



SMALL BANK

Comptroller of the Currency
Administrator of National Banks
Washington, DC 20219

PUBLIC DISCLOSURE

August 14, 2006

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The Farmers National Bank of Stafford
Charter Number 8883**

**200 S. Main
Stafford, KS 67578**

**Comptroller of the Currency
Wichita
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.

- The bank's average quarterly loan-to-deposit ratio is adequate. The average quarterly loan-to-deposit ratio since the last CRA examination is 50%, compared to 69% for the six other similarly situated banks with locations in the AA. The bank's loan-to-deposit ratio has lagged other banks in the AA due to a significant amount of public deposits, and the distance from the bank's branches to Hutchinson, KS, the largest city in the AA.
- A majority of The Farmers National Bank of Stafford's primary loan products have been granted in the assessment areas. The loan sample indicates 88% of the loans by number and 73% by dollar volume were granted within the assessment areas.
- The Farmers National Bank of Stafford demonstrated adequate lending to borrowers of different incomes and businesses of different sizes. The volume of lending to businesses of different sizes is adequate. The commercial loan sample indicated 35% of the loans by number were granted to businesses with annual revenues less than one million dollars. The agricultural loan sample indicated that 85% of the number of loans were granted to farms with annual revenues less than one million dollars.
- The bank demonstrated adequate lending to borrowers in different geographic locations. The commercial loan sample indicated that 26% by dollar amount and 15% by number were granted to borrowers located in moderate-income tracts.

DESCRIPTION OF INSTITUTION

The Farmers National Bank of Stafford (Farmers National) is a \$78 million bank, headquartered in Stafford, Kansas. In addition to its main office, the bank has branches in Buhler, Inman, and Bushton, Kansas. The bank operates Automated Teller Machines (ATMs) at the Stafford, Buhler, and Inman branch locations as well as three additional ATMs in Hutchinson, Kansas. Farmers National Bancshares, Inc., a \$6 million one-bank holding company, owns 100% of the bank.

Farmers National is a full-service bank offering a variety of loans. Net loans represent 46% of the bank's total assets. As of June 30, 2006, the bank's \$35 million loan portfolio had the following composition: 48% real estate, 20% commercial, 26% agricultural, and 6% individual loans.

The bank's primary lending products, by number and dollar amount, granted since the last CRA examination were agricultural loans not secured by real estate and commercial loans not secured by real estate.

The bank's financial condition, size, local economic conditions, and other factors allow it to meet the credit needs of its assessment area. We assigned a "Satisfactory" rating at the August 6, 2001 CRA examination.

DESCRIPTION OF ASSESSMENT AREA

The bank's Assessment Area (AA) comprises all of Stafford and Reno counties, and portions of McPherson (census tracts 9883 and 9887) and Rice (census tract 9871) counties. The bank's AA is not in a Metropolitan Statistical Area (MSA). The AA complies with the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income areas. Reno County contains four moderate-income tracts (5, 6, 7 and 8).

The 2005 Housing and Urban Development (HUD) median family income of the AA was \$49,800. The AA has the following income distribution for families: 17% low-income, 20% moderate-income, 25% middle-income, and 38% upper-income. Of the 31,810 households in the AA, 31% receive social security, 11% are below the poverty level, and 3% receive public assistance. Seventeen percent of the population is over the age of sixty-five, and 29% of the population consists of civilians not in the workforce. The median housing value is \$64,261, and 67% of the housing units are owner-occupied. The AA is dependent on agriculture, although Hutchinson, the largest city in the AA, offers some economic diversity in the form of manufacturing, retail and service industries. Major employers include Hutchinson Hospital, Dillons Companies, and the local school districts. The July 2006 unemployment rate for Kansas was 5.0%.

