



INTERMEDIATE SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

November 26, 2012

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The Farmers National Bank of Buhl
Charter Number 11076

914 Main Street
Buhl, ID 83316

Office of the Comptroller of the Currency

Salt Lake City Field Office
2795 E. Cottonwood Parkway, Suite 390
Salt Lake City, UT 84121

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 Lending Test is rated: Satisfactory.

The Community Development Test is rated: Satisfactory.

The major factors to support Farmers National Bank of Buhl's (FNBB) rating are:

- The loan-to-deposit (LTD) ratio is reasonable.
- A majority of all loans sampled were originated inside the assessment area (AA).
- Lending to borrowers of different income levels and businesses of different sizes reflects reasonable penetration.
- Lending to borrowers in different geographies of different income levels reflects adequate dispersion.
- The institution has demonstrated reasonable responsiveness to the community development needs in the AA.

Scope of Examination

This Performance Evaluation of FNBB assesses the bank's record of meeting the credit needs of the communities in which it operates. We evaluated FNBB's Community Reinvestment Act (CRA) performance under the Lending Test and Community Development Test (CD) using Intermediate Small Bank CRA procedures. This evaluation covers the period from the date of the previous CRA examination, May 18, 2009, through November 26, 2012.

Under the lending test, we reviewed a sample of primary loan products and reviewed the LTD ratio to conclude on the amount of lending in the assessment area, the volume of lending to farms and businesses of different sizes, and the dispersion of lending in different geographies. The evaluation period for the lending test covers loans originated from January 1, 2010 through November 26, 2012. For the purposes of the evaluation, the primary loan types are agricultural loans and business loans. These loan products represent 86 percent by dollar volume and 64 percent by number of loans originated during the evaluation period. The following table shows the volume of loans originated during the evaluation period.

Loan Type	% by Dollars of Loans Originated/Purchased during evaluation period	% by Number of Loans Originated/Purchased during evaluation period
Agricultural Loans	57%	37%
Business Loans	29%	27%
Residential Real Estate Loans	11%	5%
Consumer Loans	3%	31%
Total	100%	100%

Under the CD test, we reviewed CD loans, investments, and services from January 1, 2010 through November 26, 2012, to determine if the CD activities met the needs of the community and the definition of 12 C.F.R. § 25.12.

Description of Institution

FNBB is a community bank headquartered in Buhl, Idaho. FNBB is 100 percent owned by Farmers Bancorporation. The bank operates a total of six branches in Buhl, Jerome, Twin Falls, and Wendell, Idaho. Each of the six branches provides an ATM and a drive-up window.

As of September 30, 2012, FNBB had total assets of \$373 million, with net loans representing 46 percent of total assets. The bank's current primary focus is agriculture and commercial lending. By dollar amount, the loan portfolio consisted of 44 percent real estate loans, 31 percent agricultural loans, 21 percent business loans, and 4 percent consumer loans.

There were no acquisition or merger activities during the evaluation period. FNBB's ability to lend in its AA has been impacted by the terms of a formal enforcement action with its primary regulatory agency. The prior CRA Performance Evaluation dated May 18, 2009, resulted in a "Satisfactory" rating.

FNBB is responsive to the needs of the communities it serves as identified through a community contact. Our community contact outreach discussion was held with a local economic development organization that serves the institution's AA. The contact indicated that the local economy is steady and that unemployment rates have decreased slightly. The contact stated that financial institutions are meeting the credit needs of the community. The community contact identified the need for affordable housing in the community; however, the contact indicated that he believes banks are willing to assist with this need.

Please refer to the bank's *CRA Public File* for more information.

Description of Assessment Area

FNBB's AA includes all of Twin Falls County, most of Jerome County, and the southern part of Gooding County. The assessment area consists of three moderate-income census tracts (CTs), sixteen middle-income CTs, and two upper-income CTs. The AA is contiguous, meets the requirements of the regulation, and does not arbitrarily exclude low- or moderate-income geographies.

