



INTERMEDIATE SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

December 01, 2009

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

Wichita Field Office
3450 N. Rock Road, Suite 505
Wichita, KS 67226-1355

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 of 72% is reasonable compared to the average of 79% for similarly situated banks that have locations in the assessment area (AA).
- A majority of the bank's primary loan products have been granted in the AA. The loan sample indicated 83% of the number and 61% of the dollar volume of loans were granted within the AA.
- FNB demonstrated reasonable penetration to borrowers of different incomes and businesses of different sizes. The residential refinance sample indicated that 15% of the loans were granted to low-income borrowers and 15% were granted to moderate-income borrowers. The commercial loan sample indicated that 60% of commercial loans were made to businesses with annual revenues of less than \$1 million dollars.
- FNB's lending performance in moderate-income tracts is excellent. Fifteen percent of the residential refinance loans were granted to borrowers in the moderate-income tracts. Forty-five percent of the commercial loans were granted to businesses located in moderate income tracts.
- FNB demonstrated satisfactory responsiveness to community development needs. The bank's level of community development lending is excellent and represents 10% of the bank's Tier 1 capital. The level of qualified investments and community development services is adequate.

Scope of Examination

FNB was evaluated under the Intermediate/Small Bank examination procedures, which includes a lending test and a community development test. The lending test covers performance from January 1, 2007 through September 30, 2009. A sample of 20 loans each were selected from the 1-4 family residential real estate refinance product and commercial loan product. The samples represent the primary loan products granted since the previous CRA examination.

The community development test includes a review of community development loans, qualified investments, and community development services. The evaluation period for community development was from November 1, 2006 through November 30, 2009.

Description of Institution

The First National Bank of Hutchinson is a \$523 million intrastate financial institution headquartered in Hutchinson, Kansas. The bank is a wholly owned subsidiary of First Kansas Bancshares, Incorporated, a one bank holding company located in Hutchinson, Kansas. As of September 30, 2009, the holding company had total assets of \$529 million.

FNB has five branches (including the main office), one motor bank, and five automated teller machines (ATMs) located in Hutchinson, Kansas. Each branch, with the exception of the main bank and the Dillon's branch, has a drive-up facility. Four of the branches have a non-deposit taking ATM. One non-deposit taking ATM is located in a medical clinic facility. The bank closed one ATM in a moderate-income level tract during the evaluation period. No branches have been closed since the previous CRA examination.

FNB is a full-service banking institution offering a range of commercial, real estate, agricultural, and consumer credit products. Net loans and leases represent 49% of the bank's total assets. On September 30, 2009, the bank's \$261 million loan portfolio consisted of 55% real estate loans, 17% commercial and industrial loans, 9% lease financing receivables, 7% other loans, 6% municipal loans, 4% agricultural loans, and 2% consumer loans. On September 30, 2009, Tier 1 capital totaled \$54 million. The bank's primary business focus during the evaluation period was 1-4 family residential refinance loans and commercial loans.

There were no merger or acquisition activities that affected the bank's operations during the evaluation period. There are no legal, financial, or other factors impeding the bank's ability to help meet the credit needs in its AA. The Office of the Comptroller of the Currency last evaluated FNB's CRA performance on October 30, 2006. The bank received an overall rating of "Satisfactory" under the Intermediate/Small Bank Performance Standards.

Description of Assessment Area

FNB's 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 has 17 census tracts, which are designated 24% 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. Twenty-nine percent of the AA's population is not in the work force and 16% are over the age of 65. Sixteen percent of the households in the AA are retired, 11% of the households have income below poverty level, and three percent of the households receive public assistance. The weighted average Housing and Urban Development (HUD) Updated Median Family Income for 2009 is \$52,100. The median housing value from the 2000 U.S. Census

data is \$65,783. Housing units in the AA consist of 88% one-to-four family units, 6% multi-family, and 6% mobile homes. Twenty-nine percent of the available housing units are rental units.

Reno County has 14 incorporated cities, the largest of which is the County seat of Hutchinson with a population of 40,787. The Hutchinson economy is diverse and offers various employment opportunities. Major employers in Hutchinson include Promise Regional Medical Center, Unified School District # 308, Dillon Companies, Hutchinson Clinic, Tyson Prepared Foods, and Hutchinson Correctional Facility. Each employer provides more than 500 full-time jobs. Hutchinson also functions as a regional retail center for surrounding counties.

Adding to employment diversity, Reno County has close proximity to the Metropolitan Statistical Area of Wichita, Kansas. Travel time is less than an hour on a four-lane highway. Significant employers include Cessna Aircraft Company, Spirit Aerosystems, Incorporated, Hawker Beechcraft, Via Christi Regional Medical Center, McConnell Air Force Base, and Boeing Integrated Defense Systems. Each employer provides more than 3,000 full time jobs.

