



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

May 10, 2002

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The First National Bank of Howard
Charter Number 3242**

**101 S. Wabash
Howard, KS 67349**

**Comptroller of the Currency
Wichita Field Office
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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.

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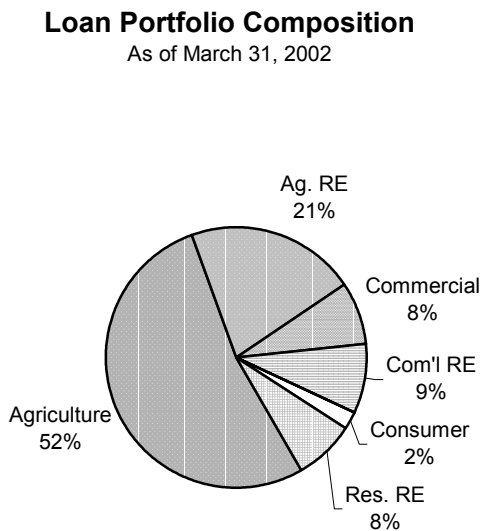
INSTITUTION'S CRA RATING

This institution is rated Satisfactory.

- First National Bank of Howard's average quarterly loan-to-deposit ratio is satisfactory. The bank's average quarterly loan-to-deposit ratio is 54% compared to 79% for the other two banks headquartered in the assessment area.
- A majority of the bank's primary loan products have been granted to borrowers in the assessment area. Examiners' loan sample indicated that 63% of the number and 55% of the dollar volume of the loans were made in the assessment area.
- The bank's lending to businesses of different sizes is satisfactory. Management granted 70% of the number of new agricultural loans and 95% of the number of new commercial loans since last CRA exam to smaller farms and businesses.

DESCRIPTION OF INSTITUTION

The First National Bank of Howard (FNB), a \$7.8 million financial institution, is one of three banks headquartered in the bank's assessment area. FNB is located in Howard, Kansas. It does not have any branches. Howard Bankshares, Inc., a two-bank holding company in Howard, Kansas, owns 90% of FNB's common stock. FNB is a full service bank and offers a variety of loan products. Agricultural and commercial loans have been the primary products for the bank since the last CRA examination. As of March 31, 2002, agricultural loans and farm real estate loans accounted for 52% and 21% of the bank's \$3.6 million loan portfolio, respectively. Commercial operating and business properties comprise 17% of the portfolio value. Consumer loans and residential real estate comprise the remaining 10% of the loan portfolio value; however, they represent 24% of the number of loans in the portfolio. Net loans represent 46% of December 31, 2001, average assets.



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The bank's financial condition, size, local economic conditions, and other factors, allow it to help meet the credit needs of its assessment area. The bank has not opened or closed any

branches since the prior CRA examination. At the previous CRA examination dated December 5, 1997, FNB received a “Satisfactory” rating.

DESCRIPTION OF ASSESSMENT AREA

The bank’s assessment area is all of Elk County. The block numbering area (BNA) is 9951. The BNA is a middle-income tract. The assessment area complies with the regulation and does not arbitrarily exclude any low- or moderate-income areas.

The assessment area is located in southeast Kansas. The assessment area, Elk County, has a combined population of approximately 3,250. Howard, the county seat, has a population of approximately 800. Of all the households in the assessment area, the 1990 United States Census indicates that 34% are low-income, 17% are moderate-income, 16% are middle-income, and 33% are upper-income. Other demographics reflect 20% of total households below the poverty level, 52% receive social security, 7% receive public assistance, and 30% of the population is over the age of 65. The Kansas 2001 statewide non-metropolitan median family income is \$43,200. The median housing value is \$15 thousand and 66% of the housing units are owner-occupied.

The local economy is dominated by agriculture, primarily cattle. Oil and gas production is also important to the area economy. Major employers in the area continue to be Elk County, the school districts, and the various cities. Area economics remain stable and for Howard, have shown improvement. The Howard community has enjoyed the influx of ten new retail or service operations since the prior CRA examination. Unemployment rates for Kansas and Oklahoma for 2001 were 4.3% and 3.8%, respectively.

