



PUBLIC DISCLOSURE

November 12, 2013

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The First National Bank of Hutchinson
Charter Number 3180

One North Main Street
Hutchinson, KS 67504

Office of the Comptroller of the Currency
2959 N. Rock Road Suite, 510
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.

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

The Lending Test is rated: **Satisfactory.**

The Community Development Test is rated: **Satisfactory.**

- The First National Bank of Hutchinson's (FNB) average loan-to-deposit ratio reflects reasonable responsiveness to the credit needs of the assessment area (AA).
- FNB extended the majority of its primary loan product (commercial loans) to businesses in the AA. The loan sample indicates that 57% of the number and 35% of the dollar volume of commercial loans were granted within the AA.
- FNB demonstrated reasonable penetration to businesses of different size in the AA. The loan sample indicates that 57% of the number and 13% of the dollar volume of commercial loans were made to businesses with annual gross revenues less than or equal to \$1 million.
- FNB demonstrated excellent dispersion to businesses in moderate-income census tracts. The loan sample indicates that FNB made 33% of its commercial loans to businesses in moderate-income census tracts, which significantly exceeds the AA demographic of 24%.
- FNB demonstrated satisfactory responsiveness to community development needs. FNB's community development lending is excellent and represents 13% of Tier One Capital. FNB's level of community development investments and donations is adequate and represents 2% of Tier One Capital. FNB also supported seven local community organizations that promote community development.

Scope of Examination

We evaluated FNB using Intermediate/Small Bank examination procedures, which include a lending test and a community development test. The lending test covers FNB's performance from January 1, 2010 through December 31, 2011. Based on conversations with management, lending in this period is representative of all lending through December 31, 2012. Commercial loans represent FNB's primary loan product during the evaluation period. We selected a sample of 30 commercial loans to evaluate FNB's lending performance.

The community development test included a review of community development loans, qualified investments and donations, and community development services. The community development evaluation period was from December 1, 2009 to November 12, 2013.

Description of Institution

FNB is a \$580 million financial institution headquartered in Hutchinson, KS. The bank is a wholly owned subsidiary of First Kansas Bancshares, Incorporated, a one-bank holding company with \$67 million in assets as of September 30, 2013.

FNB is a full-service banking institution offering a range of commercial, real estate, agricultural, and consumer credit products. As of September 30, 2013, the bank's \$278 million loan portfolio consists of 58% real estate loans (includes commercial real estate), 20% commercial and industrial loans, 4% lease financing receivables, 5% other loans, 3% municipal loans, 6% agricultural loans, 2% consumer loans, and 2% financial institution loans. FNB's Tier 1 Capital totals \$64 million as of September 30, 2013.

FNB acquired the First National Bank of Southern Kansas (FNBSK) in September 2012 and gained three branches in Sedgwick County, Kansas. FNB now operates 10 branches (including the main branch) and nine automated teller machine (ATM) locations. Branches and ATMs are located throughout Hutchinson, Haven, Goddard, Andale, and Mount Hope, Kansas. Each branch, with the exception of the main bank and the Dillon's grocery store branch has a drive-up facility. All ATMs are available 24-hours per day, except for the Hutchinson Clinic and Country Acres Convenience Store ATMs, which are only available during business hours.

For the purposes of this examination, we will only evaluate FNB's performance in Reno County Kansas. FNB has seven branches and six ATMs located in Reno County, Kansas. Three branches are in moderate-income census tracts, one in a middle-income tract, and three in upper-income tracts. One ATM is located in a moderate-income census tract, one in a middle-income tract, and four in upper-income tracts.

No legal, financial, or other matters impede FNB's ability to meet the credit needs of the AA. The Office of the Comptroller of the Currency last evaluated FNB's CRA performance on December 1, 2009. FNB received an overall rating of "Satisfactory" under the Intermediate/Small Bank Performance Standards.

Description of Assessment Area

FNB's 2010-2011 assessment area consists of Reno County, a non-metropolitan area located in south central Kansas. The delineation of the AA does not reflect any illegal discrimination, nor does it arbitrarily exclude any moderate-income geographies. The AA contains 17 census tracts, with 24% designated moderate-income, 47% middle-income, and 29% upper-income. There are no low-income census tracts in the AA.

