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Comptroller of the Currency  
Administrator of National Banks

**LARGE BANK**

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**PUBLIC DISCLOSURE**

**September 21, 1998**

**COMMUNITY REINVESTMENT ACT  
PERFORMANCE EVALUATION**

**Commerce Bank, National Association  
Charter Number 22705  
150 North Main  
Wichita, Kansas 67201**

**Supervisory Agency: Office of the Comptroller of the Currency  
Midwestern District  
Mid-Size/Credit Card Banks  
2345 Grand Blvd., Suite 700  
Kansas City, Missouri 64108**

**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.**

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## **GLOSSARY OF TERMS AND COMMON ABBREVIATIONS**

The following terms and abbreviations are used throughout this Performance Evaluation.

**Assessment Area (AA)** - A geographic area which consists generally of one or more MSAs or one or more contiguous political subdivisions, such as counties, cities, or towns; and includes the geographies in which the bank has its main office, its branches, and its deposit-taking ATMs, as well as the surrounding geographies in which the bank has originated or purchased a substantial portion of its loans. The OCC uses the assessment area(s) delineated by a bank in its evaluation of the bank's CRA performance.

**Block Numbering Area (BNA) or Census Tract (CT)** - Small, locally defined statistical area, determined by the U.S. Census Bureau in an attempt to group homogeneous populations. A BNA or CT has defined boundaries per ten-year census and an average population of four thousand.

**Commerce** - Commerce Bank, National Association, Wichita, Kansas.

**Commerce Mortgage Company, Inc. (CMC)** - CMC is a mortgage company affiliate of Commerce and a wholly-owned subsidiary of Commerce Bancshares, Inc.

**Community Development Loan** - A loan that has community development as its *primary* purpose; and, except in the case of a wholesale or limited purpose bank, has not been reported or collected by the bank or an affiliate for consideration in the bank's assessment as a home mortgage, small business, small farm, or consumer loan, unless it is a multifamily dwelling loan; and benefits the bank's assessment area(s) or a broader statewide or regional area that includes the bank's assessment area(s).

**Community Development Service** - A service that has community development as its *primary* purpose; is related to the provision of financial services; and has not been considered in the evaluation of the bank's retail banking services under § 25.24(d).

**Community Development Purpose** - Affordable housing (including multi-family rental housing) for low- or moderate-income (LMI) individuals; community services targeted to LMI individuals; activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs (13 C.F.R. § 121.301) or have gross annual revenues of \$1 million or less; or activities that revitalize or stabilize LMI geographies.

**Geography** - A Census Tract (CT) or Block Numbering Area (BNA) delineated by the U.S. Bureau of the Census in the most recent decennial census.

**Home Mortgage Disclosure Act (HMDA)** - A statute requiring certain mortgage lenders that do business or have banking offices in MSAs to file annual summary reports of their lending activity. The reports include such data as the race, gender, and income of the applicant(s), the amount of loan requested, and its disposition (e.g. made, turned down, withdrawn). The types of loan applications reported include governmentally-guaranteed home purchase and home improvement loans, conventional home purchase loans, home improvement loans, refinancing of home purchase and home improvement loans, and loans for the purchase of multi-family (5 or more units) dwellings. *(This is a generic description of the bank's requirements and not a legal explanation of the requirements contained in 12 U.S.C. § 2801, as amended, and 12 C.F.R. § 203, as amended.)*

**Income Levels** - These relate to individuals, families, or the CTs in a Metropolitan Statistical Area (MSA).

**Low-Income** = An income level that is less than 50% of the median income.

**Moderate-Income** = An income level that is at least 50% and less than 80% of the median income.

**Low- and Moderate-Income (LMI)** = An income level that is less than 80% of the median income.

**Middle** = An income level that is at least 80% and less than 120% of the median income.

**Upper** = An income level that is 120% or more of the median income.

**GLOSSARY OF TERMS AND COMMON ABBREVIATIONS**  
(Continued)

**Large Financial Institution** - A financial institution that, as of December 31 of the prior two calendar years, had total assets of \$250 million or more or was an affiliate of a holding company that had total banking and thrift assets of \$1 billion or more.

**Market Share** - The portion of loans or deposits in a specific geographic area attributed to a financial institution, expressed as a percent of the total loans or deposits reported by all financial institutions subject to loan and deposit reporting requirements in the same area.

**Median Family Income** - The median family income for a specific MSA or nonmetropolitan statewide area as determined by the U.S. Census Bureau. The Department of Housing and Urban Development updates this figure annually using an estimated inflation factor.

**Metropolitan Statistical Area (MSA)** - An area containing a city with a population of at least 50 thousand or an urbanized area with a population of at least 50 thousand and a total metropolitan population of at least 100 thousand. Generally, MSAs consist of one or more whole counties that have a high degree of interaction.

**Qualified Investment** - A lawful investment, deposit, membership share or grant that has as its *primary* purpose community development.

**Small Loan to a Business or Farm** - A loan of \$1 million or less to a business of any size or a loan of \$500 thousand or less to a farm of any size. This is derived from loans reported as “loans to small businesses” and “loans to small farms” as defined in the instructions for preparation of the Consolidated Report of Condition and Income.

## 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 **Commerce Bank, National Association, Wichita, Kansas (Commerce)** prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **September 21, 1998**. The agency evaluates performance in assessment area(s), as they are delineated by the institution, rather than individual branches. This assessment area evaluation may include visits to some, but not necessarily all, of the institution's branches. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 C.F.R. § 25.

**Institution's CRA Rating:** We rated the bank's CRA performance "**Satisfactory**". The main factors contributing to this rating include:

- o Commerce achieved a very good distribution of HMDA loans to borrowers of different income levels, especially in the Wichita assessment area (AA). In this market, the bank originated 43% of its home purchase and 37% of its home improvement loans to low- and moderate-income (LMI) borrowers which exceeds the 36% of total families in the assessment area that are considered LMI.
- o The bank showed a good commitment to meeting the credit needs of small businesses and farms in the AAs. For example, 70% of Commerce's small loans to businesses and 88% of the bank's small loans to farms were to businesses and farms with revenues of \$1 million or less.
- o The geographic distribution of HMDA, small business, and small farm loans showed reasonable penetration in LMI geographies throughout the AAs.
- o The level of qualified investments was good at \$4.8 million, the majority of which benefitted the Wichita AA.
- o Retail delivery systems were accessible to all portions of its AAs, including LMI areas. And, Commerce provided a relatively high level of community development services in the Wichita AA.

**GENERAL INFORMATION**  
(Continued)

The following table indicates the performance level of **Commerce** with respect to the lending, investment and service tests.

Performance Levels	Commerce Bank, National Association Performance Tests		
	Lending Test*	Investment Test	Service Test
Outstanding			
High Satisfactory	<b>X</b>	<b>X</b>	<b>X</b>
Low Satisfactory			
Needs To Improve			
Substantial Noncompliance			

\*Note: The lending test is weighted more heavily than the investment and service tests when arriving at an overall rating.

**DESCRIPTION OF INSTITUTION**

Commerce Bank, National Association (Commerce) is a full-service financial institution headquartered in Wichita, Kansas. The bank is a wholly-owned subsidiary of Commerce Bancshares, Inc. (CBI), a \$10.5 billion multi-bank holding company with headquarters in Kansas City, Missouri. CBI also owns Commerce Mortgage Company, Inc. (CMC), which originates all residential mortgage loans for Commerce that are sold on the secondary market. In April 1997, CBI merged its banking entities located in Wichita and Hays, Kansas into one bank. Commerce's most recent Performance Evaluations were dated October 30, 1996 for the Wichita charter and August 11, 1995 for the Hays charter. The OCC assigned ratings of "Satisfactory Record of Meeting Community Credit Needs" for both entities.

There are no known legal or financial impediments that would hamper Commerce's ability to help meet the credit needs of its assessment areas. Commerce offers a full range of credit products including real estate, commercial, and consumer loans. As of June 30, 1998, Commerce had \$836 million in total assets. The bank's loan-to-deposit ratio on that date was 58%. By dollar amount, the loan portfolio consisted of the following types of credit: 25% one- to four-family residential; 35% consumer loans; 33% commercial and commercial real estate; 3% agricultural; 2% construction and development, 1% multi-family and 1% loans for all other purposes. The loan-to-deposit ratio and loan portfolio mix do not reflect the large volume of home purchase and refinancing mortgage loans originated by CMC on Commerce's behalf. From January 1, 1996 through June 30, 1998, there were 536 such loans totaling \$37 million.

**DESCRIPTION OF INSTITUTION**  
(Continued)

Commerce has 26 branches and 28 automated teller machines (ATMs). Twenty-two branches and all ATMs are located in four primary assessment areas (AAs). These AAs include one metropolitan AA consisting of Butler and Sedgwick Counties in the Wichita, KS MSA #9040; and three nonmetropolitan AAs consisting of one county each: Cowley, Ellis, and Reno Counties, all in Kansas. *Appendices A* and *B* provide further details on these AAs.

