



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

November 24, 2003

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First National Bank Of Kansas
Charter Number 6101**

**600 North Fourth
Burlington, KS 66839**

**Comptroller of the Currency
C. Scott Schainost, Assistant Deputy Comptroller
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 of Kansas ("the bank") is a \$56 million financial institution located in Burlington, Kansas. The bank also has a branch in Waverly, Kansas. Each location has a deposit-taking automated teller machine (ATM). There is also a cash-dispensing ATM at each Casey's General Store in Burlington and New Strawn, Kansas. The bank installed a new cash-dispensing ATM at the Jumpstart convenience store in Burlington in April 2002. The bank has not opened any new branches, or closed any existing branches, since the previous CRA exam. Meader Insurance Agency (MIA), a one-bank holding company, owns 100% of the bank. On June 30, 2003, MIA had total assets of \$6 million.

The bank is a full service financial institution offering a variety of loan products with an emphasis on commercial, agricultural, residential real estate, and consumer loans. On June 30, 2003, net loans represented 42% of total assets. The bank's \$24 million loan portfolio has the following composition: 28% residential real estate; 25% commercial and industrial; 20% agricultural; 16% consumer-purpose; 4% municipal; 4% commercial real estate; and 3% construction and development. In 2002, the bank partnered with the Federal Home Loan Bank (FHLB) of Topeka to offer a Mortgage Partnership Financing (MPF), an affordable residential real estate loan program. The loans are funded by FHLB and are not included in the bank's loan portfolio figures. The bank has not changed any existing loan products since the previous CRA examination. Examiners determined the primary loan products, based on the number and the dollar volume of loans granted between September 22, 1999, and December 31, 2002, were consumer automobile loans and commercial loans.

The bank's financial condition, size, local economic conditions, and other factors allow it to help meet the credit needs of its assessment area. At the September 21, 1999, CRA examination, examiners assigned a "Satisfactory" rating.

DESCRIPTION OF ASSESSMENT AREA

The bank's assessment area (AA) is Coffey County, Kansas. The AA contains three middle-income block-numbering areas (BNAs). The AA complies with regulation and does not arbitrarily exclude any low- or moderate-income areas. Coffey County is not part of a Metropolitan Statistical Area (MSA). The 1990 census data shows the AA has a population of 8,404. Burlington is the county seat, accounting for approximately 31% of the county's population. The Kansas statewide non-MSA median family income for 2002 is \$44,200. The income distribution for families in the AA is 17% low-income, 19% moderate-income, 25% middle-income, and 39% upper-income.

Five other banks and several other financial institutions in the AA provide competition. The asset sizes for these banks range from \$18 million to \$103 million. With 20% of the area's deposits, the bank ranks third in deposit market share.

The local economy is primarily dependent on Wolf Creek Nuclear Power Plant (Wolf Creek) in

Burlington. Wolf Creek employs approximately 1,000 people with wages averaging around \$60 thousand. About 50% of Wolf Creek's employees reside in the AA and that has spurred some growth in commercial and consumer businesses, including retail and service businesses. Agriculture provides a secondary source of income for an increasing number of people in the area. Overall, the local economy is fairly stable. The Coffey County unemployment rate for October 2003 is 5% compared with 6% nationwide.

Examiners made one community contact with a local economic development corporation in the AA. The contact identified commercial loans and consumer loans as two of the area's primary credit needs. The contact stated that area banks are meeting these needs.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The bank's level of lending is satisfactory. The quarterly average loan-to-deposit (LTD) ratio over the past 16 quarters ending June 30, 2003, is 62% compared with 74% for peer banks. For peer banks, examiners analyzed the ratios for the group of five banks noted above in the description of the bank's AA. The ratios for the peer banks range from 45% to 86%. Although the LTD is below peer, the bank has a large amount of public funds. These public funds require investment securities to be pledged as collateral. Therefore, the public funds are not available to fund the credit needs of the AA. The bank's quarterly average LTD ratio, excluding the public funds, is 77%. In addition, residential real estate loans originated in 2002 through the MPF program noted in the description of institution are not reflected in the bank's LTD figures.

Lending in Assessment Area

The bank's lending in its AA is satisfactory. The bank extends 83% of the number and 40% of the dollar amount of the primary loan products in the AA. The percentage by the dollar amount is skewed due to one large commercial loan to a borrower outside the AA. That loan accounts for 57% of the dollar amount of loans in the sample. To determine the level of lending in the AA, examiners selected a sample of 20 consumer automobile loans and 20 commercial loans granted between September 22, 1999, and December 31, 2002.

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

The level of lending to individuals of different incomes and businesses of different sizes is satisfactory. Examiners utilized the sample described above of the bank's primary loan products to assess performance in this area. The community contact also identified consumer loans and commercial loans as two of the area's primary credit needs.

The bank's lending to borrowers of different incomes is satisfactory. Lending to low-income borrowers is low, but considered adequate because of mitigating circumstances. Examiners' sample shows 10% of the consumer automobile loan sample was granted to low-income borrowers, which is well below household demographics of 22%. The community contact stated low-income borrowers are concentrated more within LeRoy and Gridley communities, which are farther away from the bank's offices in Burlington and Waverly. Competing banks with offices in closer proximity to the low-income borrowers serve the LeRoy and Gridley communities. The distance and the presence of competing banks mitigate the low performance. Lending to moderate-income borrowers, representing 30% of the examiners' sample, is well above the demographics of 13%. This is considered excellent performance.

Lending to businesses of different sizes is excellent. All of the commercial loans in the examiners' sample were granted to businesses with annual gross revenues of \$1 million, or less. The bank's performance significantly exceeds the Dun & Bradstreet 2002 demographic data, which shows 71% of businesses in the AA have annual gross revenue of \$1 million, or less. Further breakdown of the sample shows 80% of the loans were to businesses with annual gross revenues of less than \$250 thousand and 50% to businesses with annual gross revenues under \$100 thousand.

Geographic Distribution of Loans

The bank's AA does not contain any low- or moderate-income tracts; therefore, a geographic analysis would not be meaningful.

Responses to Complaints

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

Fair Lending or Other Illegal Credit Practices Review

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