



INTERMEDIATE SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

October 30, 2006

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The First National Bank of Hutchinson
Charter Number 3180**

**One North Main Street
Hutchinson, KS 67504**

**Comptroller of the Currency
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.

INSTITUTION'S CRA RATING: This institution is rated Satisfactory.

The Lending Test is rated: **Satisfactory**

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

- First National Bank's average loan-to-deposit ratio of 60% is reasonable compared to the average of 70% for similarly situated banks with locations in the assessment area.
- A majority of the bank's primary loan products have been granted in the assessment area. The loan sample indicated 88% of the number and 55% of the dollar volume were granted within the assessment area.
- First National Bank demonstrated good lending to borrowers of different incomes and businesses of different sizes. The residential real estate sample indicated that 10% of the loans were granted to low-income borrowers and 20% were granted to moderate-income borrowers. Lending to businesses of different sizes is good, as 85% of the number of commercial loans in the sample were granted to businesses with annual revenues less than one million dollars.
- First National Bank's lending performance in moderate-income tracts is excellent. Thirty percent of the residential real estate loans were granted to borrowers in moderate-income tracts. Sixty percent of the commercial loans were granted to businesses located in moderate-income tracts.

SCOPE OF EXAMINATION

The evaluation of lending products included a review of 20 residential real estate loans, and 20 commercial loans granted during 2004, 2005, and year-to-date 2006. These were the primary products the bank granted since the previous CRA examination.

The community development test included a review of community development loans, qualified investments, and community development services. The evaluation period for community development was from November 6, 2003 to October 30, 2006.

DESCRIPTION OF INSTITUTION

The First National Bank of Hutchinson (FNB) is a \$392 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 December 31, 2005, the holding company had total assets of \$428 million. FNB has five branches (including the main office), one motor bank, and six 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. Since the last Community Reinvestment Act (CRA) exam, the bank opened the 17th Street branch and placed ATMs at the Grand Prairie Hotel and the Hutchinson Clinic. No branches have been closed since the previous CRA examination.

FNB has one assessment area (AA) in Kansas. The AA encompasses all of Reno County in south central Kansas. There were no merger or acquisition activities that affected the bank's operations during the evaluation period.

FNB is a full-service banking institution offering a full range of commercial, real estate, agricultural, and consumer credit products. Net loans and leases represent 58% of the bank's total assets. On September 30, 2006, the bank's \$226 million loan portfolio consisted of 47% real estate loans, 21% commercial and industrial loans, 9% lease financing receivables, 6% other loans, 6% consumer loans, 6% municipal loans, and 5% agricultural loans. On September 30, 2006, Tier One Capital totaled \$48 million. The bank's primary business focus during the evaluation period was residential real estate and commercial loans.

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 November 5, 2003. The bank received an overall rating of "Satisfactory" under the Large Bank Performance Standards.

DESCRIPTION OF ASSESSMENT AREA

First National Bank of Hutchinson'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 low- or moderate-income geographies. The AA had a 2000 U.S. Census population of 64,790. The AA has 17 census tracts, which are designated 0% low-income, 24% moderate-income, 47% middle-income, and 29% upper-income. 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 2006 is \$49,800. The median housing value from the 2000 U.S. Census data is \$65,783. One-to-four family units represent 93% of the total housing units, rental units account for 31% of the housing, and 6% are mobile homes.

FNB has the largest deposit market share of all the banks in the AA with 35% of all deposits. Within the AA, there are 11 financial institutions with 27 offices. The bank with the next largest deposit market share has 22% of the deposits. FNB's primary competitors include Hutchinson Credit Union, Bank of Kansas, Commerce Bank, N.A., Peoples Bank and Trust, and Central Bank and Trust Company.

The Reno County AA is comprised of 31 towns and cities, with the City of Hutchinson being the

largest. The agricultural production industry in Reno County is declining, while other industries are expanding. Manufacturing, construction, retail and service industries provide economic diversification in the AA. Major employers in the AA with more than 500 full-time employees include Hutchinson Hospital, Unified School District #308, Dillons Companies, Hutchinson Correctional Facility, Hutchinson Clinic, and Tyson Prepared Foods. The unemployment rate for Reno County in August 2006 was 5.1%. The Kansas statewide unemployment rate for September 2006 was 4.1% compared to 4.6% nationwide.

During this evaluation, examiners contacted two local individuals involved in the community. The contacts indicated that local financial institutions are active in the community. Both contacts identified affordable housing and small business loans as the primary credit needs of the community. The contacts also indicated that the credit needs of the community are being met by the local financial institutions.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Lending Test

The bank's performance under the lending test is satisfactory.

Loan-to-Deposit Ratio

FNB's lending level is reasonable. The average quarterly loan-to-deposit ratio since the last CRA examination was 60%, as compared to 70% for similarly situated banks. The average loan-to-deposit for these banks ranges from 46% to 84%.