Table 1 shows the distribution of loans, deposits, and branches attributed to these four AAs. As shown in the table, the Wichita AA comprises the largest portion of Commerce’s banking activity, with 65% of loan originations, 63% of deposits, and 68% of total branch facilities.

<b>Table 1: Distribution of Commerce’s Loans, Deposits, and Branches by Assessment Area</b>						
<b>Assessment Area</b>	<b>Total Loans (\$000)</b>	<b>% of Total Loans</b>	<b>Total Deposits (\$000)</b>	<b>% of Total Deposits</b>	<b>Total Branches</b>	<b>% of Total Branches</b>
<b>Wichita AA</b>	168,525	65%	415,617	63%	15	68%
<b>Cowley County AA</b>	16,669	6%	63,174	10%	2	9%
<b>Ellis County AA</b>	60,841	24%	95,782	15%	3	14%
<b>Reno County AA</b>	12,291	5%	82,402	12%	2	9%
<b>Total</b>	258,326	100%	656,975	100%	22	100%

Sources: Loans: Federal Financial Institutions Examination Council (FFIEC) HMDA data for 1996 HMDA loans; FFIEC CRA Aggregate and Disclosure Data for 1996 business and farm loans; and bank records for all 1997 and 1998 loans. Deposits: Federal Deposit Insurance Corporation as of June 30, 1997. Branches: Bank records.

In addition, during this evaluation period, Commerce opened four branches which are unique because they are located inside an existing affiliate branch facility. These branches, located in Leavenworth, Manhattan, Lawrence, and Kansas City, Kansas were opened for the primary purpose of accepting public funds deposits. According to Kansas law, local public funds can only be deposited in banks chartered and headquartered in the State of Kansas. Table 1 does not include these four branch locations. Combined, these locations had no reportable HMDA, small business, or small farm loans and had \$15.3 million in deposits as of June 30, 1997. AAs for these locations consist of one census tract each.

**DESCRIPTION OF ASSESSMENT AREAS**

According to 1990 census data, Commerce’s four primary AAs had a total population of 579,550. The AAs consist of 146 CTs or BNAs, including 10 (7%) low-income, 29 (20%) moderate-income, 77 (53%) middle-income, 29 (20%) upper-income, and 1 (less than 1%) with no designated income level. There are

## **DESCRIPTION OF ASSESSMENT AREAS**

(Continued)

156,770 families in the combined AAs, with 18% designated low-income, 18% moderate-income, 25% middle-income, and 39% upper-income.

We used these demographics to provide some insight into the opportunities available for different loan types among borrowers and geographies of different income levels. We discussed other pertinent demographic data used in this analysis with the presentation of the bank's lending data throughout this Performance Evaluation. Also, the *Appendices* to this Evaluation contain information specific to the Wichita AA and the three nonmetropolitan AAs, including demographic data, economic data, and information obtained from community contacts. We did not provide further information for the other four AAs since they consist of only one CT. Banking activities in these AAs are immaterial to the overall operations of the bank.

## **SCOPE OF EXAMINATION**

We evaluated Commerce using the Lending, Investment, and Service Tests for large banks pursuant to the revised CRA regulation. These tests assess the bank's record of helping to meet community credit needs. We analyzed the bank's HMDA, small business, small farm, and community development lending; the number and types of qualified investments; branch distribution and accessibility; and retail and community development services. The current evaluation covers HMDA, small business, and small farm lending activity for 1996, 1997, and through June 30, 1998. It also covers community development lending, investment, and service activities since the last evaluation, October 30, 1996. At the bank's request, our analysis of HMDA loans included loans originated by CMC within Commerce's AAs. The 1996 HMDA data does not include HMDA loans originated by the Hays bank because that bank was not required to collect HMDA data. Also, the Hays bank was not merged with the Wichita bank until April 1997.

In forming overall conclusions, we focused on the bank's performance in the four primary AAs. Performance in the Wichita AA weighed more heavily than performance in the nonmetropolitan AAs. Approximately two-thirds of the bank's lending and deposit activities occur within the Wichita area. We performed full examination procedures for the Wichita AA, while our review of the other nonmetropolitan AAs focused on determining whether performance in these areas was consistent with the bank's overall performance.

For the remaining four AAs with branch locations inside affiliate branches, we also determined whether CRA performance was consistent with the bank's overall performance. Since Commerce did not have any CRA activities attributed to these AAs, we determined CRA performance was inconsistent with the overall bank's performance. However, given the business strategy for these locations, this did not detract from the bank's overall CRA performance. Deposit activity was not material to the overall bank nor the markets where these branches are located. In addition, the bank's Kansas City affiliate bank, headquartered in Kansas City, Missouri, offers full banking services in these locations. The Wichita bank does not compete for nor duplicate services the affiliate bank offers. No further analysis or discussion of these AAs is contained in this Performance Evaluation.



**CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS**

**LENDING TEST:**

Commerce showed an adequate responsiveness to HMDA credit needs and a good responsiveness to business and farm credit needs. The bank’s record of providing HMDA loans to borrowers of different income levels and providing loans to businesses and farms of different revenue sizes was good. In particular, the bank’s record of providing HMDA loans to LMI borrowers in the Wichita AA was exceptional. The bank also originated a good dollar volume of loans with a community development purpose. A high percentage of the bank’s loans were originated within its AAs, especially HMDA loans and small loans to businesses. Also, the distribution of loans among geographies of different income levels was acceptable.

HMDA loan performance carried the most weight in the Lending Test assessment, because this was a high volume product for the bank and an identified credit need in all AAs. Throughout the discussion of Commerce’s overall lending performance, data presented is for all AAs combined, unless noted otherwise. However, discussions regarding market share are generally for the Wichita AA only. Market share data is readily available and more complete in metropolitan areas as a significant percentage of lenders in these markets are usually required to collect and report data on HMDA, business and farm loan originations. In nonmetropolitan areas, relatively few lenders are required to collect and report this data.

**Lending Activity:**

Table 2 details the number and dollar amount of HMDA loans and small loans to businesses and farms that Commerce and CMC reported from January 1, 1996 through June 30, 1998.

<b>Table 2: Commerce’s Lending Activity Within Its Assessment Areas</b>								
Loan Type	1996		1997		1998 (Through 6/30)		Combined	
	Number	Amount (\$000)	Number	Amount (\$000)	Number	Amount (\$000)	Number	Amount (\$000)
Home Purchase	149	8,780	217	13,804	101	6,970	467	29,554
Home Improvement	120	883	149	1,380	66	612	335	2,875
Refinance	161	7,035	247	13,659	255	17,274	663	37,968
Multifamily	0	0	2	19	1	132	3	151
<b>Total HMDA Loans</b>	<b>430</b>	<b>16,698</b>	<b>615</b>	<b>28,862</b>	<b>423</b>	<b>24,988</b>	<b>1,468</b>	<b>70,548</b>
Small Loans to Businesses	680	49,741	1,000	81,982	390	38,404	2,070	170,127
Small Loans to Farms	236	4,511	334	10,027	134	3,113	704	17,651

Sources: FFIEC HMDA data for 1996 HMDA loans; FFIEC CRA Aggregate and Disclosure Data for 1996 small loans to businesses and farms; and bank records for all 1997 and 1998 loans.

The number and amount of Commerce’s HMDA loans within the bank’s AAs during the evaluation period reflected adequate responsiveness to the credit needs of home buyers and homeowners. In the Wichita AA,

**LENDING TEST (Continued):**

where competition for HMDA loans is fierce, a market share of 1.7% ranked Commerce and CMC sixteenth among 199 lenders reporting HMDA loans in 1996. In 1997, Commerce and CMC improved their ranking and overall market share to twelfth among 217 lenders, with a market share of 2.3%. Refer to **Appendix A** for further details on the competition in the Wichita AA.

Commerce showed a good responsiveness to the credit needs of commercial borrowers. An analysis of 1997 aggregate small business loan data released by the Federal Financial Institutions Examination Council (FFIEC) showed Commerce originated 9.1% of all reported business loans in amounts of \$1 million or less within the Wichita AA and ranked fourth among 56 reporting lenders. This was an increase from 1996, when the bank ranked sixth out of 56 lenders with a 4.7% market share. (The FFIEC data only includes small business loan data for financial institutions with total assets of \$250 million or more or financial institutions of any size that are affiliates of bank holding companies with \$1 billion or more in total assets.)

The bank also showed a good responsiveness to the credit needs of farm borrowers. While these needs are limited in a metropolitan area, FFIEC aggregate farm loan data for the Wichita AA in 1997 showed Commerce ranked first out of nine reporting lenders, with a 47% market share. Again, this was a significant improvement over 1996, when Commerce ranked third out of nine reporting lenders, with a 20% market share.