Competition from other financial institutions is strong. According to the FDIC insured Institutions Deposit Market Share Report, 12 financial institutions have a presence in the AA, with 47 offices throughout FNBB's AA. FDIC market shared data as of June 31, 2012 indicates FNBB's statewide deposits total \$309 million, which equates to a 20 percent market share.

According to 2000 U.S. Census Data, the total population of this AA is 96,781. Approximately 10 percent of the families were classified as moderate income, 78 percent as middle-income, and 12 percent as upper-income. The 2010 U.S. Census Data indicates 12 percent of families in this AA live below the poverty level. Business Geodemographic Data for 2011 shows 1,132 farms in the AA: 1,051 (93 percent) have revenues of \$1 million or less, 56 (5 percent) have revenues over \$1 million, and 25 (2 percent) did not report revenues. Geodemographic Data shows 11,196 businesses in the AA: 8,115 (72 percent) have revenues of \$1 million or less, 285 (3 percent) have revenues over \$1 million, and 2,796 (25 percent) did not report revenues.

Conclusions with Respect to Performance Tests

LENDING TEST

Lending in Assessment Area

A majority of loans by number and dollar volume are originated within the bank's AA based on our sample. Approximately 87 percent by number and 66 percent by dollar volume were made to borrowers within the bank's AA during the evaluation period. The following table shows loans originated inside the AA by number and dollar volume.

Lending in FNBB's AA										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Agricultural Loans	19	83%	4	17%	23	\$1,505,143	58%	\$1,084,795	42%	\$2,589,938
Business Loans	20	91%	2	9%	22	\$746,627	89%	\$89,323	11%	\$835,950
Total	39	87%	6	13%	44	\$2,251,770	66%	\$1,174,118	34%	\$3,425,888

Source: Loan Sample

Loan-to-Deposit Ratio

FNBB's average LTD ratio is reasonable given the bank's size, financial condition, and the AA's credit needs. As of September 30, 2012, FNBB's LTD ratio is 54 percent. Over the last 14 quarters, the banks' quarterly average LTD ratio averaged 68 percent and ranged from 52 percent to 86 percent. The quarterly average of three other similarly situated banks over the same time period ranged from a low of 75 percent to a high of 80 percent, with an average of 78 percent.

Lending to Farms of Different Sizes and to Businesses of Different Sizes

Lending to farms and businesses of different sizes reflects reasonable penetration.

Borrower Distribution of Agricultural Loans

Lending to farms of different sizes is reasonable. The number of loans to farms with revenues less than or equal to \$1 million compares to the demographic data. Based on our sample, 89 percent of the number loans to farms in the AA went to agricultural borrowers with annual revenues of \$1 million or less. This compares to the AA demographic information showing 93 percent of farms within the AA with revenues of \$1 million or less. The following table shows the distribution of agricultural loans among different size farms in the AA based on our sample.

Borrower Distribution of Loans to Farms in FNBB's Assessment Area				
	Revenue of ≤\$1,000,000	Revenue of >\$1,000,000	Revenue Unknown	Total
% of AA Farms	93%	5%	2%	100%
% of Bank Loans in AA by #	89%	11%	0%	100%
% of Bank Loans in AA by \$	72%	28%	0%	100%

Source: Loan Sample and 2011 Business Geodemographic Data.

Borrower Distribution of Business Loans

Lending to businesses of different sizes is reasonable. The number of loans to borrowers with business revenues less than or equal to \$1 million compares to the demographic data. Based on our sample, the bank originated 65 percent of its loans by number to small businesses compared to the AA demographic comparator of 72

percent. The following table shows the distribution of business loans among business of different sizes in the AA based on our sample.

