

**PUBLIC DISCLOSURE**

July 8, 1996

**COMMUNITY REINVESTMENT ACT  
PERFORMANCE EVALUATION**

**The First State Bank & Trust Co. of Larned  
10-20-3190**

**116 West Sixth Street  
Larned, Kansas 67550**

**Federal Reserve Bank of Kansas City**

**925 Grand Boulevard  
Kansas City, Missouri 64198**

**NOTE:** 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.

## GENERAL INFORMATION

*The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the 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. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.*

*This document is an evaluation of the Community Reinvestment Act (CRA) performance of The First State Bank & Trust Co. of Larned, Larned, Kansas, prepared by the Federal Reserve Bank of Kansas City, the institution's supervisory agency, as of July 8, 1996. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 228.*

**INSTITUTION'S CRA RATING:** *This institution is rated **Satisfactory**.*

The bank has a satisfactory record of helping to meet the credit needs of its assessment area. The loan-to-deposit ratio is lower than would be expected for the bank given the institution's size, financial condition, and assessment area credit needs. A substantial majority of loans are within the bank's assessment area. Furthermore, the geographic distribution of loans and the distribution among borrowers of different income levels and businesses and farms of different sizes are considered reasonable.

The following table indicates the performance level of The First State Bank & Trust Co. of Larned with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	First State Bank and Trust Company PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does not meet Standards for Satisfactory Performance
Loan-to-Deposit Ratio			X
Lending in Assessment Area	X		
Lending to Borrowers of Different Incomes and to businesses of Different sizes		X	
Geographic Distribution of Loans		X	
Response to Complaints	No complaints received since the previous examination		

**DESCRIPTION OF INSTITUTION**

The First State Bank & Trust Co. of Larned is located in Larned, Kansas, a town with a population of 4,490, according to 1990 census data. The bank’s office, located in downtown Larned, is accessible to the entire community. In the fall of 1995, the bank acquired a second automated teller machine, which is located within a local grocery store, in an effort to serve its customers after normal business hours.

The bank appears to have the ability to meet the credit needs of its defined assessment area based on the institution’s size, financial condition and resources. No impediments to meeting the credit needs were noted. According to the March 31, 1996 Uniform Bank Performance Report (UBPR), the bank’s assets totaled \$56,145M, of which net loans and leases constituted \$20,990M, or 37.4 percent of total assets. As depicted in the loan portfolio table below, the bank offers a variety

of loan products to meet the credit needs of its assessment area, although it is primarily a real estate and agriculture lender.

LOAN PORTFOLIO		
Loan Type	Amount (\$000)	Percent of Total
Real Estate	10,133	48.3
Commercial	1,624	7.7
Consumer	1,851	8.8
Agricultural	7,340	35.0
Other Loans	510	2.4
Less: Loan/Lease Allowances	(468)	(2.2)
TOTAL	20,990	100.0

**DESCRIPTION OF PAWNEE COUNTY, KANSAS**

The bank's assessment area is defined as Pawnee County, which is located in south central Kansas. The county consists of three block numbering areas (BNAs) and is not located in a metropolitan statistical area. According to the 1990 census data, the population of the assessment area is 7,555.

All three BNAs are middle-income tracts with an average median family income of 102.5 percent of the state's rural median income. According to the 1990 census data, the median family income for the assessment area is \$28,767, compared to the nonmetropolitan statewide figure of \$28,068. Of the families within the assessment area, 15.5 percent are low-income; 19.2 percent are moderate-income; 26.4 percent are middle-income; and 38.9 percent are upper-income. Slightly less than 8 percent of the families in the assessment area are below the poverty level.

According to 1993 Regional Employment and Income Series (REIS) data, the largest employment sectors for the assessment area are: government, 38 percent of total employment; services, 18 percent; and farming, 15 percent. Between 1990 and 1993, the government sector grew 9.6 percent and the services sector grew 2.9

percent. Over the same period, the farm sector lost 2.3 percent of its jobs. According to the 1990 census, the unemployment rate for Pawnee County was 3.5 percent, compared to the statewide rate of 4.6 percent.

Two community contacts were made during the examination. The first was a local government employee and the second was a local business manager. Both stated that the local banks were adequately serving the needs of Larned and the surrounding area. Each contact emphasized the need for housing, especially for the employees of the State Hospital. According to 1990 census data, 46 percent of the housing stock in the assessment area was built before 1950 and the housing stock had a median age of 39 years. This compares to statewide figures of 33 percent and 28 years, respectively. Sixty-one percent of the assessment area housing units are owner occupied; 25 percent are rental units; and 14 percent are vacant.