Commerce's responsiveness to credit needs in the nonmetropolitan areas was more limited though considered adequate. Refer to **Appendix B** for further details.

**Distribution of Loans by Borrower Profile - HMDA Loans**

Commerce had a very good distribution of home purchase and home improvement loans to borrowers of different income levels, including LMI borrowers. Performance was especially strong in the Wichita AA which outweighed weaker performance in the nonmetropolitan areas, as described in the **Appendices**. Table 3 shows the distribution of HMDA loans to borrowers of different income levels in all AAs. For comparison purposes, it also shows the distribution of families within the AAs by income level. This provides some perspective on potential lending opportunities to borrowers of different income levels. The table focuses on the number of HMDA loans rather than the dollar volume as it more clearly depicts the number of borrowers who benefitted from these loan types.

**LENDING TEST (Continued):**

<b>Table 3: HMDA Lending Activity by Borrower Income Level</b> (January 1, 1996 through June 30, 1998)							
Borrower Income Level	Home Purchase		Home Improvement		Refinance		% Families in AAs by Income Category*
	# of Loans	% by #	# of Loans	% by #	# of Loans	% by #	
Low-Income	51	11%	44	13%	48	7%	18%
Moderate-Income	97	21%	75	22%	98	15%	18%
Middle-Income	117	25%	103	31%	183	28%	25%
Upper-Income	193	41%	110	33%	333	50%	39%
Income Not Available	9	2%	3	1%	1	0%	0%
<b>Total</b>	467	100%	335	100%	663	100%	100%

Sources: FFIEC Aggregate HMDA Data (1996), bank records (1997 & 1998), and 1990 Census Data, U.S. Bureau of the Census.

\* 8% of all families in the AAs are below the poverty level.

As shown in Table 3, Commerce had a strong penetration among moderate-income borrowers within its AAs. This is especially true for home purchase and home improvement loans, where the percentage of loans to moderate-income borrowers was 117% and 122% of the percentage of moderate-income families in the AAs, respectively. For low-income borrowers, the bank's percentages were below demographic comparisons; however, this is not considered unreasonable because low-income families would have a more difficult time qualifying for these types of loan products due to their more limited income. Also, we considered the significant percentage of families who are living below the poverty level, since it is less likely they would have the financial capacity to repay loans of this type.

In the Wichita AA, Commerce's market share of loans to LMI individuals for 1996 and 1997 was very good. Its market share to LMI individuals consistently exceeded its overall market share for each HMDA loan product. The only exceptions were the bank's 1997 market share of refinancing loans for low-income individuals and the 1996 market share of home purchase loans to moderate-income individuals. In both instances, Commerce would have only had to make one or two additional loans for the LMI market share to equal the overall ratio.

***Distribution of Loans by Borrower Profile - Small Loans to Businesses***

Commerce showed good penetration of loans to business customers of different revenue sizes, including businesses with gross annual revenues of \$1 million or less. By AA, the bank's lending to businesses with revenues of \$1 million or less was better in the nonmetropolitan AAs than the Wichita AA. Approximately 46% of reported business loans originated in the nonmetropolitan AAs. Refer to the *Appendices* for details.

**LENDING TEST (Continued):**

Table 4 shows the overall distribution of Commerce’s small loans to businesses by loan size for all AAs combined. It also shows the percentage of reported loans that were to businesses with gross annual revenues of \$1 million or less.

<b>Table 4: Distribution of Small Loans to Businesses by Loan Size</b> (January 1, 1996 through June 30, 1998)				
<b>Loan Size</b>	<b># of Loans</b>	<b>% of Total Loans</b>	<b>Dollar Amount (\$000)</b>	<b>% of Total Dollar</b>
<b>\$0 to \$100,000</b>	1,721	83%	43,298	25%
<b>\$100,001 to \$250,000</b>	156	8%	26,356	16%
<b>\$250,001 to \$1,000,000</b>	193	9%	100,473	59%
<b>Total</b>	2,070	100%	170,127	100%
<i>Loans to Businesses with Annual Revenues of \$1 Million or Less (Included in Above Total)</i>	1,442	70%	75,206	44%

Sources: FFIEC CRA Aggregate and Disclosure Data for 1996 loans; and bank records for 1997 and 1998 loans.

Seventy percent of the number of Commerce’s small loans to businesses within the AAs were to businesses with revenues of \$1 million or less. In comparison, data compiled by Dun and Bradstreet indicated 74% of all businesses in the AAs reported revenues of \$1 million or less.

Within the Wichita AA, Commerce’s market share of loans to businesses with revenues of \$1 million or less exceeded its overall market share of loans to businesses. In 1997, Commerce originated 9.8% of all reported small loans to businesses with revenues of \$1 million or less compared to its overall market share of all reported loans to businesses, 9.1%. In 1996, these percentages were 5.5% and 4.7%, respectively.

As seen in Table 4, Commerce extended a significant portion of its reported business loans in relatively small dollar amounts. This is another indication of the bank’s efforts to meet the needs of smaller businesses as loan size has generally been found to correlate to the size of the business. During the evaluation period, Commerce extended 83% of its total reported loans in amounts of \$100 thousand or less to businesses of any revenue size. For loans Commerce originated to businesses with revenues of \$1 million or less, 89% were in amounts of \$100 thousand or less in 1997 and 1998.

***Distribution of Loans by Borrower Profile - Small Loans to Farms***

Commerce showed a good penetration of loans to farm customers of different revenue sizes, including farms with gross annual revenues of \$1 million or less. The bank’s penetration of loans to farm customers with revenues of \$1 million or less was better in its Wichita AA than its nonmetropolitan AAs. However, only one-third of the reported farm loans originated in the Wichita AA. Refer to the *Appendices* for further details.

**LENDING TEST (Continued):**

Table 5 shows the overall distribution of Commerce’s small loans to farms by loan size for all AAs combined. It also shows the percentage of reported loans that were to farms with gross annual revenues of \$1 million or less.

<b>Table 5: Distribution of Small Loans to Farms by Loan Size</b> (January 1, 1996 through June 30, 1998)				
<b>Loan Size</b>	<b># of Loans</b>	<b>% of Total Loans</b>	<b>Dollar Amount (\$000)</b>	<b>% of Total Dollar</b>
<b>\$0 to \$100,000</b>	681	97%	12,752	72%
<b>\$100,001 to \$250,000</b>	17	2%	2,529	14%
<b>\$250,001 to \$500,000</b>	6	1%	2,370	14%
<b>Total</b>	704	100%	17,651	100%
<b>Loans to Farms with Annual Revenues of \$1 Million or Less (Included in Above Total)</b>	621	88%	14,800	84%

Sources: FFIEC CRA Aggregate and Disclosure Data for 1996 loans; and bank records for 1997 and 1998 loans.

During the evaluation period, 88% of the number of Commerce’s small loans to farms were to farms with revenues of \$1 million or less. In comparison, data compiled by Dun and Bradstreet indicates 95% of all farms in the AAs reported revenues of \$1 million or less.

In the Wichita AA, Commerce’s market share of loans to farms with revenues of \$1 million or less was comparable to its overall market share of loans to farms. In 1996, Commerce originated 20% of all reported small loans to farms within the Wichita AA and 21% of all reported loans to farms with revenues of \$1 million or less. In 1997, both of these market share percentages increased significantly to 47%.

Commerce extended a very high percentage of its reported farm loans in relatively small dollar amounts. This is another indication of the bank’s efforts to meet the needs of smaller farms as loan size generally correlates to the size of the farm. During the evaluation period, Commerce extended 97% of its total reported loans in amounts of \$100 thousand or less to farms of any revenue size.

**Distribution of Loans by Geography - HMDA Loans**

Commerce’s geographic distribution of HMDA loans reflects adequate penetration throughout the AAs. We compared the bank’s percentage of HMDA loans in geographies of different income levels to the percentage of owner-occupied housing in these geographies. Compared to demographics, the bank’s HMDA penetration in LMI geographies was stronger in the nonmetropolitan AAs than in the Wichita AA. Refer to the *Appendices* for further details.

Table 6 shows the bank’s overall HMDA lending activity by the income level of the geography for all AAs combined.

LENDING TEST (Continued):

Table 6: HMDA Lending Activity by Geography Income Level (January 1, 1996 through June 30, 1998)							
Geography Income Level	Home Purchase		Home Improvement		Refinance		Percent of Owner- Occupied Housing in Geography Income Category
	# of Loans	% by #	# of Loans	% by #	# of Loans	% by #	
Low-Income	2	0%	9	3%	5	1%	3%
Moderate-Income	43	9%	30	9%	38	6%	13%
Middle-Income	265	57%	195	58%	366	55%	58%
Upper-Income	157	34%	101	30%	254	38%	26%
<b>Total</b>	467	100%	335	100%	663	100%	100%

Sources: FFIEC Aggregate HMDA Data (1996), bank records (1997 & 1998), and 1990 Census Data, U.S. Bureau of the Census.

