

PUBLIC DISCLOSURE

October 26, 1998

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The Beverly State Bank
10506**

**1st and Main Streets
P.O. Box 95
Beverly, Kansas 67423**

Federal Deposit Insurance Corporation

**2345 Grand Avenue, Suite 1500
Kansas City, Missouri 64108**

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.

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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 Beverly State Bank, Beverly, Kansas**, prepared by the **Federal Deposit Insurance Corporation**, the institution's supervisory agency, as of **October 26, 1998**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 345.*

INSTITUTION RATING

INSTITUTION'S CRA RATING: This institution is rated Outstanding.

Since the previous CRA performance evaluation of July 5, 1995, The Beverly State Bank's quarterly net loan-to-deposit ratio has ranged from 68 percent to 83 percent and has averaged 75 percent. The substantial majority of the sampled agricultural loans and residential real estate loans have been advanced to fund credit demands within the assessment area. The distribution of sampled loans to borrowers of different income levels and farmers/stockmen with different size operations is reasonable. There have been no CRA-related complaints since the prior evaluation, and there is no evidence of prohibited discrimination.

DESCRIPTION OF INSTITUTION

The Beverly State Bank (BSB), located in Beverly, Kansas, is a full service commercial bank with \$8,390,000 in total assets, \$6,318,000 in total loans, and \$7,533,000 in total deposits, as of June 30, 1998. The city of Beverly is located near the eastern border in Lincoln County. The bank does not operate any branches or automated teller machines.

The bank's primary business focus is agricultural lending. According to BSB's June 30, 1998, Report of Condition, the loan portfolio consisted of 47 percent agricultural loans, 35 percent residential real estate loans, 9 percent commercial loans, and 9 percent consumer loans.

BSB offers a wide variety of credit products, including governmentally guaranteed loan products through the Farm Service Agency and the Small Business Administration. Interest subsidized loan products through the Kansas Development Finance Authority and the Kansas Department of Commerce and Housing's Mortgage Savers Program are also offered.

BSB is a subsidiary of Farmers Bancshares, Inc., a multi-bank holding company which also owns The Farmers National Bank of Lincoln, Lincoln, Kansas. There are no legal, financial, or other factors that would significantly hinder BSB's ability to help meet the credit needs of its assessment area.

DESCRIPTION OF ASSESSMENT AREA

The Community Reinvestment Act (CRA) requires financial institutions to identify one or more "assessment area(s)" within which the appropriate regulatory agency will evaluate the bank's CRA performance. Typically, an institution's assessment area will include the towns, counties, or other political subdivisions in which its branches are located and a substantial portion of its loans are made. Assessment areas must consist of one or more "block numbering areas" (BNAs) or "census tracts" (CTs), which are subdivisions of a county. BNAs are used in non-metropolitan locations, while CTs are generally used in metropolitan areas.

Each BNA or CT is also designated as low, moderate, middle, or upper income based on the following definitions in relation to the 1990 Census Bureau non-metropolitan family income figure of \$28,067 for the State of Kansas.

<i>Low-income -</i>	<i>Income of less than 50 percent of the area median family income (MFI)</i>
<i>Moderate-income -</i>	<i>Income of at least 50 percent and less than 80 percent of the area MFI</i>
<i>Middle-income -</i>	<i>Income of at least 80 percent and less than 120 percent of the area MFI</i>
<i>Upper-income -</i>	<i>Income of 120 percent or more of the MFI</i>

BSB's assessment area consists of Lincoln County (BNA 9861) and the western half of Ottawa County, Kansas, (BNA 9857). Both BNAs are classified as middle income geographies. Based on 1990 census data, the median family income of the assessment area is \$25,728. According to the 1990 census, the population of the assessment area is 7,622. Lincoln County (population 3,653) contains the towns of Barnard, Beverly, Lincoln, and Sylvan Grove. The western portion

of Ottawa County (population 3,969) contains the towns of Culver, Delphos, Minneapolis, and Tescott.

The bank has a number of competitors within the assessment area. There are eight financial institutions operating ten main and/or branch offices within the assessment area. The area is also served by Federal Land Bank, Production Credit Association, Farm Services Agency, and various mortgage/finance companies.

The assessment area economy is dependent upon the agricultural sector with the major products being wheat, milo, and livestock. The local economy, while considered stable, show signs of slowing down due to the depressed ag commodity prices. The City of Salina, Kansas, and Ottawa County, which continue to offer many employment opportunities, are within 30 miles of the City of Beverly, Kansas. A number of area people commute. Major employers in Lincoln County include the Quartzite Stone Company, Century Manufacturing, Lincoln U.S.D. #298, and Lincoln County Hospital. Major employers in the western portion of Ottawa County include Ottawa County Hospital, Ottawa U.S.D. #239, Flinthills Trading Company, and Dub Johnson & Sons, Inc. As of June 30, 1998, the Bureau of Labor Statistics revealed a 2.6 percent unemployment rate for Lincoln County and a 3.1 percent unemployment rate for Ottawa County as compared to the State of Kansas unemployment rate of 3.5 percent. Additionally, the census data for 1990 reveals there are 3,751 housing units in the assessment area. Of this total, 65 percent are owner-occupied, 19 percent are rental units, and 16 percent are vacant. The median housing value in the assessment area is \$21,608.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Agricultural loans and residential real estate loans were sampled because they are BSB's major credit products by dollar volume and because management considers these types of loans to be the most important for the bank. Records show that BSB has funded 86 agricultural loans totaling \$2,242,000 in the past 6 months and 85 residential real estate loans totaling \$2,581,000 since the previous CRA performance evaluation. A random sampling of 29 agricultural loans totaling \$989,000 and 29 residential real estate loans totaling \$643,000 were sampled.