The AA had a 2000 U.S. Census population of 64,790, with 16% of the population over the age of 65. The income distribution for families in the AA is 18% low-income, 20% moderate-income, 24% middle-income, and 38% upper-income. Thirty-seven percent of the AA's population is not in the work force. Sixteen percent of the households in the

AA are retired, 11% of the households have income below the poverty level, and 3% of the households receive public assistance. The Weighted Average of Housing and Urban Development (HUD) Updated Median Family Income for 2011 is \$53,700. Housing units in the AA consist of 87% one-to-four family units, 7% multi-family, and 6% mobile homes. The Weighted Average of Median Housing value from the 2000 U.S. Census data is \$65,783.

Reno County has 14 incorporated cities, the largest of which is the county seat, Hutchinson with a population of 40,787. The Hutchinson economy is diverse and offers various employment opportunities. Major employers in Hutchinson include Hutchinson Regional Medical Center, Unified School District # 308, Dillon's Companies, Hutchinson Clinic, Hutchinson Community College, Tyson Prepared Foods, and Hutchinson Correctional Facility. Hutchinson also functions as a regional retail and service center for surrounding counties.

Reno County has a close proximity to the Metropolitan Statistical Area of Wichita, Kansas. Significant employers in Wichita include Cessna Aircraft Company, Spirit Aerosystems, Incorporated, Hawker Beechcraft, Via Christi Regional Medical Center, McConnell Air Force Base, and Bombardier Aerospace. Each of these employers provides more than 3,000 full time jobs.

Reno County businesses continue to recover from the economic downturn, with many businesses forecasting modest growth through 2013. Lack of new housing continues to be one of the main issues affecting Reno County. As of August 2013, the unemployment rate for Reno County is 5.6%, which is less than the statewide and nationwide rates of 5.9% and 7.3%, respectively. The cost of living continues to be low in comparison to the national average. The 2012 cost of living index in Reno County was 80.5, compared to the U.S. average of 100.

There are 10 financial institutions with 27 offices located within the AA. FNB's primary competitors include Central Bank and Trust Company, Bank of Kansas, Peoples Bank and Trust Company, Commerce Bank, and Bank of America. As of June 30, 2011, FNB has the largest deposit market share of all banks located in the AA with 43%. The bank with the next largest share has 17% of deposits.

Examiners contacted one individual involved in the local community. The contact did not identify a primary credit need for the AA; however, they did mention the lack of new housing starts as an area of weakness. Additionally, as with many lower populated areas, businesses in Reno County struggle to recruit and retain young professionals. The contact stated that local financial institutions are very involved in the community, specifically FNB.

Conclusions with Respect to Performance Tests

LENDING TEST

FNB's performance under the lending test is satisfactory.

Loan-to-Deposit Ratio

FNB's level of lending is reasonable. The average quarterly loan to deposit ratio since the last CRA examination is 53%, compared to 65% for similarly situated banks. The average loan to deposit ratio for similarly situated banks ranges from 42% to 91%.

Lending in Assessment Area

FNB extended a majority of commercial loan products to businesses in the AA. The sample included 30 commercial loans originated or purchased within the AA during 2010 and 2011. FNB granted 57% of the number and 35% of the dollar volume of loans within the AA during this period. FNB acts as a correspondent institution for many smaller banks located throughout Kansas, which moderately impacted FNB's lending in the AA. Seven loans, representing 98% of the dollar volume of loans made outside of the AA, were originated or purchased through correspondent relationships.

Lending to Businesses of Different Sizes

FNB's lending to businesses of different sizes is reasonable. Examiners selected 30 commercial loans originated within the AA to assess FNB's lending performance.

FNB's commercial lending demonstrates reasonable penetration to businesses of different sizes. The loan sample indicates that FNB originated 57% of the number and 13% of the dollar volume of loans to businesses with gross revenues of less than or equal to \$1 million. This is near the demographic as the number of businesses with gross revenues of less than \$1 million represents 68% of all businesses in the AA. However, the dollar volume of commercial loans granted is somewhat skewed as 66% of the loan sample is represented by two loans extended to businesses with gross revenues over \$1 million.