The percentage of HMDA loans originated in LMI geographies, though lower than the percentage of owner-occupied housing located in these geographies, was considered reasonable. Commerce achieved penetration consistent with demographics for only one HMDA product type in one CT income level. In low-income CTs, the bank made 3% of its home improvement loans which was consistent with the percentage of owner-occupied housing in low-income CTs.

In the Wichita AA, the bank's market share of HMDA loans in LMI tracts in comparison to its overall market share was comparable except for refinance loans. Commerce would have needed to make thirteen additional refinance loans in LMI tracts in order for its refinance market share percentage in LMI tracts to equal its overall market share percentage.

**Distribution of Loans by Geography - Small Loans to Businesses**

Commerce's geographic distribution of small loans to businesses was acceptable. We compared the percentage of loans in geographies of different income levels to the percentage of total businesses located in these geographies. By individual AA, the bank's geographic distribution of small loans to businesses was similar in the Wichita AA and the nonmetropolitan AAs. Refer to the *Appendices* for further details.

Table 7 shows small business lending activity, by geographic income level, for all AAs combined. While the table shows the bank's distribution of loans by both number and dollar volume, we gave more consideration to distribution by number of loans as this more closely reflects the number of businesses benefitting from these loans.

LENDING TEST (Continued):

Table 7: Small Business Lending Activity by Geography Income Level (January 1, 1996 through June 30, 1998)					
Geography Income Level	Number of Loans	Percent by Total Number	Dollar Amount (\$000)	Percent by Total Dollar	Percent of Businesses in Geography Income Category
Low-Income	107	5%	15,430	9%	7%
Moderate-Income	343	17%	31,063	18%	25%
Middle-Income	1,115	54%	78,250	46%	48%
Upper-Income	505	24%	45,384	27%	20%
<b>Total</b>	<b>2,070</b>	<b>100%</b>	<b>170,127</b>	<b>100%</b>	<b>100%</b>

Sources: FFIEC CRA Aggregate and Disclosure Data for 1996 loans; bank records for 1997 and 1998 loans; and Dun and Bradstreet

As seen in the table, Commerce’s penetration of small loans to businesses in low-income CTs at 5% was close to the percentage of businesses located in these CTs at 7%. In contrast, the bank’s percentage of these loans in moderate-income geographies (17%) was lower than comparable demographics (25%).

In the Wichita AA, market share comparisons of the geographic distribution for Commerce’s loans to small businesses were acceptable though less than its overall market share of business loan originations. In 1997, Commerce had a smaller market share in low- and moderate-income CTs, 8.6% and 6.2%, respectively, than its overall market share of loans to small businesses of 9.1%.

***Distribution of Loans by Geography - Small Loans to Farms***

Commerce’s geographic distribution of small loans to farms was acceptable. By individual AA, the bank’s geographic distribution of small loans to farms in the nonmetropolitan AAs, where the majority of the farm loans originated, was better than that of the Wichita AA. Refer to the *Appendices* for further details.

Table 8 shows the overall geographic distribution of the bank’s small loans to farms for all AAs combined. For comparison purposes, it also shows Dun and Bradstreet information on the geographic distribution of all farms in the AAs. When reviewing the geographic distribution of farm loans throughout Commerce’s AAs, we took into consideration the relatively limited opportunities to make farm loans in LMI geographies given the small number of farms located in these geographies. In general, the LMI geographies were located within city limits and had few farms.

**LENDING TEST (Continued):**

<b>Table 8: Small Farm Lending Activity by Geography Income Level</b> (January 1, 1996 through June 30, 1998)					
<b>Geography Income Level</b>	<b>Number of Loans</b>	<b>Percent by Total Number</b>	<b>Dollar Amount (\$000)</b>	<b>Percent by Total Dollar</b>	<b>Percent of Farms in Tract Income Category</b>
<b>Low-Income</b>	5	1%	98	1%	2%
<b>Moderate-Income</b>	29	4%	539	3%	8%
<b>Middle-Income</b>	572	81%	13,875	78%	68%
<b>Upper-Income</b>	98	14%	3,139	18%	22%
<b>Total</b>	704	100%	17,651	100%	100%

Sources: FFIEC CRA Aggregate and Disclosure Data for 1996 loans; bank records for 1997 and 1998 loans; and Dun and Bradstreet

Commerce's penetration of small loans to farms in low-income geographies was good with the percentage only slightly below demographic data. However, the bank's penetration of small loans to farms in moderate-income CTs, 4% of its reported loans, was lower than the percentage of small farms located in these CTs, 8%.

An analysis of farm loan market share percentages in the Wichita AA was not meaningful. The LMI geographies within the AA are primarily in urban areas and opportunities for originating farm loans in these CTs are very limited. During 1996 and 1997, Commerce was one of only five lenders to report small loans to farms in LMI CTs within the Wichita AA.

**Assessment Area Concentration:**

Commerce made or purchased a high percentage (90%) of its reportable HMDA, small business and small farm loans within its AAs. By loan product, 95% of HMDA loans, 92% of small loans to businesses, and 79% of small loans to farms originated within the AAs. The percentage of HMDA loans in the AAs does not include home mortgage loans attributed to Commerce by its mortgage affiliate, CMC.

**Community Development Lending:**

Commerce originated a relatively high dollar volume of community development loans in its AAs considering the competition in the Wichita market and the limited opportunities in the more rural communities it serves. During the evaluation period, Commerce originated 13 qualified community development loans in its AAs totaling \$3.9 million. The majority of these loans, 9 loans totaling \$3.6 million, benefitted the Wichita AA. Although data on competing financial institutions was limited, Commerce's dollar volume of community development loans in relation to total assets compared favorably. For example, a competing bank in the Wichita market with almost twice the asset size originated \$4.5 million in community development loans in a comparable period of time.



**LENDING TEST (Continued):**

Examples of Commerce's qualified community development loans included:

- o An extensive lending relationship with the largest Wichita area nonprofit community housing organization that focuses on providing affordable housing for LMI individuals. Loan originations to this organization during this evaluation period totaled \$2.6 million. These loans included: two loans of \$1.2 million each, representing refinancing of debt originally used to purchase and renovate a 108-unit apartment building for LMI individuals and to build a 71-unit residence center for LMI elderly. Both projects are located in LMI CTs in the Wichita area and both qualify for low-income housing tax credits. Commerce also extended \$199 thousand to refinance a line of credit used for working capital needs, as well as \$25 thousand to purchase land to build a 38-unit senior housing complex targeted to LMI in Andover, Kansas.

In addition, Commerce renewed a \$225 thousand operating line of credit which the organization used to finance various ongoing LMI housing projects. We did not include the renewals of this operating line of credit in the \$3.9 million of total qualified community development loans listed above since the loan originated during a prior evaluation period.

- o \$600 thousand construction and term financing for a nonprofit organization to build a medical facility in a low-income CT in the Wichita AA. The facility's services are targeted to LMI individuals and families.
- o \$300 thousand operating line of credit for a nonprofit organization providing housing, medical, and occupational services to mentally, physically, and emotionally handicapped individuals in northwest Kansas, including the Ellis County AA. Services are targeted primarily to LMI individuals.
- o Three loans totaling \$43 thousand to purchase computer and telephone equipment for a nonprofit organization providing long-term residential housing for persons with multiple and severe disabilities. The organization primarily serves the Cowley County AA and residents are mostly LMI individuals.

Commerce also identified nine loans totaling \$441 thousand, originated in the nonmetropolitan AAs, that had a community development purpose but were already reported as small business or HMDA loans. These loans are significant because opportunities for large community development loans in rural markets are more limited. These small business and HMDA loans are evidence of the bank's commitment to community development in these AAs.

**INVESTMENT TEST:**

Commerce's level of qualified investments was good. During the evaluation period, Commerce made \$4.8 million in qualified investments and donations, the majority of which benefitted the Wichita AA. Comparable information was available for only two competing financial institutions in the Wichita AA. Taking into consideration the differences in the size of the banks, Commerce's level of qualified investments was significantly higher than the other financial institutions. The bank's investments included:

**INVESTMENT TEST (Continued):**

- o \$3.1 million equity investment in a 76-unit affordable housing apartment complex targeted to LMI senior citizens in Wichita. The project qualifies for low-income housing tax credits.
- o \$1.6 million investment in a Small Business Investment Company (SBIC) that provides equity capital and loans to small businesses in a multi-state area that includes all of the bank's AAs. To date, one business in the Wichita AA has received financing from the SBIC.
- o Approximately \$80 thousand in grants and donations to organizations whose primary purpose meets the definition of community development, including groups dedicated to providing affordable housing or community services targeted to LMI individuals throughout the bank's AAs.

