



**Comptroller of the Currency
Administrator of National Banks**

PUBLIC DISCLOSURE

February 23, 1998

COMMUNITY REINVESTMENT ACT Performance Evaluation

**FIRST NATIONAL BANK OF SYRACUSE
Charter Number 8114**

**11 North Main
Syracuse, Kansas 67878**

**OFFICE OF THE COMPTROLLER OF THE CURRENCY
Western District
50 Fremont Street, Suite 3900
San Francisco, California 94105**

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 CRA performance of **First National Bank of Syracuse** prepared by the **Office of the Comptroller of the Currency (OCC)**, the institution's supervisory agency, as of **February 23, 1998**. 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 "**Outstanding**."

Management is highly responsive in meeting the credit needs of their assessment area. Additionally, the bank takes a leadership role in the economic revitalization of its community.

- Lending to individuals of various income levels and businesses of different sizes is excellent. Our analysis revealed the bank lends in all areas of its community equitably and its lending surpasses the demographics of the assessment area.
- The bank's loan-to-deposit ratio is more than reasonable given the bank's size, financial condition, and assessment area credit needs.
- First National Bank of Syracuse (FNB-Syracuse) has the majority of its loans and other lending-related activities within its assessment area.

The following table indicates the performance level of **First National Bank of Syracuse** with respect to each of the five performance criteria.

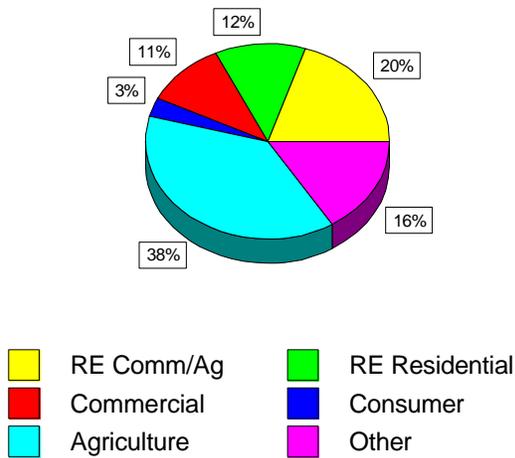
FIRST NATIONAL BANK OF SYRACUSE Performance Levels			
Small Institution Assessment Criteria	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does Not Meet Standards for Satisfactory Performance
Lending to borrowers of different incomes and to businesses of different sizes	✓		
Loan-to-deposit ratio	✓		
Lending in assessment area		✓	
Geographic distribution of loans	An analysis of the geographic distribution of loans would not be meaningful.		
Response to complaints	No complaints relating to CRA activities were received since the prior examination		

DESCRIPTION OF INSTITUTION

FNB-Syracuse is owned by a two-tier holding company. The primary holding company is Kansas Bank Corporation (KBC), a multi-bank holding company based in Johnson, Kansas. KBC owns 100% of Syracuse Financial Corporation, owner of FNB-Syracuse. Other banks in the primary holding company include: First National Bank of Liberal in Liberal, Kansas with total assets of \$162 million; and First National Bank of Elkhart in Elkhart, Kansas with total assets of \$40 million. As of December 31, 1997, FNB-Syracuse had \$59 million in total assets. The bank's main office is located in the downtown business district of Syracuse. In addition to the main office, the bank has one branch and three automatic teller machines (ATMs). The branch opened in August, 1995, and is located in Johnson, Kansas. ATMs are located at the main office, the Johnson Branch and Ampride, a gas station/convenience store in Johnson.

Loan Portfolio Composition

As of December 31, 1997



The bank's lending focus is primarily agricultural loans. Total outstanding loans as of December 31, 1997 were \$45 million. Of these, 38% were agricultural (ag) loans, 32% real estate secured (20% ag/commercial and 12% residential), 11% commercial, 3% consumer and 16% other. There are no legal or financial impediments preventing the bank from meeting the credit needs in its assessment area.

DESCRIPTION OF ASSESSMENT

AREA

FNB-Syracuse has defined its assessment area as Hamilton and Stanton Counties. These counties are located in southwestern Kansas and comprise two block numbering areas (BNA). This area is a nonmetropolitan statistical area. Each county represents one BNA. Both BNAs are designated as middle-income. This information is based on the statewide median family income derived from the 1990 census information. The bank's assessment area meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income geographies.

