



INTERMEDIATE SMALL BANK

Comptroller of the Currency
Administrator of National Banks
Washington, DC 20219

PUBLIC DISCLOSURE

April 25, 2006

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The First National Bank of Olathe
Charter Number: 3720**

**444 East Santa Fe
Olathe, Kansas 66061**

**Comptroller of the Currency
Kansas City South Field Office
7101 College Boulevard, Suite 1600
Overland Park, Kansas 66210**

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.

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 National Bank of Olathe** (FNB) prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.

INSTITUTION'S CRA RATING: This institution is rated Satisfactory

We based the bank's CRA rating on the following primary factors:

- FNB's level of lending to businesses of different sizes and to borrowers of different income levels is satisfactory.
- The geographic distribution of both business and residential real estate loans reflects penetration throughout the assessment area (AA) and generally exceeds demographic data in moderate-income tracts.
- A majority of the bank's lending activity is within its AA.
- FNB's level of qualified investments and community development activity demonstrates adequate responsiveness to opportunities in the bank's AA.

SCOPE OF EXAMINATION

FNB's AA consists of Johnson County, Kansas in its entirety. Primary loan types by dollar volume and number consist of commercial real estate loans and commercial/industrial loans. The evaluation period for this examination's community development activities covers April 2003 to May 2006. Our lending analysis included a review of the bank's complete 2003, 2004, and 2005 commercial and residential real estate portfolios. We used the Intermediate Small Bank Examination Procedures to evaluate the bank's CRA performance. We assessed activities of affiliates in this evaluation based on information provided by the bank.

DESCRIPTION OF INSTITUTION

FNB is a \$720 million intrastate financial institution headquartered in Olathe, Kansas. First Olathe Bancshares, Inc., a \$1.4 billion one-bank holding company located in Overland Park, Kansas, is the primary owner of FNB, with 82% of the bank shares. This holding company also owns and controls another holding company, Bannister Bancshares, that owns and controls a state-member bank, Union Bank. In addition to the main banking facility, FNB has seven branch locations and eleven ATMs within its AA. Competition from other financial institutions is strong.

FNB is a full-service banking institution. The bank offers a full range of loan and deposit products at its main bank and six locations. Since the last CRA examination, FNB closed its Kansas Avenue branch. As of December 31, 2005, the bank's loan portfolio consisted of 76% commercial real estate loans, 14% commercial loans, 8% residential real estate loans (including multi-family), 1% consumer loans, and less than 1% in agriculture loans. Net loans represent 73% of total assets as of December 31, 2005. FNB's net loan-to-deposit ratio is 101% for the same period. There are no legal, financial, or other constraints that impede FNB's ability to help meet the credit needs in its assessment area.

FNB received a rating of "Satisfactory" at its last CRA examination dated April 7, 2003.

DESCRIPTION OF JOHNSON COUNTY ASSESSMENT AREA

FNB's AA meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income geographies. The bank operates seven branches within this AA. Using the 2000 U.S Census Bureau data, the Johnson County AA consists of no low-income tracts, two moderate-income, 41 middle-income, and 64 upper-income tracts. The MSA designation effective January 1, 2004 resulted in a change to census tract information. Prior to these changes Johnson County had four moderate-income, 40 middle-income, and 63 upper-income tracts. The bank's Clairborne branch was located in a moderate-income tract prior to the census tract changes.

The AA population is 451,086 persons. There are 8% of families classified as low-income, 13% classified as moderate-income, 22% classified as middle-income, and 57% classified as upper-income. The 2005 Median Family Income (MFI) for Johnson County is \$55,031. This figure is used to determine the income level for each tract. The income level of each borrower is based on the HUD MFI estimate for 2005 of \$65,400.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

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

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

We used a combination of bank and examiner generated loan/demographic reports to evaluate the bank's performance. Primary loan types by number and dollar volume consist of commercial real estate and commercial/industrial loans. This is consistent with the bank's business strategy.

Lending Test

Lending to Borrowers of Different Incomes and to Businesses of Different Sizes

FNB's level of lending to businesses of different sizes and to borrowers of different income levels is satisfactory. Primary weight is placed on the bank's small business lending activity due to the bank's volume of loans and focus on this sector. During the evaluation period, FNB reported 912 small loans to various size businesses totaling \$149 million. Based on the number of businesses that reported revenue information, the bank's volume of small loans to businesses with revenues less than \$1 million is below demographic data for all three years evaluated. During the evaluation period, the percentage of the bank's business loans to companies with revenues less than \$1 million was 38% compared to area demographic data of 59% for 2003 and 60% for both 2004 and 2005.

