



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

April 18, 2002

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**National Bank Of Andover
Charter Number 18478**

**225 W. Central
Andover, KS 67002**

**Comptroller of the Currency
Assistant Deputy Comptroller C. Scott Schainost
Wichita Field Office
3450 North Rock Road Suite 505
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.

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INSTITUTION'S CRA RATING

This institution is rated **Satisfactory**.

- NBA's quarterly average loan-to-deposit ratio of 73 percent is comparable to 73 percent for the peer bank group.
- A majority of the bank's primary loan products have been granted in the assessment areas. The examiner's loan sample indicated 93 percent of the number and 91 percent of the dollar volume were in the assessment areas.
- The bank demonstrated excellent lending levels to low- and moderate-income consumers. The examiner's consumer and residential purchase and refinance loan samples indicated the bank's level of lending to these borrowers significantly exceeded the demographics of the area. Lending to businesses was not a major loan product.
- NBA's performance in lending to low- and moderate-income tracts of the AA was poor. The bank is small and its offices are located farther away from these areas. The size and distance along with the existence of competing financial institutions with locations in closer proximity to the low- and moderate-income tracts help to mitigate the bank's low performance in these areas.

DESCRIPTION OF INSTITUTION

National Bank of Andover (NBA) is a \$38 million bank headquartered in Andover, Kansas, a suburb of Wichita. In addition to its main office, the bank has a branch in the east part of Wichita, five miles west of the main office. This branch was opened since the last examination. Each office has a drive up facility and a deposit taking ATM. The bank also has two cash dispensing ATMs in retail locations in Wichita. The bank does not have a holding company.

NBA is a full-service bank offering a variety of loans. Net loans represent 67 percent of the bank's total assets. As of December 31, 2001, the bank's \$25 million loan portfolio had the following composition: residential real estate 37 percent, commercial 32 percent, consumer 27 percent, agricultural one percent, and other three percent.

Management indicated the bank's primary loan products, by number and dollar amount of loans granted since the last examination, were residential real estate loans and consumer loans to purchase used vehicles.

The bank's financial condition, size, local economic conditions, and other factors allow it to help meet the credit needs of its assessment area. We assigned a "Satisfactory" rating at the December 23, 1997, examination.

DESCRIPTION OF ASSESSMENT AREA

The bank's assessment area (AA) consists of Butler County, Kansas (11 tracts), and Sedgwick County, Kansas (101 tracts). Nine percent (10) of the tracts are low-income tracts, 22 percent (25) are moderate-income, 52 percent (58) are middle-income, and 17 percent (19) are upper-income. The AA, with a population of 454,242, is part of the Wichita Metropolitan Statistical Area (MSA). The 1990 decennial median family income in the MSA was \$35,931 and the median family income for 2001 was \$59,000. The AA has the following income distribution for families:

| Distribution of Family Income in Assessment Area | |
|---|-------------------|
| Income Level | Percentage |
| Low-income Families | 18 |
| Moderate-income Families | 18 |
| Middle-income Families | 26 |
| Upper-income Families | 38 |

Eleven percent of the households have incomes below the poverty level, 24 percent receive social security, and five percent receive public assistance. Twenty-two percent of the population is not in the work force and 12 percent is over the age of 65.

The median housing value is \$58,446 and 60 percent of the housing units are owner-occupied. The MSA is diverse with manufacturing, retail, services, and government.

Major employers in the AA are aircraft manufacturers, government, and local school districts. The economy slowed in 2001 as aircraft companies in the MSA had significant layoffs. The unemployment rate for February in Wichita MSA was 6 percent.

NBA faces strong competition in the AA. In addition to NBA, forty-three financial institutions have offices in the bank's AA with assets ranging from \$5 million to \$552 billion. We selected fourteen of those banks as peer banks for NBA. Those banks have at least one office in Butler County or eastern Sedgwick County and all of their offices in the AA. Assets size for these fourteen banks range from \$8 million to \$482 million, with NBA ranking 10th in asset size.

