



## **PUBLIC DISCLOSURE**

March 24, 2014

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

Inter-State Federal Savings and Loan Association of Kansas City  
Charter Number 704414  
711 Minnesota Avenue  
Kansas City, Kansas 66101

Office of the Comptroller of the Currency  
Kansas City Field Office  
7101 College Boulevard, Suite 1600  
Overland Park, KS 66210

**NOTE:** This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

## **INSTITUTION'S CRA RATING: Satisfactory**

**The Lending Test is rated: Satisfactory.**

The major factors supporting this rating for Inter-State Federal Savings and Loan Association of Kansas City (Inter-State) are:

- Inter-State originated a majority of its loans inside its assessment area (AA).
- The distribution of loans to borrowers of different income levels reflects excellent penetration.
- The geographic distribution of loans reflects excellent dispersion in the AA.

## **SCOPE OF EXAMINATION**

The scope of the examination included evaluating Inter-State based on the small bank CRA examination procedures, and focused primarily on the lending test. Our objective was to assess the bank's ability to serve and meet the community's needs within its AA. The CRA evaluation covers the period from January 1, 2009 through December 31, 2013. We only reviewed Home Mortgage Disclosure Act (HMDA) reportable loan products for this examination, as they represented over 99 percent of the bank's loan portfolio at December 31, 2013. We performed a 100 percent review of 2012 and 2013 HMDA loans.

## **DESCRIPTION OF INSTITUTION**

Inter-State is a \$242 million federal mutual savings association headquartered in Kansas City, Kansas. The bank operates from its home office in downtown Kansas City, Kansas and four branch offices located throughout the Kansas side of the MSA.

The bank offers customers traditional banking products, one-on-one customer service, and low-fee deposit and loan products. Lending and deposit services are available at all branches. Drive-up teller assistance is available at three locations. Automated teller machines are not available at any location. The bank does not offer Internet banking or on-line customer banking access. No branches have opened or closed since the prior CRA examination.

Inter-State's primary business focus is 1-4 family residential real estate (RRE) lending. As of December 31, 2013, the bank's loan portfolio by dollar volume consisted of 99.8 percent RRE loans and 0.2 percent consumer loans. Total loans and leases represent 19.4 percent of average assets.

Inter-State received a “Satisfactory” rating for small banks at its last CRA examination dated November 9, 2009. There are no legal, financial, or other constraints limiting Inter-State’s ability to meet the credit needs of its AA.

## **DESCRIPTION OF ASSESSMENT AREA**

Inter-State is an intrastate mutual savings association with one AA for CRA evaluation purposes. Management has designated a portion of the Kansas City, MO-KS, Metropolitan Statistical Area (MSA) as the bank’s AA. The AA consists of two counties, Johnson and Wyandotte, within the state of Kansas. The AA consists of 200 census tracts with the following designations: 17 low-income tracts, 42 moderate-income tracts, 55 middle-income tracts, 76 upper-income tracts, and 10 tracts that have no income designation. The AA does not arbitrarily exclude any low- to moderate-income (LMI) geographies and conforms to the regulatory requirements. Competitive factors have the greatest impact on the ability of the bank to originate loans to various segments of the AA population or geographic areas.

The AA includes the main branch and four branch offices. The updated 2013 median family income for the AA is \$71,200, which is a slight decrease from the \$73,200 updated median family income for the 2012 AA. As of January 2014, the unemployment rates for Johnson and Wyandotte County were 4.7 percent and 8.4 percent, respectively. The state of Kansas unemployment rate was 5.5 percent, and the national unemployment rate was 6.7 percent. Primary employment sectors are educational, health and social services, administrative, support and waste management, and professional, scientific, and technical services. Major employers in the AA include Blue Valley School District, Garmin International, Inc., The University of Kansas Hospital, Kansas City, Kansas Public Schools, United Postal Service, Johnson County Government, Olathe School District, General Motors, Sprint Corporation, and Unified Government of Wyandotte County/Kansas City.

Competition from other financial institutions is strong. There are 67 financial institutions with 291 banking offices within the AA. Deposit market share ranges from a high of 12.37 percent to a low of 0.03 percent. Inter-State ranks 25th in this market, with 0.85 percent of the deposit market share. Lending competition is significant, with 470 lenders in the AA. Primary competitors include mortgage companies, local community banks, and branches of large regional banks. Inter-State has less than 1 percent of the lending market share.

We made one community contact with the Interim Executive Director of a local support corporation that offers affordable housing and small business grants. The corporation works with designated small communities within counties that are designated for revitalization. The contact identified credit needs as LMI housing and financial literacy, as well as a need for banks to provide grants and serve on the local advisory board.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

### Loan-to-Deposit Ratio

Inter-State’s quarterly average loan-to-deposit (LTD) ratio is less than reasonable at 33 percent. We calculated the bank’s quarterly average LTD ratio from January 1, 2009 to December 31, 2013 using information from the Consolidated Reports of Condition. The average peer ratio for the same period is 69 percent. The highest peer ratio is 80 percent, with the lowest at 59 percent. The asset size of peer financial institutions, including Inter-State, ranged from \$237 million to \$797 million. Of the three institutions used for this analysis, by asset size, Inter-State ranks last when comparing largest to smallest. Bank management states that competition for loans, as well as the low number of borrowers seeking loans, contributes to the bank’s low LTD ratio.

### Lending in Assessment Area

Inter-State’s record of lending in the AA is reasonable. A majority of the bank’s loans are inside the AA. Based on our review of the bank’s 1-4 family RRE loan portfolio, Inter-State originated 57 percent by number and 54 percent by dollar inside the AA.

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

The bank’s overall distribution of loans to borrowers of different income levels shows excellent penetration throughout the AA. For 1-4 family RRE loans, the bank’s performance is excellent. Inter-State’s percentage of loans to LMI borrowers for home purchase, home improvement, and home refinancing exceeds area demographic data. Review the table below for Inter-State’s lending to borrowers of different income levels:

Borrower Distribution of Residential Real Estate Loans in the AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
<b>% of Total</b>	15.70%	20.51%	15.13%	17.95%	20.21%	28.21%	48.96%	33.33%

## Geographic Distribution of Loans

Inter-State’s overall geographic dispersion of loans for home purchase, home improvement, and home refinance in the AA is excellent. Loans in LMI census tracts exceed demographics. Review the table below for Inter-State’s dispersion of 1-4 family RRE loans:

Geographic Distribution of Residential Real Estate in the AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
<b>% of Total</b>	3.11%	8.57%	14.14%	40.21%	29.65%	51.22%	53.11	0.00%

## Responses to Complaints

Inter-State has not received any complaints regarding its CRA performance during the evaluation period.

## Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 CFR 25.28(c), or 12 CFR 195.28(c), in determining a national bank’s (bank) or Federal savings association’s (FSA) CRA rating, respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or FSA, or in any assessment area by an affiliate whose loans have been considered as part of the bank’s or FSA’s lending performance.

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.