PUBLIC DISCLOSURE

NOVEMBER 1, 2010

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

FIRST COMMUNITY BANK
RSSD# 152851

715 MERCHANT
EMPORIA, KANSAS 66801

Federal Reserve Bank of Kansas City
1 Memorial Drive
Kansas City, Missouri 64198

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 Community Bank (the bank) has a satisfactory record of helping to meet the credit needs of its assessment area (AA), including low- and moderate-income (LMI) borrowers, in a manner consistent with its resources, operating philosophy, and credit needs of the community. Four of the five core criteria used in evaluating small bank lending performance were relevant to the review and are as follows:

- Net loan-to-deposit (NLTD) Ratio
- Lending Inside the AA
- Lending to Borrowers of Different Income Levels and to Businesses of Different Revenue Sizes
- Geographic Distribution of Loans

The bank's responsiveness to complaints under the Community Reinvestment Act (CRA), the fifth core criterion used to assess small bank performance, was not evaluated because the bank has not received any complaints regarding its CRA performance.

Conclusions about the performance criteria were based on data compiled from a statistically-derived sample of loan files for each major product line. The major product lines were determined through discussions with bank management, a review of the Report of Condition and Income (Call Report), and a review of the number of loan originations since the bank's last CRA examination in October 2006. The two loan types selected for review were residential real estate and commercial loans.

The bank's NLTD ratio indicated a reasonable effort to extend credit in a competitive lending market, with a majority of its loans originated to borrowers inside the AA. The distribution of loans to borrowers of different income levels and to businesses of different revenue sizes was considered reasonable. In addition, the geographic distribution of loans reflected a reasonable dispersion based on the bank's location and the demographics of its AA.

SCOPE OF EXAMINATION

The bank's performance was evaluated using the Federal Financial Institutions Examination Council Interagency Small Bank Examination Procedures. The examination evaluated the bank's performance in the context of demographic information from the area in which the bank operates. Conclusions about the remaining performance criteria were based on data compiled from a statistically-derived sample of 34 residential real estate loans originated between October 30, 2006 and September 15, 2010, and 28 commercial loans originated in the same time period. To augment the evaluation, interviews with members of the community were conducted to discuss local economic conditions and ascertain the community's credit needs.

DESCRIPTION OF INSTITUTION

The bank is headquartered in Emporia, Kansas, and has three total locations. The bank's main office is located in central Emporia, which is a full-service location. The bank operates a limited-service branch on the east side of Emporia and a full-service branch in Madison, Kansas, approximately 30 miles south of Emporia.

The bank has the ability to meet the credit needs of its delineated AA based on its size, financial condition, and resources. According to the September 30, 2010 Call Report, the bank's assets were approximately $51.5 million. The bank is primarily a commercial and residential real estate lender; however, it offers a variety of loan products to meet the area credit needs, as illustrated in Table 1.

TABLE 1 BANK'S LOAN PORTFOLIO		
Loan Type	**Amount ($000)**	**Percent of Total**
Commercial	16,110	59.9
Real Estate	6,807	25.3
Agricultural	3,055	11.4
Consumer	900	3.3
Other	5	0.1
Total Gross Loans	26,877	100.0

DESCRIPTION OF THE BANK'S ASSESSMENT AREA

The bank's AA is in east central Kansas and consists of 14 middle-income census tracts located in Lyon County, Chase County, Greenwood County, and Coffey County and one upper-income tract located in Lyon County. Emporia is located approximately 50 miles south west of Topeka, Kansas, and 100 miles southwest of Kansas City, Kansas.

The total population of the bank's AA was 55,503 based on the 2000 Census. Almost 65.0 percent of the population resides in Lyon County, which is where the city of Emporia and two of the bank's branches are located. Census data shows a population decline of 6.5 percent in Lyon County from 2000 to 2009. According to the 2000 Census data, the area's median income of $42,367 is slightly higher than the $41,490 median income for other rural areas in the state of Kansas. The area's LMI families totaled 35.9 percent, which is slightly lower than the statewide rural percentage of 36.5 percent. The poverty rate is in line with the statewide rural average at 8.3 percent versus 8.2 percent. Major employers in the area include Tyson Foods, Emporia State University, and Dolly Madison/Interstate Bakeries. According to community contacts, Tyson Foods scaled back their operations by shutting down the slaughterhouse and slashing the workforce from 2,000 to 600. The contacts mentioned that after the layoff, many of those that had been laid off left the area to find jobs at other factories in Arkansas and western Kansas.

The median housing value for the AA of $61,700 is higher than the statewide rural value of $57,883. Community contacts indicated that affordable housing availability for LMI borrowers is limited. Given that more than 38.0 percent of the housing units in the AA were built prior to 1950, most affordable housing is purchased by investors and converted into rental property. In addition, community contacts mentioned that residential real estate loans are the greatest credit need in the community, both to help facilitate the purchase of houses and for home improvement loans to help repair and rehabilitate the housing stock. Of the housing stock in the AA, 59.0 percent of the housing is owner-occupied, 29.6 percent is rental property, and 11.4 percent is vacant. Despite Emporia State University's location within the AA, only 1.9 percent of the population is housed in college dormitories. Community contacts mentioned that many of the students live in rental properties throughout the city of Emporia.

