



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

September 30, 2001

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First National Bank in Frankfort
Charter Number 11916**

**124 N. Kansas
Frankfort, Kansas 66427**

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

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.

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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 First National Bank in Frankfort, Frankfort, Kansas as prepared by The Comptroller of the Currency, the institution's supervisory agency, as of September 30, 2001. 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 Outstanding.

- The bank is doing an excellent job of lending to borrowers of different income levels and businesses of different size.
- A large majority of loans originated are within the assessment area.
- The bank's loan to deposit ratio is good, and demonstrates management's desire to provide loans to the community.

Our conclusions are based on a review of First National Bank's CRA efforts from October 1, 1996 to September 30, 2001.

DESCRIPTION OF INSTITUTION

First National Bank (FNB) is a \$25 million financial institution and subsidiary of First Frankfort Bancshares, Inc., a one-bank holding company. The bank's main office and holding company are located in Frankfort, Marshall County, Kansas. FNB has no branches and one automated teller machine located at the main banking facility. Net loans represent 56 percent of total assets according to the September 30, 2001 Report of Condition. FNB offers a full range of lending and deposit services.

FNB's primary lending focus is agricultural, consumer, and real estate lending. As of September 30, 2001, FNB's loan portfolio totaled \$14MM. The dollar volume of FNB's loan portfolio consists of 33 percent real estate loans, 28 percent agricultural operating loans, 22 percent commercial loans, 13 percent consumer loans, 3 percent municipal loans, and 1 percent other loans. One-to-four family real estate loans are 17 percent of the real estate category.

The following table represents loan originations and purchases from October 1, 1996 to September 30, 2001.

ASSESSMENT AREA LOAN ORIGINATIONS

LOAN TYPE	NUMBERS OF LOANS	\$ VOLUME OF LOANS
RE Secured by farmland	5 percent	9 percent
RE Secured by 1-4 family	8 percent	10 percent
Ag not secured by RE	33 percent	42 percent
Commercial	11 percent	14 percent
Consumer	36 percent	13 percent
Other	7 percent	12 percent

Based on loan origination information by assessment area (AA), the bank's primary loan products within the AA are agricultural and consumer loans.

By number of loans, agricultural loans not secured by real estate and consumer loans represent 33 percent and 36 percent, respectively. By dollar volume, agricultural loans not secured by real estate and consumer loans are 42 percent and 13 percent, respectively. Based on this information, we analyzed both agricultural and consumer loans as part of our review.

There are no legal or financial constraints that impede the bank's CRA efforts. The last CRA examination dated July 8, 1996 rated the bank's performance as "Satisfactory Record of Meeting Community Credit Needs".

DESCRIPTION OF ASSESSMENT AREA

FNB has one assessment area (AA) which management has identified as Census Tract (CT) 9794 of Marshall Count, CT 9803 of Nemaha County, CT 4 of Pottawatomie County, and CT 1 of Riley County. Three CT's are designated middle-income and one CT is upper-income. All four counties are nonMSA counties in Kansas. The AA meets the requirements of the regulation.

According to 1990 statistics, the total population of the bank's assessment area is 14,886. The updated non-MSA median family income for 2001 is \$43,200. This compares to the 1990 Census median family income of \$28,067. The median housing value is \$35,342 and 67 percent of housing units are owner-occupied. While there are no low or moderate-income tracts in the AA, low and moderate-income families represent 17.63 percent and 18.88 percent of the AA's population. The balance of middle income and upper income families comprise 23.34 percent and 40.15 percent, respectively.

The area's economy is stable and has 1.26 percent unemployment. Farming and agricultural service industries are the economic base for the assessment area. Vermillion State Bank with total assets of approximately \$13 million is also located within FNB's AA.