FNB is a Preferred Lender under Small Business Administration (SBA) lending programs. During the evaluation period, the bank originated 26 SBA loans that totaled \$9.7 million. The loans originated under this program are included in the small business analysis above.

Performance is impacted by the fact that over the past three years, 217, or 24%, of the 912 loans made to small businesses were reported with unknown revenue. FNB has a portion of its portfolio that is not included in the small business loans, which may contribute to why lending is below demographic data. Lenders make small business loans taking residential real estate in addition to the collateral. Over the evaluation period, the bank originated 150 loans for a total of \$25 million.

Although residential real estate is not a primary product of the bank, FNB helps to meet the residential real estate needs of its AA. During the evaluation period, the bank originated 302 home mortgage loans totaling \$46 million. In 2003 the bank's distribution of home mortgage loans by borrower income level for loans to low income borrowers exceeded area demographics for home improvement loans to low income borrowers and for home purchase and refinancing to moderate-income borrowers. In 2004 and 2005, the bank's distribution of home mortgage loans by borrower income level for loans to low-and moderate-income borrowers met or exceeded area demographic information for all three loan types. The tables below illustrate the bank's performance.

Borrower Distribution of Residential Real Estate Loans in Johnson County AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans
Loans Originated and Purchased in 2003								
Purchase	9%	8%	13%	38%	22%	17%	56%	38%
Home Improvement	9%	45%	13%	5%	22%	25%	56%	25%
Refinancing	9%	3%	13%	19%	22%	20%	56%	59%
Loans Originated and Purchased in 2004 - 2005								
Purchase	8%	8%	13%	14%	22%	34%	57%	42%
Home Improvement	8%	23%	13%	27%	22%	20%	57%	30%
Refinancing	8%	10%	13%	24%	22%	16%	57%	50%

Source: 2000 Census Demographic Data; Bank and examiner generated reports

Geographic Distribution of Loans

FNB's geographic distribution of loans to businesses and individuals reflects penetration throughout the AA. Lending to businesses in moderate-income areas exceeded demographics in moderate-income areas. There are no low income tracts in the AA. Penetration of business loans in moderate income areas made during the evaluation period is reasonable with 9% made to businesses during 2003 and 5% made during 2004 and 2005. Demographic data indicates that in 2003, 5% of all businesses, and in 2004 and 2005, 2% of all businesses in the AA, were located in moderate-income census tracts.

The geographic distribution of residential real estate loans is comparable to that of demographic information. The bank's penetration is slightly below area demographic data in all residential loan categories originated in moderate-income tracts for the entire evaluation period. The following tables provide a summary of the bank's real estate lending originations and purchases for home purchase, home improvement, and refinancing activity.

Geographic Distribution of Residential Real Estate Loans in Johnson County AA						
Census Tract Income Level	Moderate Tract		Middle Tract		Upper Tract	
Loan Type	% Owner Occupied Housing	% by Number	% Owner Occupied Housing	% by Number	% Owner Occupied Housing	% by Number
Loans Originated and Purchased in 2003						
Purchase	1%	3%	35%	45%	64%	52%
Home Improvement	1%	14%	35%	36%	64%	50%
Refinancing	1%	1%	35%	25%	64%	74%
Loans Originated and Purchased in 2004 – 2005						
Purchase	1%	0%	33%	38%	66%	63%
Home Improvement	1%	3%	33%	68%	66%	29%
Refinancing	1%	3%	33%	48%	66%	49%

Source: 2000 Census Demographic Data; Bank and examiner generated reports

Management offers a Special Purpose Loan Program. This program is specifically designed to service low-and moderate-income borrowers. Underwriting standards are flexible to help qualify borrowers that do not meet the bank's conventional lending standards. The purpose of the loans under the Special Purpose Loan Program must be for basic human needs (i.e. shelter, purchase a vehicle to allow transportation to and from work, medical expense, and to establish credit). Loan amounts can range from \$500 up to \$10,000 for secured loans. The maximum amount for unsecured loans is \$5,000. Credit history is not required. If the applicant does have a credit history, discrepancies must have a reasonable explanation. During the evaluation period the bank originated 84 loans totaling \$250,000.