Borrower Distribution to Businesses in the Reno County AA				
Business Revenues (or Sales)	<= \$1,000,000	> \$1,000,000	Unavailable	Total
% of AA Businesses	68%	3%	29%	100%
% of Bank Loans in AA by #	57%	30%	13%	100%
% of Bank Loans in AA by \$	13%	85%	2%	100%

Source: Loan sample and 2011 Business Geo-demographic Data

Geographic Distribution of Loans

FNB’s lending dispersion to businesses in moderate-income census tracts is excellent. The AA does not contain any low-income census tracts. FNB extended 33% of the number and 10% of the dollar volume of loans to businesses located in moderate-income census tracts. This exceeds the demographic data of 24%.

Geographic Distribution of Commercial Loans in the Reno County AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% 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
% of Total	0%	0%	24%	33%	42%	20%	34%	47%

Source: Loan sample and 2011 Business Geo-demographic Data

Responses to Complaints

FNB has not received any CRA-related complaints since the last CRA examination.

COMMUNITY DEVELOPMENT TEST

The bank’s performance under the community development test is satisfactory. FNB provided \$9.3 million in community development loans and qualified investments during the evaluation period. FNB personnel also used their financial expertise to aid seven community development organizations serving the AA.

Number and Amount of Community Development Loans

FNB’s current level of community development lending represents 13% of Tier One Capital as of September 30, 2013. This reflects an excellent responsiveness to community development lending needs. FNB granted 24 loans, totaling \$8.2 million for community development purposes during the evaluation period. FNB also has community development loans from the prior evaluation period with outstanding balances of \$819 thousand.

In addition to community development lending within the AA, FNB provided community development loans that benefit areas within the state, including a county near its AA. FNB extended a construction loan to build affordable housing in Emporia, Kansas and a construction loan with permanent financing to build affordable housing units in Rose Hill, Kansas.

Number and Amount of Qualified Investments

FNB's level of qualified investments and donations total \$1.1 million and represent 2% of September 30, 2013 Tier One Capital. This reflects adequate responsiveness to community development investment needs. FNB also has qualified investments outstanding from the prior evaluation period with a book value of \$102 thousand. FNB's equity investments were to organizations receiving Low Income Housing Tax Credits for producing, rehabilitating or preserving affordable housing. One of the organizations specifically provides affordable housing for elderly.

FNB provided \$38 thousand in qualified donations to ten organizations during the evaluation period. Donations were primarily to non-profit organizations that provide financial education and social services to low- and moderate-income individuals and organizations with the intent to revitalize a moderate-income geography.

Extent to Which the Bank Provides Community Development Services

FNB's level of community development services during the evaluation period demonstrates adequate responsiveness to community development service needs. FNB supported seven qualifying organizations with varying mission statements. FNB's involvement in various local community organizations helped promote community development and provide affordable housing. The following are examples of how FNB employees used their financial expertise to assist these organizations:

- Lending officers facilitated the grant process with the Federal Home Loan Bank's Affordable Housing Program.
- Employees provided annual financial workshops and financial counseling for an organization that provides temporary housing for homeless individuals and families.
- FNB assists with down-payment grants and low interest purchase loans, assists with loans for repair/rehabilitation, and operates affordable housing properties for low- and moderate-income persons. FNB also provides these individuals with low-cost accounts.
- A loan officer has provided tax expertise to help obtain permanent financing for an affordable housing project in Emporia, Kansas.

Responsiveness to Community Development Needs

FNB showed adequate responsiveness to community development needs.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. 25.28(c), or 12 C.F.R. 195.28(c), in determining a national bank's (bank) or Federal savings association's (FSA) CRA rating, respectively, the OCC

considers evidence of discriminatory or other illegal credit practices in any geography by the bank of FSA, or in any AA by an affiliate whose loans have been considered as part of the bank's or FSA's lending performance.

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.