The assessment area complies with the regulation and does not arbitrarily exclude any low- or moderate-income areas.

Examiners contacted one economic development organization and reviewed four recent community contacts performed by the OCC or other regulators. The contacts identified small business start-up and expansion loans, residential real estate and consumer-purpose loans as the credit needs in the community. The contacts indicated the area banks are meeting these needs.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

NBA's lending level is satisfactory. The average loan-to-deposit ratio for the last 17 quarters was 73 percent and in line with peer banks. For peer banks we selected 14 peer banks that had at least one office in Butler County or eastern Sedgwick County and all of their offices in the AA. The quarterly average loan-to-deposit ratio over the same period for the peer group was 73 percent. Average loan-to-deposit ratios for this group ranged from 54 percent to 91 percent.

Lending in Assessment Area

NBA's lending in its AA is satisfactory as it extended a majority of its primary loan products in its AA. To determine the loan distribution examiners selected a sample of 20 consumer used vehicle purchase loans granted during 2000, 2001 and the first of quarter of 2002. We also reviewed all the purchase and refinance residential real estate loans reported by the bank during the years of 1998, 1999, 2000, and 2001. The following table depicts the distribution of these loans by number and dollar amount.

| Percentage of Sample Loans Granted Within the Assessment Area | |
|--|----------------------|
| Percentage by Number | Percentage by Dollar |
| 93 | 91 |

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

Lending to borrowers of different incomes is excellent. Examiners analyzed a sample of consumer used vehicle purchase loans and all of the purchase and refinance residential real estate loans as those loan products represent the majority of loans originated since the last examination. We did not analyze business loans, as it was not a major loan product. Community contacts indicated small business loans, residential real estate loans, and consumer loans as community credit needs.

Lending to borrowers of different income levels for the purchase of used vehicle is good. Examiners selected a sample of 20 consumer used vehicle purchase loans granted in the AA during 2000, 2001, and the first quarter of 2002. The following table indicates the bank's lending to low-income borrowers is excellent as it significantly exceeds the percentage of households in that income category. Lending to moderate-income borrowers is acceptable as it is within 2 percent of the demographics for moderate-income borrowers.

| Sample of Consumer Purchase Used Vehicle Loans Granted Between January 1, 2000 and March 31, 2002 | | | |
|--|---|-----------------------------|--------------------------------------|
| Borrower Income Level | Consumer Purchase Used Vehicle Loans | | Households in Income Category |
| | Percentage of Number | Percentage of Dollar | Percentage |
| Low-income | 60 | 47 | 22 |
| Moderate-income | 15 | 10 | 17 |
| Middle-income | 10 | 19 | 21 |
| Upper-income | 15 | 24 | 40 |
| Total | 100 | 100 | 100 |

Examiners reviewed all the purchase and refinance residential real estate loans granted during 1998, 1999, 2000, and 2001. The following table indicates the bank's lending to low- and moderate-income borrowers is excellent as it usually exceeds the percentage of families in those income categories.

The lending of purchase residential real estate loans to low- and moderate-income borrowers is excellent. Purchase lending to low-income borrowers exceeded the demographics by 11 percent. While the purchase loans to moderate-income borrowers was one percent higher than the demographics. This is an excellent performance given that eight percent of the demographics has an income below the poverty level, which hinders the ability to qualify for home loans.

The lending of refinance residential real estate loans to low- and moderate-income borrowers is excellent. Residential real estate refinance lending to low-income borrowers is good even though the percentage is significantly lower than demographics. The poverty level mentioned above and the settlement costs associated with a refinancing impede penetration in the low-income sector. The opportunity to grant refinance residential real estate loans to low-income borrowers is limited since it is difficult for very low-income individuals to purchase a home. Lending to moderate-income borrowers is excellent as it exceeds the demographics by three percent.