While the manufacturing industries in the AA and in nearby Wichita have contracted over the past two years, the local economy in Reno County is relatively stable. The area did not experience a housing boom or a steep increase in housing prices. While housing starts in Reno County are down slightly over the evaluation period, housing starts for second quarter 2009 are above the same period in 2008. As of September 2009, the unemployment rate for Reno County is 6.3%. Reno County unemployment is less than unemployment for Kansas and the nation, which have rates of 6.8% and 9.5%, respectively. The cost of living continues to be low in comparison to the national average. The 2008 cost of living index in Reno county was 77.1 (U.S. average is 100).

FNB, with 40% of all deposits, has the largest deposit market share of all the banks in the AA. Within the AA there are 11 financial institutions with 27 offices. The bank with the next largest deposit market share has 16% of deposits. FNB's primary competitors include Hutchinson Credit Union, Central Bank and Trust Company, Bank of Kansas, Peoples Bank and Trust Company, and Commerce Bank.

During the evaluation, examiners contacted one individual involved in the local community. The contact identified affordable housing as the primary credit need in the AA. The contact indicated local financial institutions are very active in the community and are meeting the credit needs of the area.

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 72%, as compared to 79% for similarly situated banks. The average loan to deposit ratio for similarly situated banks ranges from 65% to 87%.

Lending in Assessment Area

FNB extended a majority of its primary loan products to borrowers located in the AA. Combining the commercial and residential samples, we found the bank made 83% of the number and 61% of the dollar amount of loans in the AA. The sample included 20 residential refinance loans and 20 commercial loans originated or purchased over the evaluation period. The bank is a correspondent bank for many smaller banks located predominately in Western Kansas. This business strategy has a moderate impact on the bank's lending within its AA.

| Lending in Reno County | | | | | | | | | | |
|------------------------|-----------------|------------|----------|------------|-----------|--------------------------|------------|----------------|------------|----------------|
| Type of Loan | Number of Loans | | | | | Dollars of Loans (000's) | | | | |
| | Inside | | Outside | | Total | Inside | | Outside | | Total |
| | # | % | # | % | | \$ | % | \$ | % | |
| Residential Refinance | 18 | 90% | 2 | 10% | 20 | \$2,465 | 79% | \$643 | 21% | \$3,108 |
| Commercial Loans | 15 | 75% | 5 | 25% | 20 | \$2,674 | 50% | \$2,644 | 50% | \$5,318 |
| Total | 33 | 83% | 7 | 17% | 40 | \$5,139 | 61% | \$3,287 | 39% | \$8,426 |

Source: Loan sample

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

Overall, the bank's distribution of lending to borrowers of different incomes and to businesses of different sizes is reasonable. To assess the bank's lending performance, examiners selected a sample of 20 residential refinance loans and 20 commercial loans originated within the AA. These loan products represent the primary loan types originated since the last CRA examination.

FNB's residential refinance lending demonstrates a reasonable performance in meeting the credit needs of borrowers of different income levels within the AA. Fifteen percent of the residential refinance loans were granted to low-income borrowers. This percentage is near to the 18% level reflected by census demographics. Lending penetration to moderate-income families is reasonable as well. The bank granted 15% of its refinance loans to these families, lower than the 20% level reflected by the AA

demographics. This performance is considered reasonable as 11% of the households in the AA have income below the poverty level and are unlikely to be able to purchase a home. Also, bank officials noted the lower percentage of loans to low- and moderate-income borrowers may be the result of tightening credit standards for home loans in secondary market programs.

| Borrower Distribution of Residential Refinance Loans in Reno County | | | | | | | | |
|--|------------------|----------------------|------------------|----------------------|------------------|----------------------|------------------|----------------------|
| Borrower Income Level | Low | | Moderate | | Middle | | Upper | |
| | % of AA Families | % of Number of Loans | % of AA Families | % of Number of Loans | % of AA Families | % of Number of Loans | % of AA Families | % of Number of Loans |
| % of Total | 18% | 15% | 20% | 15% | 25% | N/A | 38% | 70% |

Source: Loan sample and 2000 U.S. Census data

FNB's commercial lending demonstrates the bank is providing reasonable penetration to businesses of different sizes. The sampled loans indicate 60% of the number and 53% of the dollar amount of commercial loans granted in the AA were granted to businesses with revenues of less than \$1 million. The business data reflect 77% of the businesses in the AA have revenues below \$1 million.

| Borrower Distribution of Loans to Businesses in Reno County | | | | |
|--|--------------|--------------|-------------------------|-------|
| Business Revenues (or Sales) | ≤\$1,000,000 | >\$1,000,000 | Unavailable/ Unknown | Total |
| % of AA Businesses | 77% | 4% | 19% | 100% |
| % of Bank Loans in AA by # | 60% | 35% | 5% | 100% |
| % of Bank Loans in AA by \$ | 53% | 46% | 1% | 100% |

Source: Loan sample and 2009 Business Geo-demographic Data

Geographic Distribution of Loans

An analysis of the geographic distribution of credit within the AA indicates that the bank has excellent dispersion to borrowers and businesses in moderate-income tracts. The AA does not contain any low-income tracts.