Of all the families in the assessment area, 15% are designated as low-income, 21% moderate-income, 24% middle-income, and 40% upper-income. If the census tract/BNA is less than 50% of the statewide median family income, it is categorized as low-income; moderate-income is between 50% and 79%; middle-income is 80% to 119%; and upper-income is 120% and above the median family income. This is based on Kansas statewide average median family income which was \$28,068 per the 1990 census. The Department of Housing and Urban Development

median income in 1997 is \$36,100.

The population of the bank’s assessment area is 4,721. Both counties have stable economies based on agriculture. Primary employers in the bank’s assessment area are local municipal entities, dairies, feedlots, and grain cooperatives. Community contacts identified credit for agriculture purposes as the most pressing credit need in the area.

The banking environment within the assessment area includes one branch of a locally based national bank, one state chartered bank, one savings and loan, and two non-bank ag financial institutions. FNB-Syracuse is the largest independent financial institution in the area.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Lending to Borrowers of Different Incomes and Businesses of Different Sizes

Overall, lending to individuals of various income levels and businesses of different sizes is excellent. The demographics of the bank’s assessment area reflect a presence of all income levels within the population. Our analysis revealed the bank lends in all areas of its community equitably and its lending surpasses the demographics of the assessment area.

The bank has not conducted an internal analysis based on borrowers’ income. Therefore, we reviewed a 10% sample of consumer loans, 33% sample of residential real estate loans, and 10% sample of commercial/ag loans originating between June 1, 1997 to February 23, 1998. Our analysis focused on the borrower’s income and gross business revenues. During this timeframe, the bank had 545 loan originations centered in the following: consumer (206), residential real estate (24), and commercial/ag (315). The following tables illustrate our findings in each area.

LOAN DISTRIBUTION BY BORROWER INCOME LEVEL(\$000s)				
Loan Type (# of loans in sample)	LOW	MODERATE	MIDDLE	UPPER
	<18,050	18,050-28,519	28,520-42,959	42,960+
% of Families within the assessment area by income level (1990 Census Data)	15%	21%	24%	40%
Consumer (22)	14%	41%	27%	18%
Residential Real Estate (8)	13%	13%	24%	50%

The results of our analysis of residential real estate loans show a slightly lower distribution than the demographics of the bank’s assessment area. However, we did not place much emphasis on housing due to the fact that residential mortgages are not the bank’s primary loan product. Residential real estate loans are mostly an accommodation for bank customers and represent only 4% of the total number of loans originated in our sample.

Our analysis of originated consumer loans found the level of loans to moderate-income individuals significantly exceeds the demographics of Stanton and Hamilton Counties. Our sample revealed that 41% of consumer loans were made to moderate-income borrowers, compared to 21% of the population.

Although consumer loans represent only 3% of the total dollar volume of the loan portfolio at December 31, 1997, the bank made a significant number of consumer loans under \$2000. This further reinforces the bank’s commitment to make credit available to low- and moderate-income borrowers with less disposable incomes. Our sample revealed that 55% of all consumer loans were made to low- and moderate-income borrowers.

LENDING TO BUSINESSES OF DIFFERENT SIZES						
Loan Type (# of loans in sample)	Business Gross Revenues (\$000s)					
	<100	100-250	251-499	500-749	750-1,000	1,000+
Business (31)	65%	6%	10%	6%	0%	13%

The bank’s distribution of commercial/ag loans to businesses and farms of different sizes is excellent. Of the 31 business loan originations in our sample, five were commercial and 26 were agricultural loans, which is reflective of the business loan activity in the assessment area. Approximately 65% of our sample represented loan originations to small businesses and farms with gross revenues under one hundred thousand. The OCC defines “small business” as a business with gross revenues under \$1 million and “small farms” as an agricultural operation with gross revenues under \$500 thousand. The bank is a Small Business Administration (SBA) lender.

