



Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

September 29, 1997

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Douglass National Bank
Charter Number 23180
1670 E. 63rd Street
Kansas City, Missouri 64110**

**Comptroller of the Currency
Kansas City Field Office
6700 Antioch Rd., Suite 450
Merriam, Kansas 66204-1200**

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.

GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

*This document is an evaluation of the Community Reinvestment Act (CRA) performance of **Douglass National Bank** prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of September 29, 1997. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 C.F.R. Part 25.*

CRA RATING FOR THE INSTITUTION AND THE KANSAS CITY, MISSOURI-KANSAS METROPOLITAN STATISTICAL AREA: Outstanding.

- # Douglass National Bank substantially exceeds area demographics in lending to borrowers of different income levels and businesses of different sizes.

- # The bank's penetration of various income tracts within their defined assessment area is excellent.

DESCRIPTION OF INSTITUTION

Douglass National Bank (DNB) is a \$68 million dollar institution owned by Douglass Bancorporation, Inc., a one bank holding company. The bank is located within the Kansas City, Missouri-Kansas Metropolitan Statistical Area (MSA). All bank operations are within the multistate MSA. Therefore, performance by the bank and within the multistate MSA are the same.

The bank's charter is held in Kansas City, Missouri, but it serves the urban market on both sides of the state line, with two branches located in Kansas City, Kansas. In addition, the bank has five automated teller machines (ATMs). Two are located at bank offices. The remaining three ATMs are located at the Flamingo Casino in Kansas City, Missouri. The bank offers a full range of commercial, residential, and consumer loans and deposit accounts.

There are no impediments which hamper DNB's ability to help meet the credit needs of its local community. The bank's loan to deposit ratio as of June 30, 1997 is 50.53%. The loan portfolio primarily consists of the following types of credit: 68.86% commercial loans, 26.54% in residential real estate, and 4.6% in consumer loans.

Douglass National Bank is designated a Community Development Financial Institution (CDFI) by the United States Treasury Department. The Treasury Department stated the purpose of CDFIs is to facilitate the flow of capital to distressed communities, which in turn should help to create jobs and revitalize neighborhoods. DNB was awarded \$1.75 million in CDFI funds from the Treasury Department to support investments in projects in Kansas City, Kansas. DNB was one of 31 financial institutions, out of 268 applicants, chosen to receive CDFI funds.

DESCRIPTION OF ASSESSMENT AREA

Bank management has delineated one assessment area (AA) which is used for our evaluation of DNB's CRA performance. The assessment area includes all of Jackson County, Missouri and Wyandotte County, Kansas. Both counties are a part of the Kansas City, Missouri-Kansas MSA. The entire assessment area consists of 262 census tracts (CTs). There are 43 low-income CTs (16.41%) and 88 moderate-income CTs (33.59%) located within the assessment area. Middle-income CTs comprise 39% of the area, with upper-income CTs representing 11%. The HUD 1997 estimated median family income for the MSA is \$50,200. The assessment area has a population of 795,225 persons and 208,372 families. The family breakdown by income level is 24.23% low income, 20.10% moderate income, 25.22% middle income, and 30.45% upper income. The assessment area is very diversified with many small businesses, major corporations, and several gambling casinos providing employment opportunities. Within the assessment area, businesses with sales less than \$1 million per year total 71%.

We utilized several community contacts made within the last year by various regulators. The contacts

included several neighborhood housing groups and a community development organization. All contacts felt local banks provide community assistance as much as possible. Opinions on housing needs varied across the state lines. In Kansas City, Kansas, home improvement loans are identified as the primary credit need due to the older housing stock in the area. On the Missouri side, a contact noted that lease-purchase programs are beneficial in helping low- to moderate-income borrowers qualify for home ownership.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

For our analysis of Douglass National Bank’s CRA performance we focused on the two primary loan products: one- to four-family mortgages and commercial loans. We were able to use the bank’s 1995, 1996, and year-to-date 1997¹ Home Mortgage Disclosure Act (HMDA) statements to assess mortgage origination performance. We sampled 14% of all commercial loan originations since the last examination, which took place at year-end 1993.

Loan-to-Deposit Analysis

Douglass National Bank’s June 30, 1997 loan to deposit ratio is 50.53%. We used a ten quarter average for comparison with other banks, rather than going back fifteen quarters to the last examination. We did not feel the additional five quarters would add any meaningful analysis to our comparison. DNB’s ten quarter loan to deposit ratio is 36.50%. We compared DNB to four local financial institutions who provide the most competition for the bank. The following table summarizes the performance of all five financial institutions.