Lending in Assessment Area

First National Bank's lending in its assessment area is good, as it extended a majority of its major loan products to borrowers located in the AA. We found the bank made 88% of the number and 55% of the dollar amount of loans in the AA. The bank is a correspondent bank for many smaller banks located predominately in Western Kansas. Two large correspondent loans were included in the sample, which accounts for nearly two million dollars in loans that are out of the assessment area. The random sample included forty loans originated or purchased over the last three years. We sampled twenty residential real estate loans and twenty commercial loans.

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

FNB's lending to borrowers of different incomes and business of different sizes is good. To assess the bank's performance, examiners selected a sample of twenty residential real estate loans and twenty commercial loans. These loan products represent the primary loan types originated since the last CRA examination.

Lending to borrowers of different incomes is good. Lending to low-income borrowers is adequate. Ten percent of the residential real estate loans were granted to low-income borrowers, as compared to 17% of the AA families. While the penetration of low-income borrowers is below the demographics, 11% of the AA households are below the poverty level. Lending to moderate-income borrowers is good and in-line with the AA demographics.

Borrower Distribution of Residential Real Estate Loans in Assessment Area								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% 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
1 - 4 Family Residential	17%	10%	20%	20%	25%	20%	38%	50%

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

Lending to businesses of different sizes is good. The commercial loan sample had 85% of the number and 56% of the dollar amount of loans granted in the AA to businesses with revenues less than one million dollars, as compared to the geo-demographics of 56%. Although the geo-demographics show 40% of the businesses in the AA have unknown or unavailable revenue information, all of the bank's files contained annual revenue data.

Borrower Distribution of Loans to Businesses in Assessment Area				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	56%	4%	40%	100%
% of Bank Loans in AA by #	85%	15%	0%	100%
% of Bank Loans in AA by \$	56%	44%	0%	100%

Source: Loan sample and 2006 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 penetration to borrowers and businesses in moderate-income tracts. The AA does not contain any low-income tracts. The loan sample indicates that the bank has loan penetration in all four of the moderate-income tracts in the AA.

The geographic distribution of residential real estate loans is excellent. The bank extended 30% of the number of residential real estate loans to borrowers located in moderate-income tracts. This compares favorably to the demographics showing that 18% of the housing in the AA is owner-occupied.

Geographic Distribution of Residential Real Estate Loans in Assessment Area								
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
1 - 4 Family Residential	N/A	N/A	18%	30%	46%	30%	36%	40%

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

The geographic distribution of commercial loans is excellent. The bank extended 60% of the number of commercial loans to businesses located in moderate-income tracts. This compares favorably to the geo-demographics showing that 33% of the AA businesses are located in the moderate-income tracts.

Geographic Distribution of Loans to Businesses in Assessment Area								
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	N/A	N/A	33%	60%	39%	15%	28%	25%

Source: Loan sample and 200 Geo-demographic Business Data

Responses to Complaints

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

Community Development Test

The bank's performance under the community development test is satisfactory.

Community Development Loans

FNB extended a relatively high level of community development loans. The bank granted 25 loans totaling \$6,613 thousand for community development during the evaluation period. Five of the loans totaling \$5,396 thousand were granted to build 49 affordable housing units for low- and moderate individuals. Fifteen of the loans totaling \$654 thousand were to a local not-for profit organization to repair/rehabilitate or build affordable homes for low-income individuals, or assist low-income individuals in their purchase of affordable housing. Two of the loans totaling \$400M were to a homeless shelter to complete a renovation that added 28 rooms for homeless individuals.

FNB also offers the 1st Opportunity for Home Buyers Program. This program grants residential real estate loans to LMI borrowers purchasing homes from Interfaith Housing Services. In this program, the Federal Home Loan Bank grants 10% of the purchase price to the borrowers and the bank does not charge any loan origination fees. The bank granted three of these loans during the evaluation period totaling \$164M.

Qualified Investments

The bank showed satisfactory responsiveness to community development investment needs. The bank provided \$236 thousand in qualified investments and donations to 18 organizations during this evaluation period. The bank also had an additional \$274 thousand in prior period investments. The bank's qualified investments address community needs, including affordable housing and small business. Significant qualified investments occurring during the evaluation period are listed below:

- Purchase of tax credits totaling \$39 thousand to help provide affordable housing for LMI individuals.

- Equity investment of \$46 thousand in a housing complex for elderly LMI individuals in the AA.
- Donation of \$45 thousand to an economic development program seeking to retain and attract jobs and investments in the local economy.

Community Development Services

FNB's performance in providing community development services in the Hutchinson AA is adequate. FNB supported approximately ten community service organizations that have varying mission statements. The bank's involvement in these community organizations has helped promote community development.

Bank's responsiveness, through community development activities, to community development lending, investment, and services needs

The bank showed satisfactory responsiveness to community development needs. The bank supported community needs which included affordable housing and small business lending.

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.