultural (Ag) borrowers with loan originations between April 23, 1996 and August 23, 1999. For the period under review, these borrowers originated 160 loans totaling \$4.5 million. Our agricultural loan sample represented 14 percent, by number and dollar volume, of the agricultural loans originated in the assessment area during this time period. The following table shows a more detailed analysis of the agricultural borrower revenue distribution.

Agricultural Loan Borrower Revenue Distribution				
Sample of 20 Agricultural Loan Borrowers with Loan Originations Between 4/23/96 and 8/23/99				
Revenue Category	Distribution of FmNB Ag Loan Borrowers		Income Distribution of Farms in Assessment Area	
	No. of Borrowers	Percentage	No. of Farms	Percentage
\$0 - \$99,999	13	65%	433	85%
\$100,000 - \$249,999	6	30%	56	11%
\$250,000 - \$499,999	1	5%	16	3%

Agricultural Loan Borrower Revenue Distribution Sample of 20 Agricultural Loan Borrowers with Loan Originations Between 4/23/96 and 8/23/99				
\$500,000 and Over	0	0%	6	1%
Totals	20	100%	511	100%

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA - CONTINUED

Lending to Farms of Different Revenue Sizes and Borrowers of Different Income Levels - Continued

Based on our limited sample of agricultural borrowers, we determined that 95 percent of FmNB’s farm customers had gross annual revenues of less than \$250 thousand. We compared the revenue distribution of FmNB’s agricultural customers to area demographic information obtained from the 1992 Agricultural Census as compiled by the U.S. Bureau of the Census. The Ag Census reports 96 percent of farms in Lincoln County with revenues of less than \$250 thousand. FmNB’s proportion of small farm borrowers is reasonable in relation to local agricultural demographics.

Consumer Lending:

The bank’s record of lending to low- and moderate-income families and individuals is reasonable when compared area demographics. We reviewed the family income distribution of 20 consumer loan customers in the assessment area with loan originations between April 23, 1996 and August 23, 1999. For the period under review, these borrowers originated 103 loans totaling \$662 thousand. This sample represented seven percent, by both number and dollar volume, of consumer loan originations in the assessment area during this time period. The following table shows the breakdown of borrower income levels for the 20 consumer loan customers in our sample.

Consumer Loan Borrower Income Distribution Sample of 20 Consumer Loan Borrowers with Loan Originations Between 4/23/96 and 8/23/99		
	Distribution of FmNB’s Consumer Loan Borrowers	Distribution of Families in Assessment Area
Income Designation		

Income
Designation

Bank*The Farmers National Bank of Lincoln, Lincoln, Kansas*

Consumer Loan Borrower Income Distribution				
Sample of 20 Consumer Loan Borrowers with Loan Originations Between 4/23/96 and 8/23/99				
	No. of Borrowers	Percentage	No. of Families	Percentage
Low	9	45%	264	25%
Moderate	2	10%	219	20%
Middle	6	30%	264	25%
Upper	3	15%	326	30%
Total	20	100%	1,073	100%

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA - CONTINUED**Geographic Distribution of Loans**

We did not perform an analysis of the geographic distribution of loans. This analysis is performed if one or more of the block numbering areas in the bank's assessment area is designated as a low- or moderate-income geography. There are no low- or moderate-income block numbering areas in FmNB's assessment area.

Loan-to-Deposit Ratio

The bank's loan-to-deposit (LTD) ratio is reasonable. We compared FmNB's quarterly average LTD ratio to two other financial institutions with offices in Lincoln County. All banks in our comparison had total assets of less than \$17 million and no branches in metropolitan areas. The following table summarizes the LTD ratios for these banks.

Bank

The Farmers National Bank of Lincoln, Lincoln, Kansas

Loan to Deposit Ratios			
Banks with Offices in Lincoln County*			
	2Q96	1Q99	12 Qtr. Avg.
Farmers National Bank, Lincoln	53%	67%	66%
Beverly State Bank, Beverly	74%	79%	78%
Sylvan State Bank, Sylvan Grove	70%	68%	67%

*We excluded The Bank of Tescott from our group since it is much larger than the other banks.

The overall quarterly average LTD ratio for the three banks in our comparison was 70 percent. Beverly's ratios are slightly higher than the other two banks due in part to its close proximity to Saline County. Salina, Saline County's seat, has experienced significant growth in the past few years. This population growth is spilling over into neighboring communities, raising the demand for loans.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA - CONTINUED

Lending in the Assessment Area

A majority of the bank's loan originations are extended to borrowers living within the assessment area. Bank personnel generated reports during the examination which showed agricultural, commercial, residential real estate, and consumer loans originated between April 23, 1996 and August 23, 1999. Based on the borrower's address, we determined which of these loan proceeds were used within the bank's assessment area. FmNB originated 146 agricultural loans totaling \$5.3 million, 84 commercial loans totaling \$2.5 million, 83 residential real estate loans totaling \$3.9 million, and 339 consumer loans totaling \$2.3 million during this period. We determined approximately 86 percent of these loan originations by number, and 77 percent by dollar volume, were to borrowers using loan proceeds within the assessment area. The table below details our analysis of the bank's record of lending in the assessment area.

Assessment Area Analysis				
Based on 652 Loan Originations Between 4/23/96 and 8/23/99				
Type of Loan	No. of Loans in AA	Percentage of Loans in AA	\$ Volume of Loans in AA	Percentage of Loans in AA
Agricultural	141	97%	\$5,054,793	95%
Commercial	73	87%	\$1,898,650	77%
1-4 Residential RE	53	64%	\$1,891,700	48%
Consumer	292	86%	\$1,939,297	84%
Total	559	86%	\$10,784,440	77%

Compliance with Antidiscrimination Laws and Regulations

FmNB has a satisfactory record of compliance with antidiscrimination laws and regulations. We conducted a limited-scope consumer compliance examination, which

Bank

The Farmers National Bank of Lincoln, Lincoln, Kansas

included an Equal Credit Opportunity Act review, concurrent with this CRA evaluation. Our review did not disclose substantive violations of fair lending laws or evidence of discriminatory practices.

Bank

The Farmers National Bank of Lincoln, Lincoln, Kansas

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA - CONTINUED

Response to Complaints

FmNB has not received any written complaints regarding its CRA performance since the previous CRA examination dated May 9, 1996.