Ten Quarter Loan to Deposit Average Douglass National Bank vs. Local Competitors		
Bank	Total Assets	Loan to Deposit Average
Douglass National Bank	\$68MM	36.50%
Security National Bank of KC	\$391MM	61.76%
Guaranty Bank & Trust	\$124MM	78.65%
Brotherhood Bank & Trust Co.	\$296MM	57.40%
The First State Bank of Kansas City, KS	\$50MM	67.03%

¹Any 1997 information refers to all HMDA originations through September 15, 1997.

We did not use any direct Missouri competitors. Management indicated the most concentrated competition in Missouri was from mortgage companies. The national peer average, which uses similar sized national banks across the country, is 68.06%.

Although the bank's average loan to deposit ratio is substantially lower than its peers, it has substantially increased over the last ten quarters. The bank's loan to deposit ratio for first quarter 1995 was only 23.08%. Therefore, DNB increased their loan to deposit ratio 27% in just over two years by making good quality loans. In addition, the bank experienced several extraordinary events which affected their ability to lend in the past. The bank failed in 1983 and reorganized as the Douglass Bank. In 1990, the bank faced additional financial difficulties and reorganized in 1991. The bank has identified their niche as providing single-family housing loans to low- and moderate-income neighborhoods and their strategic plan includes continued loan growth.

In summary, DNB's volume of lending is satisfactory considering its history.

Comparison of Credit Extended Inside and Outside of the Assessment Area

Douglass National Bank has done an excellent job of lending within their assessment area. In 1995, 1996, and 1997, HMDA reportable originations located within the assessment area are 93%, 98%, and 97%, respectively. Of the 31 commercial loans sampled, 74.19% are within the assessment area. This shows that a substantial majority of all of the bank's primary loan activity takes place in the boundaries of their defined assessment area of Jackson County, Missouri and Wyandotte County, Kansas.

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

Douglass National Bank has also done an excellent job of lending to borrowers of different income levels and business of different sizes. The following table summarizes the bank's performance for HMDA originated loans in 1996 and 1997 which are located in the bank's assessment area.

1996 HMDA reportable loans (by number of loans originated)			
Income level	DNB loan percentage	MSA population	Variance
Low income	28.57%	24.23%	+ 4.34%
Moderate Income	28.57%	20.10%	+ 8.47%
Middle Income	20.00%	25.22%	- 5.22%
Upper Income	22.86%	30.45%	- 7.59%

1997 HMDA reportable loans (by number of loans originated)			
Income level	DNB loan percentage	MSA population	Variance
Low income	23.81%	24.23%	- 0.42%
Moderate Income	33.33%	20.10%	+ 13.23%
Middle Income	14.29%	25.22%	- 10.93%
Upper Income	28.57%	30.45%	- 1.88%

In 1996, 57.14% of all HMDA reportable loans were made to low- or moderate-income borrowers whose gross income is less than 80% of the HUD 1997 updated median family income. In 1997, again 57.14% of HMDA reportable loans were to low- or moderate-income consumers. Low- and moderate-income borrowers represent 44.33% of the entire assessment population. This means that in 1996 and 1997, DNB's performance exceeded MSA demographics for this area.

The HMDA data for 1995 provides additional support. The information is presented in a slightly different format by combining low- and moderate-income borrowers. The 1995 information shows DNB originated 54 HMDA reportable loans. Of these originations, 50.85% were to borrowers who met the definition of low- to moderate-income consumers. These three years of information indicate exceptional performance since not all borrowers who meet the low- or moderate- income definition are able to qualify for credit.

Douglass National Bank's lending to low- or moderate-income persons is excellent. Penetration levels are partially due to the bank's participation in various special programs to help make loans to low- and moderate-income borrowers. The following table details loans made by the bank to borrowers under special loan programs within the last three years.

Special Programs for Low- to Moderate- Income Borrowers		
Year	Number of Loans	Dollar amount
1995	24	\$1,361,630
1996	19	\$976,836
1997	12	\$704,641

The bank utilizes several area programs to assist low- and moderate-income borrowers in obtaining a home. Several of the programs operate on the same premise, and are titled 70/30, 80/20, and 60/40.

