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Comptroller of the Currency  
Administrator of National Banks

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**PUBLIC DISCLOSURE**

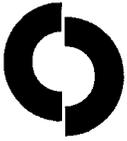
**July 25, 1997**

**COMMUNITY REINVESTMENT ACT  
PERFORMANCE EVALUATION**

**First National Bank  
Charter Number 3777  
401 North Spruce  
Abilene, Kansas 67410**

**Supervisory Agency: Office of the Comptroller of the Currency  
Salina Duty Station  
1516 East Iron Avenue  
Salina, Kansas 67401**

<p><b>NOTE:</b> 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.</p>
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## **GLOSSARY OF TERMS AND COMMON ABBREVIATIONS**

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

**Assessment Area (AA)** - The geographic area which an institution selects as the community within which its regulator will assess the institution's record of CRA performance. Generally, an urban assessment area will not extend beyond the boundaries of a MSA. A rural assessment area may contain one or more neighboring counties.

**Census Tract (CT) and Block Numbering Area (BNA)**- Small, locally defined statistical areas within a MSA. These areas are determined by the United States Census Bureau in an attempt to group homogeneous populations. A CT or BNA has defined boundaries per ten year census and an average population of 4,000.

**Community Reinvestment Act (CRA)**- A statute that requires federal regulators to evaluate a financial institution's lending performance in light of the credit needs in the institution's local community. (This is a generic description of the bank's requirements and not a legal explanation of the requirements contained in 12 U.S.C. 2901, as amended, and 12 C.F.R. 25, as amended.)

**Home Mortgage Disclosure Act (HMDA)**- A statute that requires 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 the 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 BNAs or CTs in a bank's assessment area.

**Low** = An income level that is less than 50 percent of the median income.

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

**LMI** = An income level that is less than 80 percent of the median income.

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

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

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

**First National Bank, Abilene, Kansas** = FNB.

**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.

**Small Business or Small Farm** - A business or farm that has \$1 million or less in gross annual revenues.

**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.

## 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 **First National Bank, Abilene, Kansas (FNB)** prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of

**July 25, 1997.** 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. Part 25.

**Institution's CRA Rating:** This institution is rated **"Satisfactory Record of Meeting Community Credit Needs."**

We rated **FNB** "Satisfactory" because:

- FNB's lending levels reflect good responsiveness to the area's credit needs and the bank originated a substantial majority of its loans within its assessment area.
- The distribution of lending among borrowers of different income levels and businesses of different revenue levels shows good penetration in view of the area's demographic makeup.
- FNB has an adequate level of qualified investments given the limited opportunities available in its assessment area.
- FNB's branches are reasonably accessible to customers in its assessment area.
- FNB has shown leadership in providing community development services.

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

<b>Performance Levels</b>			
<b>First National Bank</b>			
<b>Performance Tests</b>			
	Lending Test*	Investment Test	Service Test
Outstanding			
High Satisfactory	<b>X</b>		<b>X</b>
Low Satisfactory		<b>X</b>	
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.

This evaluation covers the bank's CRA performance from February 15, 1995, the date of the last CRA evaluation, to year-to-date 1997. This institution is subject to the small business and small farm data collection requirements under 12 C.F.R. Part 25 since it is an affiliate of a bank holding company with total assets of over \$1 billion. Our evaluation of small business and small farm lending begins with calendar year 1996 since it was the first year such data was required to be collected and reported under the revised CRA regulation. The bank is not subject to the Home Mortgage Disclosure Act (HMDA) data collection requirements as it does not have any branches in a Metropolitan Statistical Area (MSA).

## **DESCRIPTION OF INSTITUTION**

FNB is a \$96 million full-service bank headquartered in Abilene, Kansas. It is the largest financial institution headquartered in Dickinson County. The bank has four locations, including its main office and two drive-in facilities in Abilene and an office in Talmage, a town with a population of 190 located approximately nine miles northwest of Abilene. Refer to the Assessment Area section for a detailed description of the bank's assessment area.