During the evaluation, we made one community contact with a local government official. According to our contact, there is a need for a restaurant within the community. The town has had several restaurants in the past, which have closed.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Lending to Borrowers of Different Incomes and Businesses of Different Sizes

FNB's lending to borrowers of different income levels and businesses of different sizes is excellent. FNB is active in maintaining a viable downtown and trade area for Frankfort residents and local farmers. Despite a modest population of 900, the city of Frankfort offers a variety of businesses. FNB has financing and/or deposit relationships with most of these businesses, including auto dealerships, service stations, a grocery store, a dress shop, an attorney, a lumberyard, a floral shop, an auto parts store, beauty shops, a printing shop, a doctor's office, and fitness center.

Our analysis focused on the bank's primary products of agricultural and consumer loans. In the agricultural category, we focused on agricultural operating (non-RE) loans since they represent by far the largest dollar amount of loans (and second largest by number) originated during the review period. We also sampled consumer loans for they represented the largest number of loans originated during this same period.

We reviewed a random sample of 20 agricultural operating loans and 20 consumer originated from October 1, 1996 to September 30, 2001. The following table summarizes bank performance compared to the percentage of farms and households in the AA.

Agricultural Loans

	# of loans	\$ volume of loans	% of AA farms
Annual gross revenues < \$1 million	100 percent	100 percent	96 percent
Annual gross revenues > \$1 million	0 percent	0 percent	3 percent
Revenues not reported	0 percent	0 percent	1 percent

FNB is doing an excellent job of lending to small farms with annual gross revenues of less than \$1 million. All of the loans sampled that reported income have annual revenues below \$525 thousand.

Fifty percent of loans reviewed have annual gross revenues of less than \$100 thousand, whereas 75 percent have annual gross revenues of less than \$200 thousand.

Consumer Loans

Income Level	# of Loans	\$ Volume of Loans	% of Households
Low-Income	15 percent	6 percent	21 percent
Moderate-Income	35 percent	27 percent	16 percent
Middle-Income	30 percent	38 percent	22 percent
Upper-Income	20 percent	29 percent	41 percent

FNB is also doing an excellent job of lending to consumers of all income levels. FNB excels in its lending to moderate-income consumers. While lending to low-income borrowers appears somewhat below demographics, FNB’s performance is good considering the poverty level is at 13 percent of all households in the AA. It is more difficult for these credit applicants to qualify for credit based on prudent underwriting guidelines. For comparative purposes, 8 percent of the households in the bank’s assessment area are low-income when excluding those below the poverty level.

Geographic Distribution of Loans

All census tracts within the bank’s assessment area are middle and upper income. Therefore, specific analysis of geographic distribution is not meaningful.

Lending in Assessment Area

FNB’s record of lending within its assessment area is excellent. The bank originated the majority of its primary loan products, both by number and dollar amount, within its AA. The following table details agricultural and consumer loans extended inside the bank’s AA by number and dollar volume of loans originated.

Loan Type	In Assessment Area	
	By #	By \$
Agricultural	95 percent	99 percent
Consumer	100 percent	100 percent
TOTAL	98 percent	99 percent

Loan-to-Deposit Ratio

The bank’s loan-to-deposit ratio is good, considering the competition in the bank’s AA and its agricultural make-up. The bank’s quarterly average loan-to-deposit (LTD) ratio since the last evaluation is 68.90 percent. The quarterly average loan-to-deposit ratio of peer banks during the same period is 64.41 percent. In addition, this compares to quarterly average LTD ratios of three similarly situated banks ranging from 53 percent to 84 percent, with an average of 67 percent during the same time period. The three banks are similarly situated as they are headquartered in FNB’s general trade area.

Responses to Complaints

FNB has not received any complaints about its performance in helping to meet AA credit needs during this evaluation period.

Fair Lending Review

An analysis of public comments and consumer complaint information was performed according to the OCC's risk based fair lending approach. Based on its analysis of the information, the OCC decided that a comprehensive fair lending examination would not need to be conducted in connection with the CRA evaluation this year. The latest comprehensive fair lending exam was performed in 1996.