Loan-to-Deposit Ratio (LTD)

The bank's LTD reflects good responsiveness to the credit needs of its AA. The bank's quarterly average LTD since the last CRA examination is 93.44%. Although that ratio is in the middle of the ratios for three similarly situated independent banks in the AA, it is slightly below the average of 96%. The range of ratios for the three banks is between 80% to 107% for the past 12 quarters.

Lending in Assessment Area

FNB originated or purchased a majority of reported loans within its AA. For loans evaluated from 2002-2004, the bank originated or purchased 76% by number within its AA. By loan product, FNB originated or purchased 77% of small business and 75% of HMDA loans within its AA.

Responses to Complaints

FNB has not received any complaints during this evaluation period in regards to its CRA performance.

Community Development Test

FNB's community development performance is satisfactory. Bank management has responded to the community's needs through community development activities, lending, investment, and services.

Community contacts and contextual research identified community development needs as affordable housing, redevelopment of older areas of downtown Olathe, and assistance in educating individuals on money management. FNB has the capacity to participate in these activities. FNB has made community development loans and investments that provide housing and other benefits to low- and moderate-income individuals. Bank staff members offered their financial expertise and time to support organizations that provide services targeted to low- to moderate-income individuals.

Community Development Loans

FNB originated two community development loans totaling \$609,000 in its AA and one loan outside the AA for \$367,000 in a moderate income tract in the MSA. Of the two loans in the AA, one was to a non-profit organization to start an expansion program that provides clothing, food, and furnishings to persons in need. This organization primarily benefits low- and moderate-income persons. The other loan was to purchase 28 acres of land for development that will include six acres for low income housing. In May 2005, the bank originated a loan outside its AA in a moderate-income census tract located in Kansas City, Missouri to finance a 6-unit apartment complex.

Qualified Investments

In January 2004, FNB invested \$150,000 into a wholly-owned community development corporation subsidiary (CDC) designed to address housing for low- and moderate-income individuals. The CDC acquired a single-family dwelling to be used by a participant in the transitional housing program for the homeless in Johnson County, Kansas. The Olathe Salvation Army will provide case management support to the home's occupant.

FNB continues to support the Kansas Equity Fund, LLC, which was originally created to enhance the production, rehabilitation, or preservation of affordable housing for Kansas. Since 2003, FNB has invested \$265,000 to provide housing for people making less than 60% of the area median income.

The number and dollar volume of donations to organizations with a community development purpose is adequate. Over the last three years, the bank donated \$63,000 to organizations that serve low- to moderate-income individuals within its AA. Donations were made to 12 different organizations that primarily serve low- and moderate-income individuals. The amount of contributions is 0.82% of tier one capital, and has a modest impact in meeting identified community development needs in the AA. The bank also contributed \$61,000 to regional organizations and \$11,000 to organizations serving low- to moderate-income needs world wide.

Community Development Services

The distribution of FNB's offices and service delivery systems are adequate and accessible to individuals of different income levels in the AA. The bank has seven branch locations with ATM access, three other bank-owned ATMs, and "no transaction fee charge" access to nine other ATMs owned by its affiliate in the state of Missouri. Bank personnel provide a satisfactory level of services at branch locations. Banking hours do not vary in a way that inconveniences its AA, and drive-up facilities offer extended hours on Monday – Friday and are open on Saturday. The bank has closed only one branch since the last examination. There are no low-income geographies in the AA. With the updated census tract designations, the bank has no branches or ATMs located in moderate income tracts in its AA. The bank had one branch in a moderate-income tract in 2003, but this tract was subsequently designated middle income in 2004.

FNB offers Internet Banking, low cost electronic transfer accounts, and other alternative delivery services. However, information is not maintained to demonstrate the effectiveness or impact of these services to low- or moderate-income geographies or individuals.

Bank staff members provided their financial expertise to five different organizations that promote community development initiatives in the AA. Three of the organizations provide services ranging from food, shelter, or subsidized tuition to low- and moderate-income individuals. One organization helps facilitate housing for low- to moderate- income families, and one task force is working to address the needs of the nonbanking immigrant population. Bank personnel provided their financial expertise in teaching the Money Smart program for two years to the Hispanic community and serving in advisory capacities to programs that promote the understanding basic of financial skills and bank services.

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.