



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

January 04, 2010

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Farmers National Bank
Charter Number 11933

759 State Street
Phillipsburg, KS 67661-0000

Office of the Comptroller of the Currency

KANSAS CITY NORTH Field Office
7101 College Boulevard Suite 1600
Overland Park, KS. 66210

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 majority of loans by number and dollar are made to borrowers within the bank's Assessment Area (AA).
- The Farmers National Bank (FNB) of Phillipsburg has a good record of lending to farm operators of different revenue levels and sizes.
- The bank's level of consumer lending to borrowers of different incomes is reasonable.

SCOPE OF EXAMINATION

We performed a full-scope evaluation of the Farmers National Bank in Phillipsburg's AA using small bank Community Reinvestment Act (CRA) Procedures.

Management has not changed the type of loan products they offer since the last CRA examination. We based our review on the number and dollar volume of loans originated and purchased from March 30, 2004 through January 4, 2010.

DESCRIPTION OF INSTITUTION

FNB is an \$87 million full-service financial institution located in Phillipsburg, Kansas. The main office and holding company are located in Phillips County, Kansas. Branches are located in Agra and Logan in Phillips County, Kansas and Kensington in Smith County, Kansas. One branch was opened in Stockton in Rooks County, Kansas in 2006. There are two automated teller machines, one at the main facility and one at the Stockton branch.

FNB offers traditional loan products with an emphasis on agricultural and consumer loans. Net loans represented 63 percent of total assets as September 30, 2009. The primary loan products in dollars are agricultural loans and commercial loans and in number are consumer loans and agricultural loans. Based on this information, we analyzed agricultural and consumer loans to assess CRA performance.

There are no legal or financial constraints that impede the bank's CRA efforts. The last CRA examination dated March 8, 2004 rated performance as "Satisfactory". Refer to the CRA Public File for more information

DESCRIPTION OF ASSESSMENT AREA(S)

FNB designated one AA comprised of Census Tracts (CT) 9751, 9752 and 9753 in Phillips County, CT 9759 in Smith County, and CT 9746 in Rooks County. All the CTs are designated middle-income and are non-MSA counties in Kansas. The AA meets the requirements of CRA regulations and does not arbitrarily exclude low- or moderate- income geographies. There are competitors with offices or branches in the AA.

Farming and agricultural service industries are the economic base for the AA. The overall economic condition of the AA is stable due to good crop yields and agricultural prices. The percentage of households living below the poverty level is 12 percent. Residents receiving public assistance equals 1.75 percent and 14 percent are retired. Employment growth for the AA is negative, but the civilian unemployment rate is still low at 2.66 percent compared to 4.20 percent for the state. The updated HUD, non-MSA, median family income is \$32,842. There are no low- or moderate-income tracts in the AA, but low and moderate-income families represent 20 percent and 21 percent, respectively, of the AA's population.

During the evaluation, we made one community contact with a local non-profit organization. According to our contact, the banks in the AA are meeting the credit needs in the area and are active in the community.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

Lending levels are satisfactory given the lending opportunities available with the AA. The quarterly average loan-to-deposit (LTD) ratio since the last CRA evaluation is 67.56 percent. This compares reasonably to the quarterly average of six nearby competitors at 66.98 percent. The average LTD ratios of the peer banks ranged from 48.81 percent to 107.07 percent.

Lending in Assessment Area

FNB's record of lending within its AA is good. Within our loan sample, management originated the majority of primary loan products, both by number and dollar amount, within its AA. The following table details the agricultural and consumer loans extended inside and outside the bank's AA by number and dollar volume of loans originated.

Table 1 - Lending in Assessment Area										
Type of Loan	Number of Loans					Dollars of Loans (000's)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Consumer Loans	18	90.00%	2	10.00%	20	\$186	89.84%	\$21	10.16%	\$207
Agricultural Loans	19	95.00%	1	5.00%	20	\$694	99.36%	\$5	0.64%	\$699
Totals	37	92.50%	3	7.50%	40	\$880	97.20%	\$26	2.87%	\$905

Source: Sample of Loans

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

FNB has a reasonable record of lending to farm operators of different revenue levels and sizes. We selected a sample of 20 agricultural borrowers to assess performance. All of the borrowers have revenues under \$1 million with 26.32 percent in the \$1 to \$25,000 loan size. This level compares favorably to business demographic data included in the 2000 U.S. Census reports. The tables below provide specific details.

Table 2A - Borrower Distribution to Farms by Gross Revenue in Phillipsburg AA				
Business Revenues (or Sales)	<= \$1,000,000	> \$1,000,000	Unavailable	Total
% of AA Farms	332	5	0	100.00%
% of Bank Loans in AA by #	100.00%	0.00%	0.00%	100.00%
% of Bank Loans in AA by \$	100.00%	0.00%	0.00%	100.00%

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

Table 2C - Borrower Distribution of Loans to Farms by Loan Size in Phillipsburg AA				
Loan Size	Number of Loans	Percent of Number	Dollar Volume of Loans	% of Dollars
25,000	12	57.14%	182,706	26.32%
25,001 - 50,000	4	19.05%	157,000	22.62%
50,001 - 75,000	3	14.29%	180,826	26.05%
75,000 - 100,000	2	9.52%	173,672	25.02%
Total	21	100.00%	694,204	100.00%

Source: Loan Sample

Lending to low- and moderate-income consumers is reasonable and comparable to demographics. The AA demographics reflect that 23.21 percent of households are low-income and 15 percent of the loans in our sample were made to low-income borrowers. Lending to moderate-income borrowers is comparable to demographics as 18.82 percent of households are moderate-income and 15 percent of our consumer loan sample was made to moderate-income households. Although the number of loans is slightly lower than area demographics, performance is reasonable given the AA's size, small population (10,844 people) and number of

competitors.

Table 2B - Borrower Distribution of Consumer Loans in Phillipsburg AA									
Borrower Income Level	Low		Moderate		Middle		Upper		Unavailable
	% 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 Number of Loans
% of Total	23.21%	15.00%	18.82%	15.00%	19.73%	20.00%	38.24%	50.00%	0.00%

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

Geographic Distribution of Loans

Since all census tracts in the AA are designated as middle-income geographies, a geographic analysis would not be meaningful.

Responses to Complaints

FNB has not received any written complaints regarding its CRA performance during the evaluation period.

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.”