Loan-To-Deposit Ratio

The bank’s loan-to-deposit ratio is more than reasonable given the bank’s size, financial condition, and credit needs of the assessment area. As of December 31, 1997, it was 84.41%. Over the last ten quarters, the evaluation period for this rating, FNB-Syracuse’s average ratio was 79.19%. Local area competitors had a loan-to-deposit ratio of 66.33% at December 31, 1997 and an average of 63.51% over the last ten quarters. Additionally, the bank had \$22 million in participations sold at December 31, 1997.

Lending in the Assessment Area

FNB-Syracuse has done an reasonable job of lending within its assessment area. During 1997, the bank originated 860 loans totaling \$72 million. Of these, 637 or 74%, of the total number of 1997 loan originations were in the bank's assessment area. This translates to \$49 million or 69% of the bank's net dollar loan volume originated inside the assessment area. We verified the accuracy of this information by testing data in the bank's automated loan reports.

Geographic Distribution of Loans

An analysis of the geographic distribution of credit within the bank's assessment area by income level would not be meaningful because the assessment area only consists of middle-income BNAs.

Response to Complaints

During the evaluation period, FNB-Syracuse did not receive any complaints from the public regarding its CRA performance. The bank is in compliance with the substantive provisions of anti-discrimination laws and regulations. Our review did not indicate any evidence of disparate treatment or other illegal credit practices.

Investments/Services/Community Development

FNB-Syracuse is a leader in community development for Hamilton and Stanton Counties. The bank's pro-active position on community development projects makes an outstanding contribution to the revitalization of the community it serves. Their efforts have contributed to the economic stability and well-being of the assessment area's population. Major community development projects are outlined as follows.

- In an effort to reverse the communities' declining population, management decided that the bank had to take a leadership role in the development of jobs for the community. After many discussions, they decided to focus on value-added agriculture as the provider of new jobs. The dairy industry appeared to be very compatible with the existing alfalfa, corn, and livestock production in the area. The bank sent Senior Vice President Terry Spiker and a local hay producer to California to solicit dairymen to move to Kansas. The recruitment of dairies began in 1994 and has been very successful. As a result of these efforts, four dairies have opened in the assessment area. Three have opened during this rating period. The bank provided funding in participation with other banks to all the dairies. Recent dairy openings include:
 - Hamilton County Dairy: opening in the first quarter of 1998; will milk 4,800 cows and will employ up to 30 people;
 - Timeline Dairy in Stanton County: opened in November, 1997; milks 4,000 cows and employs 20 people; and
 - Coolidge Dairy in Stanton County: opened in June, 1996; milks 4,400 cows and

employs 30 people.

Management invested countless hours and provided both financial expertise and financial resources to make this endeavor a successful one. The community has experienced significant economic benefits from the increased dairy industry, including:

- the addition of new families and businesses to the area;
 - higher enrollments for schools (school enrollment has grown from 380 in 1990 to a current enrollment of 520);
 - increased county tax revenues;
 - the creation of new jobs;
 - increased business for local small businesses; and
 - the opportunity for small farmers to sell hay, corn and sorghum directly to the dairies with less shipping cost.
- The bank was instrumental in the development of Mainstream Investment, LLC. This corporation was formed by 30 people investing \$84,000 to buy and remodel a downtown Syracuse building and recruiting the Duckwalls/ALCO store (small business). The bank was one of the initial investors in the project contributing \$3,500. The bank also provided financial guidance, leadership, and a place for planning meetings. The remodeling of the building was completed mostly by community volunteers, with a bank employee volunteering many hours. This store now employs 5 people including a new manager, who moved here with her family. The store is an asset to the community, providing a variety of products at competitive prices.
 - The bank participated with United States Department of Agriculture (USDA) in a \$355,000 permanent loan to Prairieland Properties of Syracuse 11, LP which specializes in building and managing low- and moderate-income housing. The bank provided the construction financing for the project. This project provided eight housing units for low- and moderate-income families in Syracuse.
 - The bank held a “Own Your Own Dream” Workshop in June, 1997, for Hamilton and Stanton County residents. The financial seminar included two presentations which included a presentation given by a bank loan officer entitled “How to secure a residential loan.” Another presentation was conducted by Consumer Credit Counseling Service (CCCS) and focused on tracking personal expenses, developing a budget, avoiding impulse spending, and learning to save. CCCS is a local non-profit organization affiliated with National Foundation for Consumer Credit.