



PUBLIC DISCLOSURE

June 16, 2014

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The First National Bank of Liberal
Charter Number 6720

1700 North Lincoln Avenue
Liberal, KS 67901

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.

INSTITUTION'S CRA RATING: This institution is rated Satisfactory

- The First National Bank of Liberal's (FNB) quarterly average loan-to-deposit (LTD) ratio is reasonable. The quarterly average LTD ratio since the previous Community Reinvestment Act (CRA) examination is 58 percent. This is comparable to the 57 percent quarterly average LTD ratio for seven peer institutions in the assessment area (AA).
- FNB granted a majority of its primary loan products to borrowers in the AA. The loan sample indicates that FNB granted 78 percent of the loans by number and 65 percent of the loans by dollar volume within the AA.
- FNB demonstrates excellent penetration in lending to farms and businesses of different sizes. FNB achieved reasonable penetration for loans to farms and excellent penetration to businesses.
- FNB demonstrates reasonable dispersion in lending to farms and businesses in different geographies. The geographic distribution of agricultural loans is reasonable, given that all moderate-income census tracts (CT) are located within the city of Liberal. The geographic distribution of commercial loans is reasonable.

SCOPE OF EXAMINATION

This examination included a full-scope review of FNB's single AA. Examiners identified agricultural and commercial loans as the primary loan products granted since the October 21, 2008 CRA examination. Our evaluation included a review of 20 agricultural and 20 commercial loans originated or purchased from January 1, 2012 to March 31, 2014. FNB's business strategy has not changed; therefore, the loans granted during this performance period are representative of all loans granted since the previous CRA examination.

DESCRIPTION OF INSTITUTION

FNB is a \$292 million bank, headquartered in Liberal, Kansas. In addition to the main office, FNB has three branch locations and eight ATMs in Liberal. Two of the ATMs in Liberal accept deposits, while the remaining six are cash dispensing only. The 2010 U.S. Census data added a second moderate-income tract in the city of Liberal. As a result, FNB now has two branch offices and one ATM with deposit taking services located in the moderate-income tracts. There is also one branch location and two cash dispensing ATMs in Hugoton, Kansas.

Kansas Bank Corporation, a one-bank holding company as of January 1, 2013, owns 100 percent of FNB. The holding company reported total assets of \$26 million as of March 31, 2014.

FNB is a full-service bank offering a variety of loan and deposit products. As of March 31, 2014, net loans represent 47 percent of average assets. The \$135 million loan portfolio has the following composition: 60 percent real estate; 17 percent commercial; 11 percent agricultural; and six percent individual. All other loans and lease financing receivables comprise the remaining six percent.

The primary lending products granted since the previous CRA examination by dollar volume are commercial and agricultural loans. Commercial loans account for 30 percent of the total number of loans and 49 percent of the dollar volume originated or purchased during the assessment period. Agricultural loans account for 18 percent of the total number of loans and 38 percent of the dollar volume originated or purchased during that same period.

Local economic conditions and FNB's size and financial condition allow it to meet the credit needs of the assessment area. We assigned a "Satisfactory" rating at the October 21, 2008 CRA examination.

DESCRIPTION OF ASSESSMENT AREA(S)

FNB has designated one AA that includes all of Seward, Stevens, Meade, and Stanton counties in Kansas. The AA is not in a Metropolitan Statistical Area. The AA encompasses one upper- (9657), seven middle- (9641, 9651, 9652, 9656, 9658, 9666, 9667), and two moderate-income (9659, 9660) census tracts. The AA complies with the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income areas. Meade County was identified as a rural underserved middle-income non-metropolitan tract in both 2012 and 2013.

The 2010 U.S. Census population of the AA was 35,486. The 2014 Weighted Average of Housing and Urban Development Updated MSA Median Family Income was \$52,419. Of the 12,031 AA households, 25 percent receive social security, 14 percent have income below the poverty level, and 2 percent receive public assistance. Approximately 10 percent of the population is over the age of 65 and 31 percent of the population consists of civilians not in the workforce. Based on the updated 2010 U.S. Census data, the median housing value is \$79,283 and 61 percent of the units are owner-occupied.

The AA economy is dependent on agricultural production. Major employers in the area include National Beef, Unified School District 480, and Southwest Medical Center. In addition, oil and natural gas production benefits the local economy. The U.S. Bureau of Labor Statistics reports a March 2014 unemployment rate of 4.9 percent for the state of Kansas. March 2014 unemployment rates for Seward, Stevens, Meade, and Stanton counties were 3.8, 3.9, 3.3, and 3.5 percent, respectively.