Borrower Distribution of Loans to Businesses in FNBB's Assessment Area				
	Revenue of ≤\$1,000,000	Revenue of >\$1,000,000	Revenue Unknown	Total
% of AA Businesses	72%	3%	25%	100%
% of Bank Loans in AA by #	65%	35%	0%	100%
% of Bank Loans in AA by \$	34%	66%	0%	100%

Source: Loan Sample and 2011 Business Geodemographic Data

Geographical Distribution

Lending to borrowers in different geographies of different income levels reflects adequate dispersion considering the number of low and moderate census tracts. There are no low income census tracts and three moderate income census tracts in the AA. This results in 7 percent of farms and 14 percent of businesses located in low or moderate income level tracts. The tables below show the number of loans within the different income level census tracts.

Geographic Distribution of Farm Loans

FNBB did not originate any loans in moderate-income CTs within the sample selected. While this compares unfavorably with the demographic information, the small percentage of agricultural borrowers located in moderate-income CTs in the AA limits the usefulness of analyzing FNBB's performance in lending to geographies of different income levels within the bank's AA. Specifically, moderate-income CTs include only 7 percent of the total farms within the bank's AA. The following table shows the distribution of farm loans among different CT income levels.

Geographic Distribution of Loans to Farms in FNBB's Assessment Area							
Low Census Tract Income Level		Moderate Census Tract Income Level		Middle Census Tract Income Level		Upper Census Tract Income Level	
% 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
0%	0%	7%	0%	85%	100%	8%	0%

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

Geographic Distribution of Business Loans

The geographic distribution of loans to businesses is below the demographic comparator for moderate-income CTs. Within the sample selected, the bank did not originate any loans in moderate-income CTs. Moderate-income CTs include 14 percent of the total businesses within the bank's AA. The following table shows the distribution of business loans among different census tract income levels.

Geographical Distribution of Loans to Business in FNBB’s Assessment Area							
Low Census Tract Income Level		Moderate Census Tract Income Level		Middle Census Tract Income Level		Upper Census Tract Income Level	
% 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
0%	0%	14%	0%	72%	95%	14%	5%

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

Responses to Complaints

FNBB did not receive any CRA-related complaints during the evaluation period.

COMMUNITY DEVELOPMENT TEST

FNBB has demonstrated satisfactory responsiveness to the community development needs in the assessment area. Opportunities for qualified investments are somewhat limited due to the AA’s relatively low population density. The bank’s community development investments/donations and services address community development needs.

Number and Amount of Community Development Loans

FNBB did not make any qualifying community development loans during the evaluation period.

Number and Amount of Qualified Investments

FNBB’s level of responsiveness to community investment needs is satisfactory. A total of 13 donations, totaling \$42 thousand, were made to various organizations throughout the institution’s AA. These donations target organizations that facilitate affordable housing options or alternatives to low- or moderate-income individuals, provide community services targeted to low- or moderate-income individuals, and promote economic development.

Extent to Which the Bank Provides Community Development Services

FNBB’s level of responsiveness to community development services is reasonable. Employees share their financial expertise with local, community organizations. Over the evaluation period employees have been in leadership positions of many organizations, frequently at the board level. These organizations provide economic development, technical assistance to entities that support small business owners, and financial literacy training. Employees have shared their financial expertise to community organizations by providing financial expertise during board meetings and providing

banking knowledge. Employees provided volunteer services to 15 organizations that met the qualification of community development services.

The distribution of FNBB's branches and service delivery systems is satisfactory and accessible to individuals of different income levels in the AA. FNBB operates six full service branches offering various loan and deposit products and six ATMs. All six branches are open from 9:30 am to 5:00 pm, Monday through Thursday, and from 9:30 am to 6:00 pm on Fridays. Drive-up teller windows are open by 8:30 am at each of the six offices. The drive-up teller windows at the Twin Falls Shoshone Street Branch and the Twin Falls Pole Line Road Branch are open from 7:30 am to 6:00 pm. In addition, the Shoshone Street Branch and the Pole Line Road Branch both operate their drive-up windows on Saturday from 9:00 am to 1:00 pm.

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.