Examiners contacted one community professional in the AA. The contact indicated that Farmers National is extremely involved in the communities in which it serves, and noted that the credit needs of the communities are adequately being met by the local financial institutions. The contact suggested the primary credit needs of the community are related to agriculture, small business, and residential real estate.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

Farmers National's lending level is adequate. The average quarterly loan-to-deposit ratio since the last CRA examination was 50%, as compared to 69% for the six other similarly situated banks with locations in the AA. The average loan-to-deposit ratios for these banks range from 60% to 91%. The bank's loan-to-deposit ratio has historically lagged that of other banks with locations in the AA as the bank has a significant amount of public deposits. As of June 30, 2006, the bank held \$13.6 million in public deposits representing 19% of total deposits. The bank has also seen less agricultural loan demand at the Stafford and Bushton branches which are heavily dependent on agriculture. In addition, half of the comparable banks in the AA are located in Hutchinson, the largest city in the AA, which is a significant distance away from the bank's four locations.

Lending in Assessment Area

Farmers National's level of lending in its AA is good, as it has extended a majority of its primary loans to borrowers in the AA. Specifically, we found the bank made 88% of the number and 73% of the dollar amount of loans in the AA. The sample included forty loans originated, purchased, or committed this year or in the prior two years. The loan sample included twenty loans of each of the two primary products in the bank's AA.

Lending in Farmers National Bank of Stafford's Assessment Area										
	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Total	35	88%	5	12%	40	1,357,334	73%	490,800	27%	1,848,134

Source: Loan sample

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

Farmers National's level of lending to borrowers of different incomes and to businesses of different sizes is adequate. To assess the bank's performance, examiners selected a sample of twenty agriculture loans, and twenty commercial loans from the bank's AA. These loan products represent the primary loan types originated since the last CRA examination.

The bank's lending level to farms of different sizes is adequate. The agricultural loan sample had 85% of the number and 95% dollar amount of loans granted in the AA to farms with revenues less than one million dollars. None of the twenty agricultural loans included in the sample had revenues greater than one million dollars. The demographics indicate 96% of farms in the AA have revenues less than one million dollars.

Borrower Distribution of Loans to Farms in AA				
Farm Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Farms	96%	3%	1%	100%
% of Bank Loans in AA by #	85%	0%	15%	100%
% of Bank Loans in AA by \$	95%	0%	5%	100%

Source: Loan sample and 2006 Business Geodemographic Data

The volume of lending to business of different sizes in the AA is adequate. The commercial loan sample had 35% of the number and 11% dollar amount of loans granted in the AA to businesses with revenues less than one million dollars. The bank also had 50% by number and 52% by dollar amount of loans with unknown or unavailable revenues. The AA demographics indicate 54% of the businesses have gross annual revenues less than one million dollars.

Borrower Distribution of Loans to Businesses in AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	54%	4%	42%	100%
% of Bank Loans in AA by #	35%	15%	50%	100%
% of Bank Loans in AA by \$	11%	37%	52%	100%

Source: Loan sample and 2006 Business Geodemographic Data

Geographic Distribution of Loans

An analysis of the geographic distribution of loans within the AA indicates the bank has adequate penetration of moderate-income areas considering the bank's locations and competition. The bank's AA includes four moderate-income tracts (5, 6, 7, and 8) located in Hutchinson, KS (Reno County). Demographic data indicates that 3% of the total farms (31) and 25% of the total businesses (1,608) in the AA are located in the four moderate-income tracts.

The agricultural loan sample did not include any loans located in the moderate-income areas as only 3% of the total farms in the AA are located in these tracts. The bank would have limited opportunities to lend to these entities in these areas.

Geographic Distribution of Loans to Farms in AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Farms	% of Number of Loans	% of AA Farms	% of Number of Loans	% of AA Farms	% of Number of Loans	% of AA Farms	% of Number of Loans
	0%	0%	3%	0%	75%	65%	22%	35%

Source: Loan sample and 2006 Business Geodemographic Data.

Fifteen percent of the loans in the examiner's commercial loan sample were located in the moderate-income tracts, as compared to 25% of businesses.

Geographic Distribution of Loans to Businesses in AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% 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
	0%	0%	25%	15%	50%	50%	25%	35%

Source: Loan sample and 2006 Business Geodemographic Data..

The bank's penetration in moderate-income areas is adequate given that these tracts are located in Hutchinson, KS. The Hutchinson market is financially competitive and located a significant distance away from the bank's four locations.

Responses to Complaints

Farmer's National has not received any CRA-related complaints since the last CRA examination.

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.