In addition, Commerce had \$1.3 million in three qualified investments originated prior to the current CRA evaluation period but still outstanding on the bank's books. Two of these investments involved low-income housing tax credits and provided 154 units of affordable housing for LMI individuals in the Wichita area, while the third investment represented Commerce's annually renewable deposit in a Community Development Financial Institution (CDFI) credit union. The deposit provided start-up capital for the CDFI credit union, which serves an LMI area of Wichita.

**SERVICE TEST:**

Commerce's retail delivery systems are accessible to all portions of its AAs, including LMI areas. In October 1997, the bank improved accessibility of banking services in a predominantly LMI area in central northeast Wichita when it opened a branch along the 21st Street corridor. Commerce previously did not have a branch along this major trafficway. The branch distribution network is very good in the Wichita AA where there are more definitive LMI areas. The nonmetropolitan areas also have accessible banking locations considering the more rural areas these branches serve. The bank provides a relatively high level of community development services in its Wichita AA.

**Retail Banking Services**

Commerce's branches and ATMs are well distributed throughout its AAs, especially in the Wichita AA. As Table 9 shows, the portion of branches and ATMs in LMI geographies exceeds the percentage of geographies designated LMI and the percentage of households residing within LMI areas. Refer to the *Appendices* for the distribution of branches and ATMs for the Wichita AA and the nonmetropolitan AAs.

**SERVICE TEST (Continued):**

<b>Table 9: Distribution of Commerce's Delivery Systems</b>						
Geography Income Level	Branches*		ATMs		Percent of Households in Geography Income Level	Percent of Geographies in Assessment Areas
	Number	Percent	Number	Percent		
Low-Income	2	9%	2	7%	4%	7%
Moderate-Income	5	23%	6	21%	18%	20%
Middle-Income	11	50%	12	43%	55%	53%
Upper-Income	4	18%	8	29%	23%	20%
NA	0	0%	0	0%	0%	< 1%
<b>Total</b>	22	100%	28	100%	100%	100%

Sources: Bank records, 1990 Census Data, U.S. Bureau of the Census

\*Excludes four shared-branch facilities.

Commerce opened five new branches and did not close any branch facilities during this evaluation period. The new branches included: the Wichita branch discussed previously and the four branches located inside existing affiliate branches. Refer to the discussion under *Description of Institution* and *Scope of Examination* for details regarding the latter four branches.

Branch hours offer reasonable access and convenience. All branch locations offer Saturday hours except for main office locations in downtown areas and university locations. Branch services are consistent among all geographies by income level. All branches have Branch Managers and Financial Service Representatives (FSRs) who take applications for consumer, mortgage, and commercial credit. Commerce has eight mortgage loan originators who will meet applicants wherever it is convenient. Five of these originators are located in the Wichita AA which is consistent with where the largest portion of the bank's lending originates. Commerce relocated its affordable mortgage lender to the new 21st Street branch in Wichita to improve access to residential lending services for residents of this LMI area. Commercial loan originators are available to service all branch locations; however, most are located at the main facilities in each AA. Loan officers work flexible hours to accommodate customer needs. Deposit products are available at all branch locations. Twenty-five ATMs dispense cash and accept deposits. The remaining three ATMs, including two in Wichita and one in Hays, only dispense cash; however, none are located in LMI geographies.

Commerce offers telebanking services via customer service personnel during normal banking hours. These services include account and product information and applications for consumer loans. The bank also offers a toll-free 24-hour account information line where customers can access information about their deposit accounts, including balance inquiries and funds transfers.

**SERVICE TEST (Continued):**

***Community Development Services***

Commerce provided a relatively high level of community development services during this evaluation period. Most of these services benefitted the Wichita AA. Commerce provided fewer community development services in its nonmetropolitan AAs, primarily due to the more limited opportunities in these rural communities. These markets have fewer organizations with a primary purpose of community development. Banking personnel lent their financial expertise to organizations engaged in community development activities in a variety of ways. Examples include:

***Wichita AA:***

- o Commerce demonstrated leadership in pursuing and obtaining funding through the Federal Home Loan Bank's (FHLB) Affordable Housing Programs. These program dollars assisted the primary affordable housing organization in Wichita in providing housing for LMI persons. During this evaluation period, Commerce submitted five applications on behalf of the organization and the FHLB awarded a total of \$879 thousand in grants. This included \$672 thousand in subsidies for acquiring, constructing or rehabilitating 269 affordable housing units in Wichita and its surrounding areas; and \$207 thousand for down payment assistance for LMI borrowers in Wichita. The bank served as a disbursement point for the FHLB funds and monitored these projects for their duration to ensure compliance with FHLB guidelines.
- o Bank officers and employees lent their expertise to 13 community organizations engaged in providing community services to LMI individuals. Community services provided by the organizations included: housing, clothing, food and health services; job training and work placement; and counseling and home care for disadvantaged children. Bank personnel provided their financial expertise by serving as directors; assisting with fund raising efforts; and providing advice on financial matters by serving on finance and allocations committees or serving as treasurer or financial trustee.
- o Along with the Small Business Administration, Commerce co-sponsored a workshop for small business owners. Two loan officers educated attendees on banking services available, credit bureau reports and the loan application process. Twenty-five individuals attended the workshop.

Commerce offered grants to assist LMI home purchase loan applicants with closing costs. The bank provided up to \$750 in assistance to qualified borrowers in targeted LMI areas of Wichita. During the evaluation period, Commerce provided six grants to LMI borrowers totaling \$3,744. We included these dollars in the bank's total qualified investments under the ***Investment Test*** section.

***Nonmetropolitan AAs:***

- o Commerce employees provided financial expertise to six qualified community development organizations that provide services for LMI individuals, including housing, food, and clothing. Bank employee assistance included fund raising activities or serving on finance and allocations committees.

**SERVICE TEST (Continued):**

- o A bank officer assisted a group in Hutchinson in obtaining city and state grant monies to retain small businesses by relocating them to more suitable sites and to rehabilitate homes for LMI individuals. The officer also served as a Director and former President of an organization formed to revitalize the downtown business district of Hutchinson, a portion of which is in a moderate-income geography.

**FAIR LENDING REVIEW**

We did not identify any substantive violations of anti-discrimination laws. Our fair lending review consisted of analyzing the rates and terms given individual male and female borrowers for unsecured consumer loans. We found no evidence of discrimination based on gender in the rates and terms given for the sample of loans reviewed.

## APPENDIX A

### WICHITA, KS MSA # 9040

#### Description of Commerce's operations in the Wichita, KS MSA # 9040

Commerce's AA for the Wichita market consists of Butler and Sedgwick Counties. Within this AA, Commerce has 15 branches and 19 ATMs. The Wichita AA comprises the largest portion of Commerce's banking activities, with 65% of the bank's total loan originations, 63% of total deposits, and 68% of the bank's total branches. Refer back to Table 1 under *Description of Institution* for details.

According to 1990 census data, the Wichita AA had a total population of 454,242. The AA consists of 112 CTs, including 10 (9%) low-income, 25 (22%) moderate-income, 58 (52%) middle-income, and 19 (17%) upper-income. There are 123,013 families in the AA, with 18% designated low-income, 18% moderate-income, 26% middle-income, and 38% upper-income. The 1990 median housing value was \$58,446 and the 1990 median family income was \$35,931. The HUD estimated median family income for 1996, 1997, and 1998 was \$44,500, \$45,800, and \$49,000, respectively.

Wichita is the largest city in the MSA with a population of approximately 300 thousand. It is known as the "Air Capital of the World", serving as headquarters to several general aviation manufacturers, including Boeing, Raytheon, Cessna, and Learjet. Boeing is the largest local employer with over 18 thousand employees. During the evaluation period, the economy has been good. The unemployment rate in 1996 was 4.3% and compares favorably to national averages. The economy is diversified through the manufacturing, petroleum refining, wholesale and retail trade, services, and agricultural industries.

Banking and financial services competition in the Wichita market is very strong. The AA is served by over 20 locally owned full-service financial institutions, ranging in total assets from \$5 million to \$1.9 billion. Additional competition comes from local branches of banks outside the AA, as well as numerous savings banks and brokerage houses. As of June 30, 1997, Commerce had the sixth largest deposit market share in the AA at 7% with \$416 million in deposits. Thirty-nine other financial institutions (local and nonlocal) had deposits in the AA ranging from \$1 million to \$1.2 billion. Competition for HMDA loans is especially fierce. In 1997, there were over 200 lenders reporting one or more HMDA loan originations within the AA. Also in 1997, there were over 50 lenders reporting one or more small loans to businesses within the AA.

The most pressing housing credit needs include home loan products affordable for LMI with flexible underwriting and downpayment assistance. The major commercial credit need cited was for small dollar working capital loans for small businesses and start-up businesses. We determined these credit needs from three community contacts with government officials and community organizations made during the examination, as well as nine previous community contacts conducted recently by financial institution regulators.

