



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

October 02, 2006

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Gardner National Bank
Charter Number 18435**

**840 East Main Street
Gardner, KS 66030**

**Comptroller of the Currency
Kansas City North
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.

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 Community Reinvestment Act (CRA) performance of **Gardner National Bank** prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **October 2, 2006**. 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."

The major factors that support this rating are as follows:

- Gardner National Bank's (GNB) lending to businesses of different sizes and to borrowers of different income levels is excellent. By dollar and number of loans, the bank's primary lending products consist of commercial and residential real estate loans.
- The geographic distribution of loans is excellent. There are no low-income geographies. For commercial loans the bank's penetration of loans in moderate-income census tracts meets area demographic data. For residential real estate loans the bank's performance exceeds area demographic data.
- A majority of the bank's lending activity is within its assessment area (AA).
- The bank's quarterly average loan to deposit ratio compares favorably with similarly -situated financial institutions in the AA.

SCOPE OF EXAMINATION

We used a combination of bank and examiner generated loan/demographic reports to evaluate the bank's CRA performance. Primary loans by dollar and number consisted of commercial loans followed by residential real estate loans. Our loan sample consisted of 32 commercial and 58 residential real estate loans. The evaluation period for the lending test included loans originated May 1, 2001 – August 31, 2006. The evaluation period for community development activities is May 1, 2001 – October 2, 2006. Activities of affiliates were not assessed in the evaluation.

DESCRIPTION OF INSTITUTION

GNB is a \$97 million financial institution located in southwest Johnson County, Kansas. The bank's main office and holding company are both headquartered in Gardner, Kansas. The holding company, Gardner Bancshares, Inc., a one-bank holding company, owns 100 percent of the bank shares. The bank has one additional office in Gardner and one in Lenexa, which opened in 2002. The bank offers a full range of lending / deposit products and services. An ATM (automated teller machine) is located at each office and one at a convenience store in Gardner.

As of June 30, 2006, loans totaled \$63 million and represented 65 percent of total assets. The loan portfolio composition by dollar is as follows: 66 percent commercial, 25 percent residential real estate, 5 percent agricultural related, and 4 percent consumer. Commercial and residential real estate lending is the primary focus of the bank's loan portfolio. This is consistent with the bank's business strategy.

There are no legal or financial circumstances that impede the bank's ability to help meet the credit needs in its AA. GNB received a rating of "Satisfactory" at its last CRA examination dated April 16, 2001.

DESCRIPTION OF ASSESSMENT AREA

GNB's AA consists of Johnson, Miami, and Franklin Counties, Kansas all located in the Kansas City, Missouri/Kansas Metropolitan Statistical Area (MSA). Moderate-, middle- and upper-income tracts make up 4 percent, 42 percent and 54 percent of the AA, respectively. There are no low-income tracts in the AA. The AA complies with the regulation and does not arbitrarily exclude low- or moderate-income geographies.

Gardner, Kansas is recognized as one of the fastest-growing cities in the metro area and is home to approximately 10,000 residents. Gardner's population has doubled during the last five years. Manufacturing, health care, and service industries provide most of the employment in the area. Several financial institutions with total assets ranging from \$22 to \$601 million have offices in the AA and provide strong competition.

During the evaluation, we made one community contact and reviewed reports from six previous contacts by various regulators to assess community credit needs. The contact was made within the bank's MSA. We talked with a representative of a community development organization that focuses on enhancing and promoting the area's economy through support of new and existing businesses. According to the community contact, the primary credit needs are loans to businesses and residential real estate lending. The contact considered the level of community development opportunities available to financial institutions to be limited. The contact stated the credit needs of the community are being met.

CONCLUSION ABOUT PERFORMANCE CRITERIA

Our analysis focused on the bank's primary product lines, consisting of commercial and residential real estate loans. We reviewed a sample of 32 commercial loans of which 23 were in the bank's AA. Our sample of residential real estate loans consisted of 58 home purchase and refinance loans of which 46 were in the bank's AA. The conclusions for the income and geographic distribution are based on the loans originated year-to-date August 2006 and the two previous calendar years in the bank's AA.

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

GNB's lending to businesses of different sizes and to borrowers of different income levels is excellent and compares favorably to area demographic data. Considering the high level of competition for commercial loans and the bank's financial capacity, GNB's lending to businesses of different sizes is excellent. Based on the sample, the table below illustrates the bank's distribution of commercial loans by revenue level of the business. The sample is compared to reported revenue information for businesses in the AA.

Borrower Distribution of Loans to Businesses in AA					
Business Revenues	<\$500,000	≥500,000 or <\$1,000,000	≥\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	58.60%	5.31%	7.37%	28.72%	100%
	63.91%				
% of Bank Loans in AA by #	52.17%	17.39%	13.05%	17.39%	100%
	69.56%				
% of Bank Loans in AA by \$	36.07%	34.25%	16.46%	13.22%	100%
	70.32%				

Data Source: 2006 Business Geo-demographic data; bank and examiner generated reports.

The bank's lending to borrowers of different income levels is excellent. Management responded favorably to the credit needs of its AA by originating home loans to borrowers at all income levels including low- and moderate-income borrowers. The table below illustrates the bank's distribution of residential real estate (home purchase and refinance) loans based on the income level of the borrower.

Borrower Distribution of Residential Real Estate Loans in AA								
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
Home Purchase	9.62%	9.09%	13.99%	22.73%	22.42%	27.27%	53.98%	36.36%
Refinance		15.38%		19.23%		42.31%		23.08%

Data Source: 2000 US Census; bank and examiner generated reports

Geographic Distribution of Loans

GNB's distribution of loans among the various geographies in its AA is excellent. According to the 2000 US Census data, there are no low-income census tracts in the AA. Based on the sample of commercial loans, the table below illustrates the bank's geographic distribution of loans compared to area demographic data.

Geographic Distribution of Loans to Businesses in AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% 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
Commercial	0%	0%	4.80%	4.35%	39.14%	52.17%	56.06%	43.48%

Data Source: 2000 US Census; bank and examiner generated reports

Based on the sample of residential real estate loans, the table below illustrates the bank's geographic distribution of loans compared to area demographic data.

Geographic Distribution of Residential Real Estate Loans in AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% 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
Purchased	0%	0%	3.27%	6.25%	37.32%	81.25%	59.41%	12.50%
Refinanced				6.67%		53.33%		40.00%

Data Source: 2000 US Census; bank and examiner generated reports

Lending in Assessment Area

GNB's record of lending within its AA is good. Both by number and dollar, the majority of the bank's loans are extended to businesses and individuals in the bank's AA. By number, the bank originated 77 percent of its loans in the AA. By dollar, the bank originated 59 percent of its loans in the AA.

Loan-to-Deposit Ratio

The bank's loan-to-deposit ratio is more than reasonable, considering the level of competition in the bank's AA. The bank's quarterly average loan-to-deposit ratio calculated since the last CRA evaluation is 88 percent. For informational purposes, we reviewed the loan-to-deposit ratio of two financial institutions similar in size and product offering located in the Gardner area. The quarterly average loan-to-deposit ratios for the comparable banks ranged from 51 percent to 81 percent. The overall average ratio of these banks is 66 percent.

Response to Complaints

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

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.