These programs refer to situations where the borrower only needs to fund a portion of the loan amount. For example, in the 70/30 program, the borrower obtains financing for 70% of the real estate value. In this particular program, the remaining 10% comes from the Missouri Housing Development Commission (MHDC) and 20% is a grant from HUD with no payback required if the borrower stays in the home for fifteen years. The city portion is paid back in some instances, but many times it is deferred until the first mortgage is paid off and is offered at a very low interest rate. The 80/20 and 60/40 programs operate in much the same way, with different organizations providing the grant money. In all instances, borrowers must meet certain requirements, which usually includes earning less than 80% of median family income levels. In addition, most of the programs are targeted to specific areas of the inner city. Kansas City, Missouri and Kansas City, Kansas both offer special programs to entice law enforcement to populate certain areas of the city. Kansas City, Missouri has the PIN program, or Police in Neighborhood. In this instance, the city provides 20% of the funds, and the state provides an additional 20%. Both grants are forgivable if the borrower stays in the home for 15 years. Kansas City, Kansas has the PATH program which refers to Police and Teacher Housing. The bank has made fifteen 80/20 loans, twenty-six 70/30 loans, and eleven 60/40 loans since 1995. Also, the bank has originated four loans under the PIN and PATH programs.

Douglass National Bank also does a very good job of lending to businesses of different sizes. We sampled 31 of 221 (14%) commercial lending relationships originated since the last examination. Of the loans located within the assessment area (74%), 100% of those loans were to businesses with annual revenues less than \$1 million. In addition, 100% of those loans (37 individual loans) were for amounts under \$500,000. This shows that substantially *all* of the bank's commercial loan originations are to borrowers that meet the definition of a small business.

Geographic Distribution of Loans

Douglass National Bank has done a very good job of penetrating the various income tracts of the assessment area. The following table summarizes assessment area penetration for 1995, 1996, and 1997 for HMDA reportable loans.

Geographic Distribution of HMDA Reportable Originations (1995, 1996, 1997)							
Income characteristics of tract	1995		1996		1997		MSA - % of Income Tracts
	#	%	#	%	#	%	
Low income	15	27.78%	5	9.80%	3	13.04%	16%
Moderate income	26	48.15%	30	58.82%	14	60.87%	32%

Geographic Distribution of HMDA Reportable Originations (1995, 1996, 1997)							
Middle income	12	22.22%	15	29.41%	6	26.09%	38%
Upper income	1	1.85%	1	1.96%	0	0%	10%
Total	54	100%	51	100%	23	100%	96% ²

Assessment area demographics show that 48% of the area is comprised of low- and moderate-income census tracts. Douglass National Bank's performance materially exceeds area demographics on HMDA reportable originations over the last three years. In 1995, 1996, and 1997, originations in low- and moderate- income geographies total 76%, 69%, and 74%, respectively.

The commercial loan sample shows that 17% of originations within the assessment area are located in low- and moderate-income geographies. Information is not available to show how many businesses in the assessment area are located in low- and moderate- income geographies. A substantial majority of the small business loans (75%) are located in middle-income tracts within the assessment area.

Qualified Services

One of the biggest projects of the bank is to help re-develop the Blue Hills Community in Kansas City, Missouri. This encompasses the area from 47th Street to 63rd Street and from the Paseo to Prospect. The Blue Hills Community Organization is rebuilding the community by cleaning up dilapidated and known drug houses and making them livable and affordable for area residents. They are hoping to revitalize the community one block at a time. Various philanthropies have provided funding to the Kansas City Neighborhood Alliance (KCNA) to purchase homes in this area. Douglass National Bank is the exclusive lender for the rehabilitation home loans and lends up to 80% of the cost. The purchaser of the home can obtain the end loans from any area lender. The goal is to purchase and rehab 20 homes per year.

In addition to housing, the Blue Hills Community organization provides training for block clubs, develops block leadership, and helps to train community leaders. Douglass National Bank provided approximately

²The demographic information used for our analysis indicated tract income information was not available for twelve census tracts within the MSA. Therefore, the MSA total does not equal 100%.

\$74,000 for the renovation of the Blue Hills Community Center.

Compliance with Antidiscrimination Laws and Regulations

Douglass National Bank is in compliance with the applicable antidiscrimination laws and regulations. We found no violations of the fair lending laws at this examination.