**Conclusions about Performance Tests in the Wichita, KS MSA # 9040**

Commerce’s performance in the Wichita AA is consistent with our overall conclusions on the bank’s CRA performance. Since approximately two-thirds of Commerce’s banking activities are attributed to the Wichita AA, the bank’s performance in this AA weighed most heavily in the overall CRA rating.

**LENDING TEST:**

Commerce showed an adequate responsiveness to HMDA credit needs and a good responsiveness to business and farm credit needs in the Wichita AA. Even stronger than the bank’s overall performance, Commerce’s record of providing HMDA loans to LMI borrowers in the Wichita AA was exceptional. The bank’s record of providing loans to businesses and farms of different sizes was reasonable. The bank originated a good dollar volume of community development loans in this AA. Also, the distribution of loans among geographies of different income levels was acceptable.

For a discussion of Commerce’s market share performance in the Wichita AA, refer to comments under the *Lending Test* within the main body of this evaluation.

**Lending Activity:**

Table A-1 shows the number and dollar amount of HMDA loans and small loans to businesses and farms that Commerce and CMC reported from January 1, 1996 through June 30, 1998 within this AA.

<b>Table A-1: Commerce’s Lending Activity Within The Wichita Assessment Area</b>								
Loan Type	1996		1997		1998 (Through 6/30)		Combined	
	Number	Amount (\$000)	Number	Amount (\$000)	Number	Amount (\$000)	Number	Amount (\$000)
Home Purchase	85	5,445	119	7,695	53	3,474	257	16,614
Home Improvement	82	693	99	878	43	344	224	1,915
Refinance	90	4,231	129	7,005	137	9,428	356	20,664
Multifamily	0	0	0	0	1	132	1	132
<b>Total HMDA Loans</b>	257	10,369	347	15,578	234	13,378	838	39,325
Small Business	308	35,990	571	59,980	223	28,035	1,102	124,005
Small Farm	34	505	130	3,830	48	860	212	5,195

Sources: FFIEC HMDA data for 1996 HMDA loans; FFIEC CRA Aggregate and Disclosure Data for 1996 small loans to businesses and farms; and bank records for all 1997 and 1998 loans.

**LENDING TEST (Continued):**

***Distribution of Loans by Borrower Profile - HMDA Loans***

Commerce's distribution of HMDA loans by borrower income level was very good in the Wichita AA, especially to moderate-income borrowers. As shown in Table A-2, the bank's percentage of loans to moderate-income borrowers exceeded demographic data for all three HMDA loan types. For home purchase and home improvement loans to low-income borrowers, the bank's distribution was very good considering low-income families and families living below poverty level would have a more difficult time qualifying for these types of loan products due to their more limited income.

<b>Table A-2: HMDA Lending Activity by Borrower Income Level</b>							
<b>(January 1, 1996 through June 30, 1998)</b>							
<b>Borrower Income Level</b>	<b>Home Purchase</b>		<b>Home Improvement</b>		<b>Refinance</b>		<b>% Families in AA by Income Category*</b>
	<b># of Loans</b>	<b>% by #</b>	<b># of Loans</b>	<b>% by #</b>	<b># of Loans</b>	<b>% by #</b>	
<b>Low-Income</b>	37	14%	34	15%	34	9%	18%
<b>Moderate-Income</b>	74	29%	50	22%	67	19%	18%
<b>Middle-Income</b>	65	25%	72	32%	96	27%	26%
<b>Upper-Income</b>	72	28%	66	30%	159	45%	38%
<b>Income Not Available</b>	9	4%	2	1%	0	0%	0%
<b>Total</b>	257	100%	224	100%	356	100%	100%

Sources: FFIEC Aggregate HMDA Data (1996), bank records for 1997 and 1998, and 1990 Census Data, U.S. Bureau of the Census.

\* 8% of all families in the AA are below the poverty level.

***Distribution of Loans by Borrower Profile - Small Loans to Businesses and Farms***

Commerce showed a reasonable distribution of loans to business and farm customers of different revenue sizes. Though the bank exceeded the percentages reported by aggregate lenders, its portion of loans to businesses with revenues of \$1 million or less was less than comparable demographic data. Sixty-four percent of the number of Commerce's small loans to businesses within the Wichita AA were to businesses with revenues of \$1 million or less. In comparison, data compiled by Dun and Bradstreet indicated 73% of all businesses in the AA reported revenues of \$1 million or less. FFIEC aggregate small business loan data for 1996 and 1997 showed 59% of the number of all reported small loans to businesses were to businesses with revenues of \$1 million or less.

Similar comparisons can be made for small loans to farms. Commerce originated 91% of such loans to farms with revenues of \$1 million or less. Demographic data indicated 95% of all farms in the AA reported revenues of \$1 million or less. FFIEC aggregate data for 1996 and 1997 showed 88% of the number of all reported small loans to farms were to farms with revenues of \$1 million or less.



**LENDING TEST (Continued):**

Table A-3 shows the distribution of Commerce’s small loans to businesses and farms by loan size within the Wichita AA. It also shows the percentage of reported loans that were to businesses or farms with gross annual revenues of \$1 million or less.

<b>Table A-3: Distribution of Small Loans to Businesses and Farms by Loan Size</b> (January 1, 1996 through June 30, 1998)								
Loan Size	Business Loans				Farm Loans			
	# of Loans	% Total Loans	Amount (\$000)	% Total Dollar	# of Loans	% Total Loans	Amount (\$000)	% Total Dollar
\$0 to \$100,000	841	76%	25,698	21%	206	97%	4,129	79%
\$100,001 to \$250,000	112	10%	18,969	15%	5	2%	716	14%
\$250,001 to \$1,000,000	149	14%	79,338	64%	1	1%	350	7%
<b>Total</b>	1,102	100%	124,005	100%	212	100%	5,195	100%
<i>Loans to Businesses with Annual Revenues of \$1 Million or Less (Included in Above Total)</i>	704	64%	51,446	41%	193	91%	4,530	87%

Sources: FFIEC CRA Aggregate and Disclosure Data for 1996 loans; and bank records for 1997 and 1998 loans.

As seen in the table, Commerce extended a good portion, 76%, of its reported business loans in amounts of \$100 thousand or less. In comparison, FFIEC aggregate data for 1996 and 1997 showed 79% of all reported small loans to businesses in the AA were in amounts of \$100 thousand or less. For loans Commerce originated to smaller businesses, with revenues of \$1 million or less, 85% were in amounts of \$100 thousand or less.

Commerce’s performance was stronger for small loans to farms. The bank extended 97% of its total loans to farms in amounts of \$100 thousand or less. FFIEC aggregate data showed 91% of all reported small loans to farms were in similar amounts.

**Distribution of Loans by Geography - HMDA Loans**

The geographic distribution of Commerce’s HMDA loans reflects adequate penetration throughout the Wichita AA, though lower than comparable demographics. In the Wichita AA, the geographic distribution was comparable to the bank’s overall geographic distribution discussed earlier in this evaluation. Table A-4 shows the geographic distribution of the bank’s HMDA loans for the evaluation period, as well as the distribution of owner-occupied housing within the AA. As seen in the table, the bank’s percentage of HMDA loans originated in LMI geographies was consistently lower than the percentage of owner-occupied housing located in these geographies, except for home-improvement loans in low-income geographies.

**LENDING TEST (Continued):**

<b>Table A-4: HMDA Lending Activity by Census Tract Income Level</b> (January 1, 1996 through June 30, 1998)							
Census Tract Income Level	Home Purchase		Home Improvement		Refinance		Percent of Owner- Occupied Housing in Census Tract Income Category
	# of Loans	% by #	# of Loans	% by #	# of Loans	% by #	
Low-Income	2	1%	9	4%	5	1%	3%
Moderate-Income	21	8%	20	9%	25	7%	15%
Middle-Income	157	61%	134	60%	194	55%	58%
Upper-Income	77	30%	61	27%	132	37%	24%
<b>Total</b>	257	100%	224	100%	356	100%	100%

Sources: FFIEC Aggregate HMDA Data (1996), bank records for 1997 and 1998, and 1990 Census Data, U.S. Bureau of the Census.

***Distribution of Loans by Geography - Small Loans to Businesses and Farms***

Commerce's geographic distribution of small loans to businesses within the Wichita AA was acceptable and generally consistent with the bank's overall distribution of these loans. Table A-5 shows the distribution of these loans by CT income level. For comparison purposes, it also shows Dun and Bradstreet information on the geographic distribution of businesses and farms in the AA. For additional comparisons, it should be noted that aggregate lenders in 1996 and 1997 reported 8% of all small loans to businesses in low-income CTs and 23% in moderate-income geographies.