Table 2 summarizes the characteristics of the bank's AA based on the 2000 Census data and 2009 Dun & Bradstreet data.

TABLE 2
BANK'S ASSESSMENT AREA DEMOGRAPHICS

Income Categories	Tract Distribution		Families by Tract Income		Families < Poverty Level as % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low-income	0	0.0	0	0.0	0	0.0	2,334	16.4
Moderate-income	0	0.0	0	0.0	0	0.0	2,779	19.5
Middle-income	14	93.3	12,522	87.9	1,124	9.0	3,496	24.6
Upper-income	1	6.7	1,718	12.1	54	3.1	5,631	39.5
Total Assessment Area	15	100.0	14,240	100.0	1,178	8.3	14,420	100.0

	Housing Units by Tract	Housing Type by Tract						
		Owner-occupied			Rental		Vacant	
		#	% by tract	% by unit	#	% by unit	#	% by unit
Middle-income	21,659	12,626	87.6	58.3	6,369	29.4	2,664	12.3
Upper-income	2,776	1,795	12.4	64.7	870	31.3	111	4.0
Total Assessment Area	24,435	14,421	100.0	59.0	7,239	29.6	2,775	11.4

	Total Businesses by Tract		Businesses by Tract & Revenue Size					
			Less Than or = $1 Million		Over $1 Million		Revenue Not Reported	
	#	%	#	%	#	%	#	%
Middle-income	2,331	90.0	2,085	90.0	109	86.5	137	91.9
Upper-income	260	10.0	231	10.0	17	13.5	12	8.1
Total Assessment Area	2,591	100.0	2,316	100.0	126	100.0	149	100.0
	Percentage of Total Businesses:			89.4		4.9		5.7

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank's record of meeting the credit needs of its AA was considered satisfactory, based on the performance in the bank's designated AA. Data utilized for this analysis included the bank's performance data, area demographic information, and input obtained from members of the local community. The analysis showed that a majority of the bank's loans were made inside the bank's AA, with adequate distribution of loans to businesses of different sizes and borrowers with different income levels, and reasonable dispersion among geographies of varying income levels.

Net Loan-to-Deposit Ratio

The bank's average NLTD ratio is considered reasonable based on the institution's size, financial condition, local economic conditions, credit needs of its AA, and the NLTD ratios of competing institutions and peer groups. The bank's NLTD ratio averaged 57.8 percent for the prior 16 quarters ending September 30, 2010.

The bank's NLTD 16-quarter average was compared to that of four similarly-situated competitor banks, whose average NLTD ratios ranged from 56.8 percent to 77.7 percent over the same time period. The bank's 16-quarter average NLTD ratio was also compared with that of the state and national peer groups, whose average NLTD ratios were 73.1 percent and 74.7 percent, respectively, during the same time period. While the bank's NLTD ratio was lower than most of the competitors and the peer groups, the bank is operating in a competitive environment in which there are more than 20 financial institutions and 44 branch offices located within the bank's AA. As community contacts mentioned, the major employers in the AA conducted large layoffs. With the enhanced employment uncertainty, borrowers have not been taking on additional debt which has contributed to the low loan demand for the bank. The bank has taken steps to increase their NLTD ratio, including purchasing loan participations. When taking these factors into account, the bank's performance is considered satisfactory.

Summary of Lending Performance

TABLE 3 SUMMARY OF LENDING PERFORMANCE								
Lending within the Assessment Area								
	Inside AA				Outside AA			
	#	%	$(000)	%	#	%	$(000)	%
Residential Real Estate	31	91.2	1,213	81.5	3	8.8	276	18.5
Small Business	26	92.9	3,358	74.4	2	7.1	1,157	25.6
TOTAL	57	91.9	4,571	76.1	5	8.1	1,432	23.9
Distribution by Income Level of Geographies								
	% of Bank Loans				% of Owner-Occupied Units			
	Middle		Upper		Middle		Upper	
Residential Real Estate	90.3		9.7		87.6		12.4	
	% of Bank Loans				% of Small Businesses			
	Middle		Upper		Middle		Upper	
Small Business	69.2		30.8		90.0		10.0	
Distribution by Borrower Income Level and Revenue Size of Business								
	% of Bank Loans				% of Families			
	Low	Moderate	Middle	Upper	Low	Moderate	Middle	Upper
Residential Real Estate	9.7	3.2	25.8	61.3	16.4	19.5	24.6	39.5
	% of Bank Loans				% of Small Businesses			
Small Business	92.3				89.4			

Lending in the Bank's Assessment Area

This performance criterion evaluates the concentration of loans originated by the bank in its AA. Based on the sample of loans reviewed during the examination, as reflected in Table 3, a substantial majority of the bank's commercial and residential real estate loans were originated inside the bank's delineated AA. Therefore, the bank's performance is considered reasonable for this criterion.

