



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## **PUBLIC DISCLOSURE**

**July 10, 2008**

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

The First National Bank and Trust Company of Junction City, Kansas  
Charter Number 3543

702 North Washington Street  
Junction City, KS 66441-0000

Office of the Comptroller of the Currency

KANSAS CITY NORTH  
7101 College Blvd Suite 1600  
Overland Park, KS 66210-4706

**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.**

The major factors supporting this rating are:

- The bank's lending level is reasonable given the financial institution's size, financial condition, and the assessment area (AA) credit needs.
- A majority of the bank's loans are within its AA.
- Lending to businesses of different sizes is satisfactory.
- The bank has a reasonable record of lending to consumers of different income levels.
- The geographic distribution of loans is very good. For each loan type sampled, the percentage of loans to moderate-income tracts substantially exceeds the AA demographics.

**SCOPE OF EXAMINATION**

The scope of the Community Reinvestment Act (CRA) examination included the time period of November 4, 2002 to July 22, 2008. Small bank procedures were used to evaluate the bank's performance under the CRA. A full scope review was completed of the bank's CRA activities in the AA. We determined the bank's primary products were consumer and business loans. Business loans comprise 62 percent of the loan originations by dollar amount and 26 percent by number. Consumer loans are also a primary product because they comprise 43 percent by number and 5 percent by dollar. We reviewed a sample of 40 loans, 20 business loans and 20 consumer loans, to assess the bank's lending performance. The review covered loans originated between January 1, 2006 and July 22, 2008.

**DESCRIPTION OF INSTITUTION**

The First National Bank and Trust Company of Junction City (FNB) is an \$88 million intrastate bank operating its main office in Junction City, Kansas. FNB also operates a full-service branch in west Junction City and in Herington, Kansas. FNB is owned by Exchange Company out of Kearney, Nebraska which is a three-bank holding company with combined assets of \$351 million as of December 31, 2007. Bank affiliates include Nebraska National Bank in Kearney, Nebraska and Exchange Bank in Gibbon, Nebraska, with total assets of \$126 million and \$148 million as of March 31, 2008.

FNB is a full-service bank with drive-up facilities and an automatic teller machine (ATM) at each facility. Two additional ATMs are available in gas stations within the AA. FNB offers a broad range of loan and deposit products. As of March 31, 2008, net loans

totaled \$35 million and represented 40 percent of the bank's total assets. Tier one capital is \$8 million. By dollar volume, the loan portfolio is comprised of the following: business/commercial 62 percent, 1-4 family residential real estate 19 percent, consumer 5 percent, agricultural 5 percent, and other 9 percent.

There are no financial conditions, legal constraints, or other factors that impede the bank's ability to meet the credit needs of its AA. The bank received a Satisfactory rating at its last CRA evaluation dated November 4, 2002.

## **DESCRIPTION OF ASSESSMENT AREA(S)**

FNB's AA is legal, meets the requirements of the regulation, and does not arbitrarily exclude any low- or moderate-income geographies. The AA is comprised of all Geary County Census Tracts (CT), CT 9836 in Morris County, and CT 9841, 9845, and 9846 in Dickinson County. The AA is contiguous and is in a non-metropolitan statistical area. Four of the twelve CTs are designated moderate- (33 percent), seven are middle- (58 percent), and one is upper-income (9 percent). The main office in Junction City is located in CT 5 (middle-income) and the west Junction City branch is in CT 3 (moderate-income) in Geary County. The Herington branch is located in CT 9846 (middle-income) in Morris County. They have two additional ATMs both located in CT 1 (moderate-income) in Geary County.

Approximately fifty percent of the AA housing units are owner-occupied. Forty percent of the housing stock is occupied rental units due primarily to the need for semi-permanent housing for military personnel at Fort Riley Military Base. Per the Bureau of Labor Statistics as of April 30, 2008, the unemployment rates in Geary, Morris, and Dickinson counties are 3.6, 4.0, and 3.3 percent, respectively. This compares with the rate for the State of Kansas of 4.0 percent and is well below the national rate of 5.0 percent for the same time period.

The local economy is strong and expanding due to the return of a large unit on Fort Riley. This has increased population, as well as retail and housing development in the AA. The housing developments include 1-4 family residential and multi-family properties. Fort Riley is the largest employer in the area with 2,310 civilian employees. They are followed by the Junction City School District with 1,235 employees and Footlocker Distribution Center with 867 employees.