<b>Table A-5: Small Loans to Businesses and Farms by Census Tract Income Level</b> (January 1, 1996 through June 30, 1998)						
Census Tract Income Level	Business Loans		Percent of Businesses in Tract Income Category	Farm Loans		Percent of Farms in Tract Income Category
	# of Loans	% by #		# of Loans	% by #	
Low-Income	107	10%	9%	5	2%	3%
Moderate-Income	185	17%	26%	0	0%	8%
Middle-Income	584	53%	45%	205	97%	66%
Upper-Income	226	20%	20%	2	1%	23%
<b>Total</b>	1,102	100%	100%	212	100%	100%

Sources: FFIEC CRA Aggregate and Disclosure Data for 1996 loans; bank records for 1997 and 1998 loans; and Dun and Bradstreet.

While the geographic distribution of small loans to farms is included in Table A-5, an analysis of this data is not meaningful. The LMI geographies within the Wichita AA are mainly in urban areas and opportunities for originating farm loans in these CTs are very limited.

**LENDING TEST (Continued):**

***Community Development Lending***

Commerce originated a relatively high volume of community development loans within the Wichita AA. During the evaluation period, the bank originated 9 qualified community development loans totaling \$3.6 million. Refer to *Community Development Lending* for the overall institution for details.

**INVESTMENT TEST:**

Commerce’s level of qualified investments in the Wichita AA was consistent with its overall performance. These are discussed in more detail under the *Investment Test* for the overall institution.

**SERVICE TEST:**

The conclusions regarding Commerce’s delivery systems and community development services in the Wichita AA are consistent with the overall financial institution. The bank’s delivery systems are readily accessible to all portions of its Wichita AA, including LMI areas. Commerce also provided a relatively high level of community development services. These services helped fulfill the Wichita AA’s affordable housing needs and other community services needed by LMI individuals.

Commerce’s branch and ATM distribution reflects very good penetration of LMI areas. The bank has 15 branches in the Wichita AA, including ten in Wichita, two in Derby, and three in El Dorado. Table A-6 shows the distribution of the bank’s branches and ATMs in the AA. The portion of branches located in LMI areas exceeds both the percentage of LMI CTs in the AA and the percentage of households residing in these areas.

Census Tract Income Level	Branches		ATMs		Percent of Households in Census Tract Income Level	Percent of Census Tracts in Assessment Area
	Number	Percent	Number	Percent		
Low-Income	2	13%	2	10%	5%	9%
Moderate-Income	3	20%	4	21%	20%	22%
Middle-Income	7	47%	7	37%	55%	52%
Upper-Income	3	20%	6	32%	20%	17%
<b>Total</b>	15	100%	19	100%	100%	100%

Sources: Bank records, 1990 Census Data, U.S. Bureau of the Census.

Refer to the overall *Service Test* discussion for more details regarding the Retail and Community Development Services provided in this AA.

## APPENDIX B

### NONMETROPOLITAN AREAS

#### Description of Commerce's operations in Nonmetropolitan Assessment Areas

Commerce identified three AAs in nonmetropolitan portions of Kansas. Each AA consists of an entire county: Cowley and Reno Counties in south central Kansas, and Ellis County in north central Kansas. Within these AAs, Commerce has seven branches: three in Ellis County, located in Hays; two in Reno County, located in Hutchinson; and two in Winfield County, located in Winfield and Arkansas City. While each of these markets has approximately the same percentage of Commerce's total deposits (10% to 15%), Ellis County has a significantly higher percentage of the bank's total loan originations at 24%. Refer to Table 1 under *Description of Institution* for details.

Demographic data were very similar for the three AAs and are combined for presentation purposes in this Appendix. According to 1990 census data, the nonmetropolitan AAs had a total population of 125,308. The AAs consisted of 34 block numbering areas (BNAs), including 4 (12%) moderate-income, 19 (56%) middle-income, 10 (29%) upper-income, and 1 (3%) with no reported income level. There are no low-income BNAs in the nonmetropolitan AAs. There were 33,757 families in these AAs, with 16% designated low-income, 17% moderate-income, 24% middle-income, and 43% upper-income. The 1990 statewide nonmetropolitan median family income was \$28,068. The HUD estimated statewide median family income for 1996, 1997, and 1998 were \$34,300, \$36,100, and \$38,200, respectively.

The economies of the nonmetropolitan AAs are generally good. While rural and dependent upon agricultural industries, the AAs have some diversification in other industries, including manufacturing, education, and medical services.

Commerce is a significant banking presence in each of the nonmetropolitan AAs. As of June 30, 1997, Commerce's share of total deposits in these markets ranged from first in Ellis County with 24% of total deposits, to third in Cowley County with 13% of deposits, and fourth in Reno County with 12% of total deposit market share. Competition for loans is strong with over 70 lenders reporting one or more HMDA loan originations and over 20 lenders reporting one or more small loans to businesses in the AAs in 1997. This is especially significant considering many local lenders in nonmetropolitan AAs are not required to collect and report data on HMDA, business, and farm loans.

Contacts with government officials and community organizations throughout the nonmetropolitan AAs identified similar credit needs. The most pressing housing credit needs include home loan products affordable for LMI with flexible underwriting and down payment assistance financing. The major commercial credit need cited was for small dollar working capital loans for small businesses and start-up businesses. Contacts indicated the ongoing need for agricultural credit in the rural portions of these markets is adequately being met. In the nonmetropolitan AAs, we made two community contacts during the examination and reviewed six previous contacts conducted recently by financial institution regulators.

**Conclusions about Performance Tests in Nonmetropolitan Assessment Areas**

Commerce’s lending and investment performance in the nonmetropolitan AAs was not as strong as lending and investment performance overall; however, it does not change the rating for the bank. Since only about one-third of Commerce’s banking activities are attributed to the nonmetropolitan AAs, the bank’s performance in these areas did not weigh as heavily in the overall CRA rating as its performance in the Wichita AA. Conclusions regarding Commerce’s retail delivery systems in the nonmetropolitan AAs are consistent with that of the overall financial institution. However, the level of community development services in these AAs is much less than that of the overall financial institution. This is somewhat mitigated by the limited opportunities within these more rural areas.

**LENDING TEST:**

Commerce showed responsiveness to community credit needs. The penetration of loans to borrowers of different income levels was reasonable, while the distribution of loans to businesses and farms of different sizes was good. The bank originated an adequate volume of community development loans in these AAs. Also, the distribution of loans among geographies of different income levels was acceptable.

***Lending Activity:***

Table B-1 shows the number and dollar amount of HMDA loans and small loans to businesses and farms reported by Commerce and CMC from January 1, 1996 through June 30, 1998 within these AAs.

<b>Table B-1: Commerce’s Lending Activity Within Nonmetropolitan Assessment Areas</b>								
Loan Type	1996		1997		1998 (Through 6/30)		Combined	
	Number	Amount (\$000)	Number	Amount (\$000)	Number	Amount (\$000)	Number	Amount (\$000)
Home Purchase	64	3,335	98	6,109	48	3,496	210	12,940
Home Improvement	38	190	50	502	23	268	111	960
Refinance	71	2,804	118	6,654	118	7,846	307	17,304
Multifamily	0	0	2	19	0	0	2	19
<b>Total HMDA Loans</b>	<b>173</b>	<b>6,329</b>	<b>268</b>	<b>13,284</b>	<b>189</b>	<b>11,610</b>	<b>630</b>	<b>31,223</b>
Small Business	372	13,751	429	22,002	167	10,369	968	46,122
Small Farm	202	4,006	204	6,197	86	2,253	492	12,456

Sources: FFIEC HMDA data for 1996 HMDA loans; FFIEC CRA Aggregate and Disclosure Data for 1996 small loans to businesses and farms; and bank records for all 1997 and 1998 loans.

***Distribution of Loans by Borrower Profile - HMDA Loans***

Commerce’s distribution of HMDA loans to LMI borrowers was acceptable in the nonmetropolitan AAs, but weaker than the bank’s overall performance. This distribution is shown in Table B-2 along with demographic data.

LENDING TEST (Continued):

Table B-2: HMDA Lending Activity by Borrower Income Level (January 1, 1996 through June 30, 1998)							
Borrower Income Level	Home Purchase		Home Improvement		Refinance		% Families in AAs by Income Category*
	# of Loans	% by #	# of Loans	% by #	# of Loans	% by #	
Low-Income	14	7%	10	9%	14	5%	16%
Moderate-Income	23	11%	25	22%	31	10%	17%
Middle-Income	52	25%	31	28%	87	28%	24%
Upper-Income	121	57%	44	40%	174	57%	43%
Income Not Available	0	0%	1	1%	1	0%	0%
<b>Total</b>	<b>210</b>	<b>100%</b>	<b>111</b>	<b>100%</b>	<b>307</b>	<b>100%</b>	<b>100%</b>

Sources: FFIEC Aggregate HMDA Data (1996), bank records for 1997 and 1998, and 1990 Census Data, U.S. Bureau of the Census.

\* 8% below the poverty level.

