



PUBLIC DISCLOSURE

May 06, 2013

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The First National Bank of Howard
Charter Number 3242

101 S. Wabash Street
Howard, KS 67349

Office of the Comptroller of the Currency

2959 N. Rock Road, Suite 510
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.

This institution is rated SATISFACTORY

- First National Bank of Howard's (First National) average loan-to-deposit (LTD) ratio of 55% reflects reasonable responsiveness to the credit needs of the assessment area (AA).
- The bank granted a majority of the primary loan products in the AA. The sample indicated that management granted 60% of the number and 81% of the dollar volume of loans within the AA.
- First National achieved excellent penetration in lending to small farms. One hundred percent of the number of sampled agricultural loans were to farms with revenues less than or equal to one million dollars.

SCOPE OF EXAMINATION

The examination included a full-scope review of First National's AA. The bank's primary loan product is agricultural loans. The evaluation of this lending product included a review of all agricultural loans originated in the bank's AA during 2010 and 2011. The bank's business strategy has not changed. Therefore, the loans granted during these years are representative of all loans granted since the October 16, 2006, Community Reinvestment Act (CRA) examination.

DESCRIPTION OF INSTITUTION

The First National Bank of Howard is an \$8 million bank headquartered in Howard, Kansas. The bank is 100% owned by First Howard Bancshares Inc., a one-bank holding company. The bank does not have any branches or automated teller machines.

First National is a full-service banking institution offering a full range of commercial, real estate, and consumer credit products. As of March 31, 2013, net loans represented 29% of the bank's total assets. The \$2.7 million loan portfolio had the following composition: agricultural 78%; commercial 4%; 1-4 family real estate 14%; and consumer loans 4%.

There are no legal, financial, or other factors impeding the bank's ability to help meet the needs of its AA. We assigned a "Satisfactory" rating at the October 16, 2006, CRA examination.

DESCRIPTION OF ASSESSMENT AREA

First National Bank of Howard's AA includes all of Elk County, Kansas. The AA is comprised of one middle-income census tract (9951). The bank's AA is not in a Metropolitan Statistical Area (MSA). The AA complies with the requirements of the regulation.

Elk County is located in Southeastern Kansas. The county is in a remote rural location and was designated as underserved for both 2010 and 2011. The updated 2000 U.S. Census population of the AA is 3,621. The Housing and Urban Development Updated 2011 MSA Median Family Income is \$53,700. The AA has the following distribution for families: 26% low-income; 24% moderate-income; 23% middle-income; and 27% upper-income. Of the 1,418 households in the AA, 46% receive social security, 15% are below the poverty level, and 3% receive public assistance. Twenty-five percent of the population is over the age of 65 and 48% of the population consists of civilians not in the workforce. The updated median housing value is \$31,000 and 61% of the housing units are owner-occupied.

The economic condition of the AA is stable; however, the unemployment rate is moderate compared to the State of Kansas. The Bureau of Labor Statistics reflects a March 2013 unemployment rate for Elk County of 7.0%. The unemployment rate in Kansas for the same period was 5.6%. The bank's trade area is dominated by agriculture, primarily cattle and grain. Major employers of the area include the West Elk and Elk Valley school districts and Howard Twilight Manor.

First National Bank of Howard faces strong competition in the AA. Based on the Federal Deposit Insurance Corporation's most recent deposit market share report dated June 30, 2012, two other financial institutions maintain a total of three offices in the AA. The bank also faces competition from banks outside the AA. Management considers these institutions to be strong competitors due to their geographic proximity and similar lines of business. With 15% of the deposits in the AA, First National ranks last in deposit market share.

Examiners contacted two community professionals in the AA. Both indicated the primary credit needs of the AA are agricultural and various types of consumer loans. Both contacts stated local financial institutions are meeting the credit needs of the AA.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

First National's average quarterly LTD ratio of 55% is satisfactory. The LTD ratio ranged between 32% and 72% for the period under review. The average quarterly LTD ratio over the same period for the bank's competitors was 73%, with ratios ranging from 63% to 82%.

Lending in Assessment Area

First National’s lending to agricultural borrowers within the AA is satisfactory. The bank extended a majority of its primary loan product to borrowers in the AA. Specifically, the bank made 60% of the number and 81% of the dollar amount of loans in the AA.

Lending to Farms of Different Sizes

First National Bank of Howard’s distribution of loans to farms of different sizes is outstanding. Examiners considered all of the agricultural loans originated in the AA during the evaluation period. One hundred percent of these loans were made to farms with revenues equal to or less than a million dollars. This level reflects performance above the demographic data of 98%. Using loan size as a proxy for small farms, 50% of the number of loans originated were \$25,000 or less.

| Borrower Distribution of Loans to Farms in Elk County AA | | | | |
|---|--------------|--------------|-------------------------|-------|
| Farm Revenues (or Sales) | ≤\$1,000,000 | >\$1,000,000 | Unavailable/ Unknown | Total |
| % of AA Farms | 98% | 2% | 0% | 100% |
| % of Bank Loans in AA by # | 100% | 0% | 0% | 100% |
| % of Bank Loans in AA by \$ | 100% | % | 0% | 100% |

Source: Loan sample and 2000 Census business demographics

Geographic Distribution of Loans

An analysis of the geographic distribution of loans originated in the AA during the evaluation period would not be meaningful. The AA does not contain low- or moderate-income tracts.

Responses to Complaints

First National Bank of Howard has not received any CRA-related complaints since the last CRA examination.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. 25.28(c), or 12 C.F.R. 195.28(c), in determining a national bank’s (bank) or Federal savings association’s (FSA) CRA rating, respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or FSA, or in any AA by an affiliate whose loans have been considered as part of the bank’s or FSA’s lending performance.

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