For additional information on the AA refer to the chart below:

**Junction City AA**

<b>Table 1A - Demographic Information for Full Scope Area: Junction City AA</b>						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	12	0.00	33.33	58.33	8.33	0.00
Population by Geography	40,973	0.00	32.58	58.69	8.73	0.00
Owner-Occupied Housing by Geography	9,375	0.00	17.23	71.90	10.87	0.00
Business by Geography	3,116	0.00	22.95	69.90	7.16	0.00
Farms by Geography	368	0.00	1.09	90.22	0.70	0.00
Family Distribution by Income Level	11,389	0.00	30.35	60.06	9.59	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	5,045	0.00	40.26	54.37	5.37	0.00
Median Family Income HUD Adjusted Median Family Income for 2006 Households Below Poverty Level		41,637 47,900 11%	Median Housing Value Unemployment Rate (2000 US Census)		60,988 2.27%	

(\*) The NA category consists of geographies that have not been assigned an income classification.  
Source: 2000 US Census and 2007 HUD updated MFI

Competition from other financial institutions is high. There are approximately 12 institutions in the AA. The bank ranks second with a market share of 13 percent. The bank’s competitors include several local community banks and branches of large regional institutions.

In conducting the assessment of the bank’s performance, we contacted a local community organization for this AA. The contact indicated a credit need for small business loans.

**CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

**Loan-to-Deposit Ratio**

The bank’s Loan-to-Deposit (LTD) ratio is reasonable considering the bank’s size, condition, credit needs, and the level of competition within the AA. The 22-quarter average is 65 percent compared to 69 percent at the last evaluation. The LTD is calculated for the time period of December 31, 2002 to March 31, 2008. We compared the bank’s LTD to six other similarly situated banks. The bank’s LTD is below the overall average of the six banks at 74 percent. However, the bank has the fourth highest LTD of all seven banks. The high and low LTD ranged from 92 to 57 percent.

**Lending in Assessment Area**

Lending in the AA is satisfactory. We used a sample of loans originated from January 1, 2006 to July 22, 2008 to determine the bank’s lending performance with the AA. We reviewed a sample of 20 business loans and 20 consumer loans. The

following table reflects the bank's commitment to meet the credit needs of the AA. We found 85 percent of the loans sampled were within the bank's AA.

<b>Table 1B - Lending in Assessment Area</b>										
Type of Loan	Number of Loans					Dollars of Loans (000's)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Consumer Loans	19	95.00%	1	5.00%	20	\$112	93.14%	\$8	6.86%	\$120
Commercial Loans	15	75.00%	5	25.00%	20	\$2,600	74.98%	\$868	25.02%	\$3,467
Totals	34	85.00%	6	15.00%	40	\$2,711	75.58%	\$876	24.42%	\$3,587

Source: Bank Reports

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

The distribution of loans to businesses of different sizes is satisfactory. The distribution of consumer loans to borrowers of different income levels is also satisfactory. In the consumer sample, the penetration to moderate income level borrowers was below the demographics; however, we noted a higher penetration in the low income levels. When the demographics for low- and moderate-income level borrowers are combined, the bank's performance mirrors demographics. We reviewed a sample of 20 business loans and 20 consumer loans from the AA. All loans in the sample were originated between January 1, 2006 and July 22, 2008.

<b>Table 2A – Borrower Distribution to Businesses in the Assessment Area</b>				
Business Revenues (or Sales)	<= \$1,000,000	> \$1,000,000	Unavailabl e	Total
% of AA Businesses	51.89%	2.60%	45.51%	100.00%
% of Bank Loans in AA by #	85.00%	15.00%	0.00%	100.00%
% of Bank Loans in AA by \$	51.90%	48.10%	0.00%	100.00%

Source: Loan Sample; Dunn and Bradstreet data

<b>Table 2B - Borrower Distribution of Consumer Loans in the Assessment Area</b>									
Borrower Income Level	Low		Moderate		Middle		Upper		Unavailable
	% of AA House- holds	% of Number of Loans	% of AA House- holds	% of Number of Loans	% of AA House- holds	% of Number of Loans	% of AA House- holds	% of Number of Loans	
% of Total	20.32%	30.00%	19.73%	10.00%	21.36%	25.00%	38.59%	30.00%	5.00%

Source: Loan Sample and 2000 U.S. Census data.

**Geographic Distribution of Loans**

The distribution of business and consumer loans to borrowers in different geographies is very good. Our analysis of lending patterns found no conspicuous gaps of lending within the various census tracts making up the AA. There are no low-income tracts located in the AA. Table 3A reflects that the sample exceeds demographics by more than double in lending to businesses in moderate-income tracts.

<b>Table 3A - Geographic Distribution of Commercial Loans in the Assessment Area</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
% of Total	0.00%	0.00%	22.95%	55.00%	69.90%	40.00%	7.16%	5.00%

Source: Bank data and 2000 U.S. Census data.

Table 3B reflects the sample of consumer loans and shows that loans made to moderate-income tracts also exceeds the demographics by 12 percent.

<b>Table 3B - Geographic Distribution of Consumer Loans in the Assessment Area</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
% of Total	0.00%	0.00%	29.78%	42.11%	61.93%	47.37%	8.29%	10.53%

Source: Bank data and 2000 U.S. Census data.

**Responses to Complaints**

FNB has not received any written complaints regarding its CRA performance since the previous CRA examination dated November 4, 2002.

**Fair Lending or Other Illegal Credit Practices Review**

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.