The bank's percentage of home purchase, home improvement, and refinance loans to low-income borrowers was below demographic data, but comparable to percentages reported by aggregate lenders. The distribution was reasonable when considering low-income families, as well as families living below the poverty level, would have a more difficult time qualifying for these types of loan products due to their more limited income. Aggregate lenders in the nonmetropolitan AAs reported 7% of all home purchase, 8% of all home improvement, and 5% of all refinancing loans to low-income borrowers in 1996 and 1997.

Compared to demographic data, Commerce's distribution of loans to moderate-income borrowers was very good for home improvement loans, but much weaker for home purchase and refinance loans. Also in comparison, aggregate lenders reported 16% of home improvement, 18% of home purchase and 12% of refinancings to moderate-income borrowers.

***Distribution of Loans by Borrower Profile - Small Loans to Businesses and Farms***

Commerce showed a good distribution of loans to business and farm customers of different revenue sizes in the nonmetropolitan AAs. The bank's performance in this area was consistent with or better than its overall performance. Table B-3 shows the bank's distribution of these loans by loan size. Table B-3 also shows the percentage of reported loans that were to businesses or farms with gross annual revenues of \$1 million or less.

**LENDING TEST (Continued):**

<b>Table B-3: Distribution of Small Loans to Businesses and Farms by Loan Size</b> (January 1, 1996 through June 30, 1998)								
Loan Size	Business Loans				Farm Loans			
	# of Loans	% Total Loans	Amount (\$000)	% Total Dollar	# of Loans	% Total Loans	Amount (\$000)	% Total Dollar
\$0 to \$100,000	880	90%	17,600	38%	475	97%	8,623	69%
\$100,001 to \$250,000	44	5%	7,387	16%	12	2%	1,813	15%
\$250,001 to \$1,000,000	44	5%	21,135	46%	5	1%	2,020	16%
<b>Total</b>	968	100%	46,122	100%	492	100%	12,456	100%
<i>Loans to Businesses with Annual Revenues of \$1 Million or Less (Included in Above Total)</i>	738	76%	23,760	52%	428	87%	10,270	82%

Sources: FFIEC CRA Aggregate and Disclosure Data for 1996 loans; and bank records for 1997 and 1998 loans.

The bank's percentage of loans to businesses with revenues of \$1 million or less at 76% was comparable to data compiled by Dun and Bradstreet, which indicated 74% of all businesses in the AAs reported revenues of \$1 million or less.

For small loans to farms, Commerce's distribution was lower than comparable Dun and Bradstreet data. Commerce originated 87% of such loans to farms with revenues of \$1 million or less. In comparison, data from Dun and Bradstreet indicated 95% of all farms in the AAs reported revenues of \$1 million or less.

The bank extended a good portion of its reported business and farm loans in relatively small dollar amounts. During the evaluation period, Commerce extended 90% of its total reported loans to businesses in amounts of \$100 thousand or less, compared to aggregate lenders at 92%. For small loans to farms, the bank originated 97% in amounts of \$100 thousand or less, compared to aggregate lenders at 94%.

**Distribution of Loans by Geography - HMDA Loans**

The geographic distribution of Commerce's HMDA loans showed a good penetration of moderate-income BNAs for both home purchase and home improvement loans. This was better than the bank's overall performance. Table B-4 shows this distribution, as well as the distribution of owner-occupied housing throughout the nonmetropolitan AAs.

**LENDING TEST (Continued):**

<b>Table B-4: HMDA Lending Activity by Geography Income Level</b> (January 1, 1996 through June 30, 1998)							
Geography Income Level *	Home Purchase		Home Improvement		Refinance		Percent of Owner- Occupied Housing in BNA Income Category
	# of Loans	% by #	# of Loans	% by #	# of Loans	% by #	
Moderate-Income	22	11%	10	9%	13	4%	8%
Middle-Income	108	51%	61	55%	172	56%	58%
Upper-Income	80	38%	40	36%	122	40%	34%
<b>Total</b>	210	100%	111	100%	307	100%	100%

Sources: FFIEC Aggregate HMDA Data (1996), bank records for 1997 and 1998, and 1990 Census Data, U.S. Bureau of the Census.

\* There are no low-income geographies in the nonmetropolitan AAs.

Commerce's percentage of home purchase and home improvement loans in moderate-income geographies exceeded the percentage of owner-occupied housing located in these geographies. The bank's distribution of these loans was also similar to aggregate lenders, who reported 9% of home purchase and 11% of home improvement loans in moderate-income BNAs in 1996 and 1997. The bank's distribution of refinance loans at 4% was considerably weaker, as it was below demographic and aggregate lender data, which were 8% and 7%, respectively.

**Distribution of Loans by Geography - Small Loans to Businesses and Farms**

Commerce's geographic distribution of small loans to businesses and farms in the nonmetropolitan AAs was acceptable and similar to the distribution of these loans for the bank overall. Table B-5 shows the distribution of Commerce's small loans to businesses and farms by BNA income level in the nonmetropolitan AAs. For comparison purposes, it also shows Dun and Bradstreet information on the geographic distribution of businesses and farms in the AAs.

Commerce's penetration of small loans to businesses in moderate-income geographies at 16% was lower than comparable demographic data at 22% as shown in the table. It was also below aggregate lenders who reported 27% of all small loans to businesses in moderate-income geographies in 1996 and 1997.

Commerce's geographic distribution of small loans to farms at 6% was slightly lower than comparable demographic data at 9% as displayed in Table B-5. However, the bank's distribution was similar to aggregate lenders. For 1996 and 1997, aggregate lenders reported 7% of all reported small loans to farms in moderate-income BNAs.



**LENDING TEST (Continued):**

<b>Table B-5: Small Business and Small Farm Lending Activity by BNA Income Level</b> (January 1, 1996 through June 30, 1998)						
Geography Income Level *	Business Loans		Percent of Businesses in BNA Income Category	Farm Loans		Percent of Farms in BNA Income Category
	# of Loans	% by #		# of Loans	% by #	
Moderate-Income	158	16%	22%	29	6%	9%
Middle-Income	531	55%	55%	367	75%	70%
Upper-Income	279	29%	23%	96	19%	21%
<b>Total</b>	968	100%	100%	492	100%	100%

Sources: FFIEC CRA Aggregate and Disclosure Data for 1996 loans; bank records for 1997 and 1998 loans; and Dun and Bradstreet

\* There are no low-income geographies in the nonmetropolitan AAs.

***Community Development Lending***

Commerce made an adequate level of community development loans in the nonmetropolitan AAs, given limited opportunities available in these rural markets. During the evaluation period, the bank originated 4 qualified community development loans totaling \$343 thousand, as well as several HMDA and small business loans that had a community development purpose. Refer to ***Community Development Lending*** for the overall bank for more information regarding these loans.

**INVESTMENT TEST:**

Commerce's level of qualified investments in the nonmetropolitan AAs is adequate given limited opportunities in these rural markets. Investment activity in the nonmetropolitan AAs consisted of \$18 thousand in grants and donations to organizations with community development as their primary purpose. Refer to ***Investment Test*** for the overall bank for more information.

**SERVICE TEST:**

Commerce's retail delivery systems are readily accessible to its nonmetropolitan AAs, including LMI areas. The bank provided some community development services in these more rural areas, primarily consisting of using financial expertise to assist organizations providing services targeted to LMI individuals.

Commerce's seven branches and nine ATMs reflect good distribution and penetration of moderate-income areas. Two of the Hays branches are located in moderate-income BNAs and one branch in Hutchinson is located only one block from a moderate-income area. The portion of the bank's branches located in moderate-income areas exceeds both the percentage of moderate-income BNAs in the AAs and the percentage of households residing in these moderate-income areas. Table B-6 shows the distribution of branches and ATMs in the nonmetropolitan AAs combined.

**SERVICE TEST (Continued):**

<b>Table B-6: Distribution of Commerce's Delivery Systems in Nonmetropolitan Assessment Areas</b>						
<b>Geography Income Level *</b>	<b>Branches</b>		<b>ATMs</b>		<b>Percent of Households in BNA Income Level</b>	<b>Percent of BNAs in Assessment Areas</b>
	<b>Number</b>	<b>Percent</b>	<b>Number</b>	<b>Percent</b>		
<b>Moderate-Income</b>	2	29%	2	22%	12%	12%
<b>Middle-Income</b>	4	57%	5	56%	57%	56%
<b>Upper-Income</b>	1	14%	2	22%	31%	29%
<b>Income Not Applicable</b>	0	0%	0	0%	0%	3%
<b>Total</b>	7	100%	9	100%	100%	100%

Sources: Bank records, 1990 Census Data, U.S. Bureau of the Census  
 \* There are no low-income geographies in the nonmetropolitan AAs.

Refer to the overall *Service Test* for further details on the Retail and Community Development Services provided in these AAs.