LOAN-TO-DEPOSIT RATIO

BSB's average net loan-to-deposit ratio is considered more than reasonable. Since the July 5, 1995, CRA evaluation BSB's net loan-to-deposit ratio at the end of each calendar quarter has averaged 75 percent. As of September 30, 1998, the bank's net loan-to-deposit ratio was 89 percent. Additionally, due to loan limit considerations, BSB has sold a relatively large volume of participation loans. Participation loans sold have averaged \$911,000 since the previous evaluation. If the volume of loan participations sold were factored into the net loan-to-deposit ratio, it would approximate 92 percent.

The following table illustrates the asset size (as of June 30, 1998) and average net loan-to-deposit ratio (from September 30, 1995, through June 30, 1998) of similarly-situated banks in the area. The banks included in the following analysis are considered similarly-situated due to their proximity to the assessment area and its residents, the similar nature of their business and customers, similar nature of the area they serve, and financial institution size.

Comparison of Similarly-Situated Banks		
Bank Name and Location	Total Assets as of 6-30-98 (000s)	Average Net Loan-to-Deposit Ratio
Beverly State Bank Beverly, Kansas	\$8,390	75%
Farmers National Bank Lincoln, Kansas*	\$15,160	61%
Sylvan State Bank Sylvan Grove, Kansas	\$13,967	67%

*BSB became affiliated with this bank through common ownership as of the close of business June 30, 1998.

LENDING IN THE ASSESSMENT AREA

The bank extends a substantial majority of its loans within the assessment area, exhibiting its strong commitment to the borrowers within the assessment area. Specifically, 90 percent of the number and 99 percent of the dollar volume of sampled agricultural loans were extended within the assessment area. Additionally, 86 percent of the number and dollar volume of residential real estate loans sampled were also extended within the assessment area.

LENDING TO BORROWERS OF DIFFERENT INCOME LEVELS AND TO BUSINESSES OF DIFFERENT SIZES

The bank has achieved an adequate penetration among borrowers of different incomes and farms of different sizes. An analysis based upon sampled residential real estate loans funded in the assessment area since the previous CRA evaluation (25 loans), revealed that 96 percent had original amounts less than \$50,000. The 1998 HUD estimated statewide non-metropolitan median family income (MFI) of \$38,200 was used for borrower distribution analysis. The following table provides information on how each income level is defined.

Income Level	Percent of MFI	Income Range
Low	Less than 50 percent	Less than \$19,100
Moderate	50 percent to 80 percent	\$19,100 to less than \$30,560
Middle	80 percent to 120 percent	\$30,560 to less than \$45,840
Upper	120 percent and over	\$45,840 and over

The following table reflects the lending distribution of the residential real estate loan sample reviewed. Gross income figures were obtained from the borrower's loan application. In addition, the table includes the percentage of families within each income level according to 1990 census data. Approximately, ten percent of the families within the assessment area live below the poverty level.

RESIDENTIAL REAL ESTATE LOANS					
Income Level	Percent of Families	Number of Loans	Percent	Dollar Volume (000s)	Percent
Low	22%	1	4%	\$16	3%
Moderate	21%	5	20%	\$62	11%
Middle	27%	14	56%	\$329	60%
Upper	30%	5	20%	\$144	26%
Total	100%	25	100%	\$551	100%

The following table depicts the distribution of lending to farms of different sizes based upon the sample of agricultural loans to borrowers within BSB's assessment area. For purposes of this analysis, gross revenues are assumed to be an indicator of farm size. Gross revenues were obtained from the borrower's most recent Federal tax return or from discussions with bank management if a tax return was unavailable.

AGRICULTURAL LOANS				
	Number of Loans	Percent	Dollar Volume (000s)	Percent
Less than \$50,000	8	31%	\$76	8%
\$50,000 to \$100,000	8	31%	\$361	37%
\$100,001 to \$250,000	7	27%	\$402	41%
\$250,001 to \$500,000	3	11%	\$138	14%
Total	26	100%	\$977	100%

GEOGRAPHIC DISTRIBUTION OF LOANS

A geographic distribution analysis of BSB's lending activity has limited meaning in this evaluation because the entire assessment area is classified as a middle-income geography. Therefore, this performance factor was not rated.

RESPONSE TO COMPLAINTS

The bank has not received any CRA-related complaints since the last evaluation.

COMPLIANCE WITH ANTI-DISCRIMINATION LAWS AND REGULATIONS

No violations of the substantive provisions of the anti-discriminatory laws and regulations were identified during the examination.