Geographic Distribution of Loans

This performance test evaluates the bank's distribution of lending within each of the tracts in its AA, with emphasis on lending in the LMI tracts. Since there are no LMI geographies in the bank's AA, the results of this analysis have a limited impact on the bank's overall CRA rating. Nonetheless, the bank's overall distribution of sampled loans within its tracts is considered reasonable. The bank originated 90.3 percent of its residential real estate loans to borrowers in middle-income tracts and 9.7 percent to borrowers in upper-income tracts. For small business loans, 69.2 percent were originated in middle-income tracts and 30.8 percent were originated in upper-income tracts. The distribution of both residential real estate and small business loans were consistent with the area's demographics.

Lending to borrowers of Different Income Levels and Businesses of Different Sizes

This lending test focuses on the bank's level of lending to borrowers of different income levels, particularly LMI individuals, and to businesses of different revenue sizes, primarily those with gross annual revenues of $1 million or less. This analysis focused on the number of loans originated rather than the dollar volume, as it is a better indicator of the number of individuals and businesses benefiting from those products.

Small Businesses

The bank's level of lending to small businesses was considered reasonable as it corresponds with the demographics in the AA. The bank's commitment to small business lending is further demonstrated by its volume of small dollar loans to small businesses. The loan sample revealed that 92.3 percent of the loans were in an amount of $250,000 or less, which is an amount typically needed by small businesses.

Residential Real Estate

The bank's performance in extending residential real estate loans to LMI borrowers was considered reasonable despite the bank's loan distribution of 12.9 percent being significantly lower than the 35.9 percent of LMI families in the AA. The bank's ability to extend residential real estate loans to LMI borrowers was hindered by several factors. First, the AA lacks suitable affordable housing. A member of the community stated that the most affordable housing in the bank's AA was in such state of disrepair that most LMI borrowers could not afford the additional repair costs associated with the purchase. This is further evidenced by the fact that more than 41.0 percent of the housing stock is considered vacant or rental property. Second, the significant layoffs undertaken by the AA's major employers in the prior three years have caused the population to decline as workers move to areas where factory jobs are available. Lastly, the bank does not offer Federal Housing Administration (FHA) loans, which, according to community contacts, are preferred by most LMI borrowers due to lower down payment requirements and more flexible underwriting standards.

FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

The bank is in compliance with the substantive provisions of the antidiscrimination laws and regulations. A review of the bank's policies, credit applications, loans, and interview procedures revealed no prohibited practices designed to discourage loan applicants. Further, the bank has not engaged in other illegal practices inconsistent with helping to meet the community credit needs.

GLOSSARY OF COMMON CRA TERMS

(For additional information, please see the Definitions section of Regulation BB at 12 CFR 228.12.)

Assessment Area – The geographic area(s) delineated by the bank and used in evaluating the bank's record of helping to meet the credit needs of its community. The assessment area must include the geographies where the main office, branches, and deposit-taking automated tellers machines are located. The assessment area must consist only of whole geographies, may not reflect illegal discrimination, and may not arbitrarily exclude low- or moderate-income geographies.

Census Tracts – Census tracts are small, relatively permanent geographic entities within counties delineated by a committee of local data users. Census tracts are designed to be homogenous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons and average about 4,000 inhabitants.

Consumer Loans – Loans to individuals for household, family, and other personal expenditures. These loans do not include real estate-secured loans.

Dun & Bradstreet Data – Data collected by Dun & Bradstreet regarding types of businesses and their respective gross annual revenues. The data can be sorted by geographies.

Geography – A census tract delineated by the U.S. Bureau of the Census in the most recent decennial census.

Income Level – Both geographies and individuals can be described in terms of their income levels. In MSAs, the level is based on the MSA median family income (**MFI**). In nonMSA areas, the level is based on the statewide, nonMSA median family income.

> **Low-Income** – Less than 50 percent of the area median family income
>
> **Moderate-Income** – At least 50 percent and less than 80 percent of the area median family income
>
> **Middle-Income** – At least 80 percent and less than 120 percent of the area median family income
>
> **Upper-Income** – At least 120 percent or more of the area median family income

LMI – Collectively, low- and moderate-income families or tracts.

Small Business – A business with gross annual revenues of $1 million or less.

Small Farm – A farm with gross annual revenues of $1 million or less.

Small Loan(s) to Business(es) – A loan included in "loans to small businesses" as defined in the Consolidated Report of Condition and Income ("Call Report"). These loans have original amounts of $1 million or less and typically are either secured by nonfarm or nonresidential real estate or are classified as commercial and industrial loans.