One contact also expressed a need for small business loans to maintain the downtown area. Currently, the local economy is somewhat stagnant, and the city would need to attract new businesses to enhance the growth rate.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

Several factors were considered in evaluating the bank's CRA performance. A review of the bank's lending levels in relation to its deposits and the lending of other comparable financial institutions was performed. Penetration of loan originations inside and outside the bank's assessment area was also evaluated. Furthermore, the bank's level of lending to borrowers of different income levels and to businesses and farms of different sizes was reviewed. Finally, the distribution of loan originations within the bank's assessment area was evaluated. A review of the bank's performance under the investments and services tests was not performed.

The bank's average loan-to-deposit ratio is 41.67 percent (calculated using the average of the loan-to-deposit ratios from the most recent four quarters). The bank's origination of real estate loans and subsequent sale in the secondary market was also considered. The dollar volume of real estate loans sold to the secondary market was low enough that its effect on the loan-to-deposit ratio, when combined with the regular loan portfolio, was minimal. The bank's average loan-to-deposit ratio is below the 61.56 percent level of its peer group. The peer group includes all insured commercial banks having assets between \$50 million and \$100 million with two or less banking offices, and located in a nonmetropolitan area. The bank considers First National Bank & Trust Co. in Larned its primary

competitor, although there are several other financial institutions in the area. First National Bank & Trust in Larned has assets of approximately \$50 million and a four quarter average loan-to-deposit ratio of 62.99 percent.

Bank management indicated that two factors were primarily responsible for a relatively low loan-to-deposit ratio compared to its peer group and to its local competition. First, a significant amount of the bank's deposit base comes from senior citizens who typically do not borrow from the bank. It was noted that 19.2 percent of the population was over 65 years old, according to 1990 census data. This group's aggregate deposit levels tend to somewhat lower the bank's loan-to-deposit ratio.

Bank management also indicated that its primary competitor makes large-dollar, implement dealer loans outside of Pawnee County, although this was not verified through the examination process. The bank has decided not to pursue this type of loan because of the perceived risk involved and its unfamiliarity with these nonlocal dealers. The bank generally lends only to customers within the county and originates few large-dollar agricultural loans. The bank's management did state that loan volume has been growing slowly, and they are committed to approving all credit applications within the parameters of safe and sound banking principles. The bank utilizes print and television advertising in an effort to increase loan demand. So far, the response to the bank's television advertisements for real estate and agricultural loans has been positive.

A substantial majority of the bank's lending occurs within its assessment area. The table below shows the number of loans within the respective samples and the percentage of those loans located within the bank's assessment area.

LOANS WITHIN THE BANK'S ASSESSMENT AREA		
<i>LOAN TYPE</i>	<i>NUMBER REVIEWED</i>	<i>% IN ASSESSMENT AREA</i>
Real Estate	9 <sup>1</sup>	100
Consumer	36	94
Small Business	26	85
Small Farm	32	84

<sup>1</sup> This includes all nine consumer purpose, real estate-secured loans originated since the last examination.

LOANS WITHIN THE BANK'S ASSESSMENT AREA		
Total Loans	103	91

The overall distribution of loans within the samples reviewed reflects reasonable penetration among individuals of different income levels and also among small businesses and farms, given the demographics of the assessment area. Of the consumer loans reviewed, approximately 39 percent went to low- and moderate-income individuals, which compares favorably to the total of 35 percent of families within the assessment area who are either low- or moderate-income. Of the nine real estate loans made since the previous examination, one was granted to a moderate-income individual, five to middle-income customers, and three to upper-income individuals. One hundred percent of the business loans were extended to small businesses and 95 percent of the farm loans were to small farmers.

Finally, the geographic distribution of loans originated by the bank reflects a reasonable dispersion throughout the bank's assessment area, given the area demographics and location of competitor institutions. The majority of the loans reviewed were located within BNA 9702, which includes Larned. The bank's management continues to monitor the locations of its loans to make sure the bank is serving its entire assessment area.

No substantive violations of the antidiscrimination laws and regulations were identified. Furthermore, reviews of bank policies, credit applications, loans, and interview procedures revealed no prohibited practices designed to discourage applications.