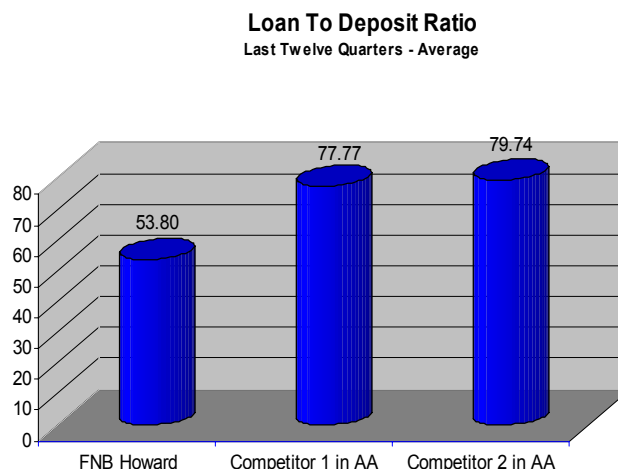
Competition in the assessment area is moderate. FNB has the smallest deposit base of the three banks in the area (\$41 million, \$33 million, and FNB of \$6 million) and claims 19% of the market share. Both competitors have multiple locations, some of which are located outside the assessment area.

Examiners contacted one community professional. The contact indicated the credit needs of the community were agricultural and business operating funding. The contact revealed no unmet needs or discriminatory practices within the assessment area.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

FNB's level of lending is satisfactory compared to other banks in the assessment area. The bank has increased its loan-to-deposit ratio from 35% at December 31, 1999, to 70% as of March 31, 2002. During the last twelve quarters ending March 31, 2002, the bank's average loan-to-deposit ratio is 54%. This compares to the average loan to deposit ratio of 79% for the other two banks headquartered within the assessment area. FNB's competitors have multiple locations, some of which are located outside the assessment area.



Lending in Assessment Area

FNB's lending in its assessment area is satisfactory as it extended a majority of its primary loan products in its assessment area. To determine the distribution, we selected a sample of 40 loans granted since the last CRA examination. The sample consisted of 20 agricultural loans and 20 commercial loans. Based on the sample, the bank made 63% of the total number and 55% of the total dollar volume of sample loans to customers within the assessment area.

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

The bank's lending distribution to business of different sizes is satisfactory. Consumer lending and residential real estate were not evaluated for lending to borrowers of different incomes, as these were not primary products of the bank.

For agricultural and commercial loans, the bank's primary lines of business, we reviewed a sample of 20 loans from each line to determine whether the bank has reasonable penetration of smaller businesses in their assessment area. The bank does not consistently collect sales or gross revenue information on agricultural or commercial loans, so we utilized loan size as a proxy.

As shown in the table below, management granted 70% of the number of new agricultural loans since last CRA examination to smaller farms. This correlates well with demographics from the 1997 Census of Agriculture for Elk County, which reports 87% of farms are small, having annual sales of less than \$100 thousand.

Sample of Agriculture Loans Granted Since Last CRA Examination			
Loan Size	Number	Percentage of Number of Loans	Percentage of Dollar Amount of Loans
Less than \$25,000	14	70%	9%
\$25,000 to \$49,999	3	15%	20%
\$50,000 to \$74,999	0	0%	0%
\$75,000 to \$99,999	1	5%	17%
\$100,000 and up	2	10%	53%
Total	20	100%	100%

For commercial loans, management granted 95% of the number of new loans since the last CRA examination to smaller businesses. This level of distribution correlates well with the 2001 Business Geodemographic Data, which reports 94% of businesses in the area are small, having annual revenues of less than \$1 million.

Sample of Commercial Loans Granted Since Last CRA Examination			
Loan Size	Number	Percentage of Number of Loans	Percentage of Dollar Amount of Loans
Less than \$25,000	19	95%	56%
\$25,000 to \$49,999	0	0%	0%
\$50,000 to \$74,999	0	0%	0%
\$75,000 to \$99,999	1	5%	44%
\$100,000 and up	0	0%	0%
Total	20	100%	100%

Geographic Distribution of Loans

An analysis of the distribution of credit within the assessment area would not be meaningful, as the assessment area is comprised of one middle-income BNA.

Responses to Complaints

The bank received no CRA-related complaints since the previous CRA examination.

Fair Lending Review

An analysis of 1997, 1998, 1999, 2000, and 2001 public comments and consumer complaint information was performed according to the OCC's risk-based fair lending approach. Based on its analysis of the information, the OCC decided that a comprehensive fair lending examination would not need to be conducted in connection with the CRA evaluation this year. The latest comprehensive fair lending exam was performed in 1997.