| Residential Real Estate Loans Granted During 1998, 1999, 2000, and 2001 | | | | | |
|--|---|---------------------------------|--|---------------------------------|--|
| Borrower Income Level | Purchase Residential Real Estate Loans | | Refinance Residential Real Estate Loans | | Families in Income Category |
| | Percentage of Number | Percentage of Dollar | Percentage of Number | Percentage of Dollar | Percentage |
| Low-income | 29 | 14 | 12 | 7 | 18 |
| Moderate- income | 19 | 13 | 21 | 15 | 18 |
| Middle-income | 21 | 19 | 18 | 16 | 26 |
| Upper-income | 31 | 54 | 48 | 60 | 38 |
| NA | 0 | 0 | 1 | 2 | 0 |
| Total | 100 | 100 | 100 | 100 | 100 |

Geographic Distribution of Loans

The geographic distribution of the bank's loans in low- and moderate-income tracts is poor, but acceptable because of mitigating circumstances. The bank's main office is in a middle-income tract and the branch is in an upper-income tract. Tracts surrounding both locations are middle- or upper-income tracts. Most of the low- and moderate-income tracts are in the core area or southeast part of Wichita, several miles from the bank. The bank is small and faces strong competition in the AA. The size and distance along with the existence of competing financial institutions with locations in closer proximity to the low- and moderate-income tracts help to mitigate the bank's poor performance in these areas. Examiners analyzed a sample of consumer used vehicle purchase loans and all of the purchase and refinance residential real estate loans as those are the bank's primary loan products.

The bank's distribution of consumer used vehicle purchased loans in the low- and moderate-income tracts is poor, but acceptable with the mitigating circumstances mentioned above. Examiners selected a sample of 20 used vehicle purchase loans granted to consumers in the AA during 2000, 2001, and the first quarter of 2002. The sample did not contain any purchase used vehicle loans to consumers in low-income tracts, which represents five percent of the households in the AA. Lending of purchase used vehicle loans to consumers in moderate-income tracts was much lower than the AA's demographics.

| Sample of Consumer Purchase Used Vehicle Loans Granted Between January 1, 2000 and March 31, 2002 | | | |
|--|--|-----------------------------|--|
| | Consumer Purchase Vehicle Loans | | Households by Income Level of Tract |
| Census Tract Income Level | Percentage of Number | Percentage of Dollar | Percentage |
| Low-income | 0 | 0 | 5 |
| Moderate-income | 5 | 9 | 20 |
| Middle-income | 85 | 81 | 55 |
| Upper-income | 10 | 10 | 20 |
| Total | 100 | 100 | 100 |

The bank's distribution of residential real estate purchase and refinance loans in the low- and moderate-income tracts of the AA is poor, but acceptable with the mitigating circumstances mentioned above. Examiners reviewed all the purchase and refinance residential real estate loans granted during 1998, 1999, 2000, and 2001. Loans granted in low- and moderate-income tracts are substantially below the AA's demographics. The bank made loans in only one low-income tract and three moderate-income tracts.

| Residential Real Estate Loans Granted During 1998, 1999, 2000, and 2001 | | | | | |
|--|---|-----------------------------|--|-----------------------------|--|
| | Purchase Residential Real Estate Loans | | Refinance Residential Real Estate Loans | | Owner Occupied Housing by Income Level of Tract |
| Census Tract Income Level | Percentage of Number | Percentage of Dollar | Percentage of Number | Percentage of Dollar | Percentage |
| Low-income | 2 | 0 | 0 | 0 | 35 |
| Moderate-income | 7 | 3 | 2 | 2 | 43 |
| Middle-income | 70 | 66 | 79 | 72 | 64 |
| Upper-income | 21 | 31 | 19 | 26 | 72 |
| Total | 100 | 100 | 100 | 100 | |

Responses to Complaints

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

Fair Lending Review

An analysis of 1998, 1999, 2000, 2001, and year-to-date 2002 public comments and consumer complaint information was performed according to the OCC's risk based fair lending approach. Based on its analysis of the information, the OCC decided that a comprehensive fair lending examination would not need to be conducted in connection with the CRA evaluation this year. The latest comprehensive fair lending exam was performed in 1997.