The geographic distribution of residential refinance loans reflects reasonable dispersion. Based on the sample, the bank granted 15% of the number of residential refinance loans to borrowers located in moderate-income tracts. This is near to the census data, which reflects 18% of all owner-occupied housing in the AA is located in moderate-income tracts.

| Geographic Distribution of Residential Real Estate Refinance Loans in Reno County | | | | | | | | |
|--|--------------------------------|----------------------|--------------------------------|----------------------|--------------------------------|----------------------|--------------------------------|----------------------|
| Census Tract Income Level | Low | | Moderate | | Middle | | Upper | |
| | % of AA Owner Occupied Housing | % of Number of Loans | % of AA Owner Occupied Housing | % of Number of Loans | % of AA Owner Occupied Housing | % of Number of Loans | % of AA Owner Occupied Housing | % of Number of Loans |
| % of Total | N/A | N/A | 18% | 15% | 46% | 20% | 36% | 40% |

Source: Loan sample and 2000 U.S. Census data

The geographic distribution of commercial loans is excellent. The bank extended 45% of the number of commercial loans to businesses located in moderate-income tracts. This compares favorably to the geo-demographics showing that 30% of the AA's non-farm businesses are located in moderate-income tracts.

| Geographic Distribution of Loans to Businesses in Reno County | | | | | | | | |
|--|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|
| 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 | N/A | N/A | 30% | 45% | 39% | 35% | 35% | 20% |

Source: Loan sample and 2009 Business Geo-demographic Data

Responses to Complaints

The bank has not received any CRA-related complaints since the previous CRA examination.

COMMUNITY DEVELOPMENT TEST

FNB's performance under the community development test is satisfactory. During the evaluation period, FNB provided \$5.7 million in community development loans and qualified investments to help meet the community development needs of the AA. Bank personnel provided financial expertise to nine community development organizations serving the AA.

Number and Amount of Community Development Loans

The bank's level of community development lending during the evaluation period demonstrates excellent responsiveness to community development lending needs. FNB granted 18 new loans totaling \$5.4 million for community development purposes. This level of community development lending represents 10 percent of the bank's Tier 1 capital.

FNB's community development activity during this evaluation period includes a loan totaling \$2.6 million granted to build 48 affordable housing units for low- and moderate-income individuals. Additionally, three loans totaling \$1.9 million were granted to build affordable housing units for senior citizens in Greensburg, Kansas. Greensburg is a federally designated disaster area. In addition to the new lending, FNB had outstanding community development loans from the prior evaluation period totaling \$1.8 million.

Number and Amount of Qualified Investments

FNB's level of qualified investments and donations over the evaluation period demonstrates adequate responsiveness to community development investment needs. The bank provided \$285 thousand in qualified investments and donations during the evaluation period. This amount represents less than one percent of the bank's Tier 1 capital.

This performance is considered adequate because the AA has limited investment opportunities that qualify for community development purposes. The primary opportunities are for equity investments in organizations offering Low Income Housing Tax Credits. The bank provided eleven qualified investments totaling \$150 thousand during the evaluation period. The bank also had an additional \$359 thousand in prior period investments. The investments primarily consist of equity funds to enhance the production, rehabilitation, or preservation of affordable housing in the AA.

The bank's qualified donations addressed social and educational needs for low- and moderate-income residents in the community. Eleven organizations received a total of \$123 thousand in donations during the evaluation period.

Extent to Which the Bank Provides Community Development Services

The bank's level of community development services during the evaluation period demonstrates adequate responsiveness to community development service needs. FNB supported 9 qualifying organizations that have varying mission statements. The bank's involvement in various local community organizations has helped promote community development and provide affordable housing. The following are examples of how bank associates used their financial expertise to assist these organizations:

- FNB officers facilitated the grant process through the Federal Home Loan Bank Affordable Housing Program. The two grants provided \$562 thousand for affordable housing in the AA.
- Bank employees provide annual financial workshops and financial counseling for two organizations that provide affordable housing. The organizations provide temporary housing for homeless individuals and families, assist with down-payment grants and low interest purchase loans, assist with loans for repair/rehabilitation, and also operate affordable housing properties for low- and moderate-income persons.
- FNB officer serves on Board and is in-coming Chair for a downtown revitalization organization. The bank facilitated the application process and subsequently

obtained a grant from the Federal Home Loan Bank JOBS program. The grant funded a revitalization pilot program in a moderate-income tract.

Responsiveness to Community Development Needs

FNB showed adequate responsiveness to community development needs. Identified needs include affordable housing and social services for low- and moderate-income individuals.

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.