FNB has the financial capacity to assist in meeting the community's credit needs. There are no legal or financial barriers which impede its efforts. The OCC assigned a CRA rating of "Satisfactory Record of Meeting Credit Needs" during the last CRA evaluation ending February 15, 1995. The bank offers a full-range of credit products including agricultural, real estate, commercial, and consumer loan products. As of March 31, 1997, the bank's loan portfolio consisted of 38 percent 1-4 family residential; 27 percent commercial and commercial real estate; 24 percent agricultural and agricultural real estate; 7 percent consumer and 4 percent other loans. The bank's net loan-to-deposit ratio averaged 61 percent over the last eight quarters based on data the bank reported in its Consolidated Reports of Condition. FNB consistently had the third

highest net loan-to-deposit ratio of the six banks headquartered in Dickinson County. The six banks' loan-to-deposit ratios ranged from 21 percent to 81 percent. Both institutions with higher loan-to-deposit ratios have branch offices in Abilene.

Pinnacle Bancorp, Inc., a \$1.6 billion multi-bank holding company, headquartered in Central City, Nebraska, is controlling owner of the bank. Through common ownership, FNB is affiliated with 24 other banks in Nebraska, Colorado, Wyoming, Iowa and Kansas.

## **ASSESSMENT AREA**

FNB's assessment area includes five of the six BNAs of Dickinson County, Kansas. These are BNAs #9941-9945. All of the BNAs are designated middle-income. The BNA excluded (#9946) is middle-income and is the city of Herington, Kansas. This BNA is furthest from the bank's branch locations and is served by branches of two other financial institutions.

According to the 1990 U.S. Census, the bank's assessment area had a population of 16,205. The demographics of the families in the assessment area by income level were 17 percent low-, 19 percent moderate-, 24 percent middle- and 40 percent upper-income. In addition, 19 percent of the population was over 65 and 11 percent of households were below poverty level. The 1990 HUD nonMSA statewide median family income for Kansas was \$28,068. In 1996, the updated HUD nonMSA statewide median family income was \$34,300. This figure was used to assess the bank's lending to borrowers of different income levels in this CRA performance evaluation.

The majority of the bank's business originates in Abilene where its main office is located. Abilene, with a population of approximately 6,400, is the county seat of Dickinson County. Abilene's economy is diversified and unemployment is low. The economy is becoming less dependent on agriculture due to increasing tourism and manufacturing industries. Tourism attractions include the Dwight D. Eisenhower Center, Old Abilene Town and the National Greyhound Association Hall of Fame. Major employers are: Russell Stover Candies, which employs 625 individuals; Duckwall Alco, Inc. which employs 401 and is headquartered in Abilene; the school district and Great Plains Manufacturing. Five other institutions headquartered in Dickinson County as well as branches of banks headquartered in neighboring counties provide strong competition.

Community contacts indicate a need for residential loans with lower down payment requirements. However, Abilene is challenged by a lack of available affordable single-family and multi-unit housing, including lots for development and developers willing to construct affordable housing. Two community contacts, including a local city official and a realtor, indicate this is the most pressing need. In addition, there is a need for additional commercial space as most of the commercial property is occupied. The City's ability to attract new business and expand existing businesses is severely restricted by the lack of affordable housing in Abilene. In 1996, the average single-family home constructed cost \$133 thousand and sold for between \$150-\$160 thousand. In February 1997, the City of Abilene, recognizing the need to encourage the development of additional affordable housing, agreed to forego interest payments for up to four years on temporary notes to be used to fund infrastructure improvements. So far, no developers have

responded. In a housing survey of Russell Stover Candies employees, conducted by the City in December 1995, 43 percent surveyed indicated they lived more than ten miles from Abilene, but would relocate to Abilene if affordable housing were available.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

### LENDING TEST

We evaluated the bank's lending performance using the following product lines: small business loans, small farm loans and loans secured by 1-4 family residential real estate. We reviewed small business and small farm data the bank collected in 1996 and through March 31, 1997. We analyzed the bank's small business and small farm lending considering the location, the revenues of the businesses and farms and the size of the loans. We also sampled 36 loans secured by 1-4 family residential properties since these mortgage loans represent a significant dollar volume, 38 percent, of the bank's loan portfolio. These mortgage loans represented approximately 20 percent of the mortgage loans which the bank made during this same time period. We used this sample to determine the volume, by number and dollar, of mortgage loans the bank originated within its assessment area. We also determined the distribution of mortgage loans to borrowers of different income levels.