FNB faces strong lending competition within the AA. Based on the Federal Deposit Insurance Corporation's (FDIC) most recent deposit market share report, dated June 30, 2013, 10 other institutions maintain 13 offices in the AA. FNB is competitive in the

AA and ranks first in deposit market share with 28 percent of the AA deposits. The next closest competitor has 14 percent of the deposit market share. The top four banks retain 64 percent of all AA deposits.

Examiners contacted one community professional in the AA. The contact indicated that the primary credit needs within the AA are commercial loans, with more emphasis placed on mortgage lending as housing becomes available. The contact stated that all local financial institutions help to meet the credit needs of the community and are actively involved with community activities. Specifically, the contact noted FNB's organizational and staff commitment to community involvement.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

FNB's level of lending is reasonable. The average quarterly LTD ratio since the last CRA examination is 58 percent. The quarterly LTD ratio fluctuated between 52 and 66 percent for the period under review. The seven largest competitors in the AA by market share had an average quarterly LTD ratio of 57 percent over the same period. The average quarterly LTD ratios for peer banks fluctuated between 44 and 73 percent.

Lending in Assessment Area

FNB extended a majority of the primary loan products to borrowers inside the AA. Specifically, we found that the bank granted 78 percent of the total number of loans and 65 of the dollar volume of loans in the sample to borrowers within the AA. The loan sample included 20 agricultural and 20 commercial loans originated or purchased from January 1, 2012 to March 31, 2014.

Lending to Farms and Businesses of Different Sizes

FNB demonstrated excellent penetration to farms and businesses of different sizes.

Agricultural lending to farms with revenues less than or equal to \$1 million is reasonable. The loan sample reflected that the bank granted 95 percent of the number and 98 percent of the dollar volume of loans to farms with annual revenues less than or equal to \$1 million. This is near the census demographic, which indicates farms of this size represent 97 percent of all farms within the AA.

Borrower Distribution of Loans to Farms in Seward-Stevens-Meade-Stanton AA				
Farm Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Farms	97%	2%	1%	100%
% of Bank Loans in AA by #	95%	5%	0%	100%
% of Bank Loans in AA by \$	98%	2%	0%	100%

Source: Agricultural loan Sample and 2010 U.S. Census data

Commercial lending to businesses with revenues less than or equal to \$1 million reflects excellent penetration. The loan sample reflected that the bank granted 85 percent of the number and 91 percent of the dollar volume of loans to businesses with annual revenues less than or equal to \$1 million. This is significantly above the census data, which reflects that businesses of this size represent 69 percent of all businesses within the AA. However, census revenue information was unavailable for 27 percent of businesses in the AA.

Borrower Distribution of Loans to Businesses in Seward-Stevens-Meade-Stanton AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Business	69%	4%	27%	100%
% of Bank Loans in AA by #	85%	10%	5%	100%
% of Bank Loans in AA by \$	91%	5%	4%	100%

Source: Business loan Sample and 2010 U.S. Census data

Geographic Distribution of Loans

FNB’s dispersion of agricultural and commercial loans in the AA is reasonable.

The AA contains two moderate-income CTs (9659, 9660) located in Liberal, Kansas. FNB did not grant any of the loans in the agricultural sample to farms in the moderate-income census tracts. However, opportunities to make agricultural loans in the moderate-income tracts are limited as both of these CTs are within Liberal city limits. This is reflective of the demographic data, as just three percent of farms in the AA are within the moderate-income CTs.

Geographic Distribution of Loans to Farms in Seward-Stevens-Meade-Stanton AA								
CT 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
Farm Loans	0%	0%	3%	0%	93%	100%	4%	0%

Source: Agricultural loan Sample and 2010 U.S. Census data

FNB granted 25 percent of the loans in the commercial sample to borrowers in the moderate-income CTs. This is near the AA demographics as 27 percent of businesses within the AA are located in the moderate-income CTs.

Geographic Distribution of Loans to Businesses in Seward-Stevens-Meade-Stanton AA								
CT 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
Business Loans	0%	0%	27%	25%	57%	50%	16%	25%

Source: Business loan Sample and 2010 U.S. Census data

Responses to Complaints

FNB 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 the community credit needs.