FNB's lending levels reflect good responsiveness to the area's credit needs. The bank makes a substantial majority of its loans, 95 percent, within its assessment area. The following tables show the volume, by number and dollars, of small business loans, small farm loans and loans secured by 1-4 family residential real estate that FNB made during 1996 and through March 31, 1997. It also depicts the percentage of loans, by type, which the bank made within its defined assessment area.

Product Type		1996		YTD 1997*		Total		% of Total	
		#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	#	\$ (000's)
Small Business	In	157	8,694	47	1,627	204	10,321	95%	78
	Out	5	2,314	5	534	10	2,848	5%	2%
Total Small Business		162	11,008	52	2,161	214	13,169	100%	100%
Small Farm	In	269	8,935	66	2,510	335	11,445	95%	9%
	Out	7	204	10	186	17	390	5%	0%
Total Small Farm		276	9,139	76	2,696	352	11,835	100%	100%

\* Through March 31, 1997

Product Type	1996		YTD 1997*		Total		% of Total	
	#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	#	\$ (000's)
1-4 Family Residential Real Estate								
Total In and Out	142	5,931	34	1,409	176	7,341	100%**	100%

\* Through March 31, 1997

\*\* This percentage (100%) is based on a sample of 36 loans which the bank originated between January 1, 1996 and March 31, 1997. All of the loans in our sample originated within the bank's assessment area.

Based on information the bank received from the Dickinson County Recorder, FNB filed the most mortgages of any lender in Dickinson County during the time period of this loan data. FNB filed 181 mortgages with an average amount of \$43 thousand compared to the next highest lender which filed 155 mortgages with an average amount of \$42 thousand.

***GEOGRAPHIC DISTRIBUTION:***

***Distribution by Income Levels of BNAs:***

Analysis of the bank's lending by the income levels of BNAs is not meaningful since all BNAs in the bank's assessment area are designated middle-income.

***DISTRIBUTION BY BORROWERS' PROFILE:***

Following is a discussion of the bank's lending to borrowers of different income levels and to businesses and farms of different revenue sizes.

***Distribution by Borrower Income:***

The distribution of loans to borrowers of different income levels reflects good penetration in view of the income levels of the families in the assessment area. The following table shows the distribution of the bank's lending to borrowers of different income levels for loans secured by 1-4 family residential properties. This analysis is based on the sample of 36 loans previously discussed. As a comparison, the table also shows the percentage of families at each income level within the bank's assessment area based on 1990 U.S. Census Data. The percentage of families designated low-income is not adjusted to reflect those at poverty, however we did consider this factor in our analysis. This offers some explanation for the disparity between the percentage of families in the assessment area which are designated low-income and the percentage of the bank's lending to borrowers at the low-income level. Though there is no data available on the percentage of families at poverty, 11 percent of all "households" were at or below poverty income level according to the 1990 U.S. Census Data.

***Loans Secured by 1-4 Family Residential Real Estate:***

<b>Borrower Income Level</b>	<b>% Families in AA</b>	<b># of Loans</b>	<b>% of Loans by Number</b>	<b>\$(000's) of Loans</b>	<b>% of Loans by Dollar Volume</b>
Low	17%	4	11%	51	4
Moderate	19%	6	17%	239	16
Middle	24%	14	39%	441	30
Upper	40%	12	33%	733	50
<b>Total</b>	<b>100%</b>	<b>36</b>	<b>100%</b>	<b>1,464</b>	<b>100</b>

***Distribution by Revenue of Business/Farm:***

FNB's distribution of loans to businesses and farms in 1996 through March 31, 1997 reflected good representation to businesses of different sizes in the AA. The revised CRA regulation assumes gross annual revenues correlate with the size of the business. Gross annual revenues of \$1 million or less are considered representative of small businesses and small farms. Business demographic data provided by Dun and Bradstreet shows that 94 percent of farms reporting revenues and located within the bank's assessment area have revenues of less than \$1 million. It also shows that 90 percent of nonfarm businesses within the bank's assessment area have revenues of less than \$1 million. We sampled 21 farm loans and 20 small business loans which the bank extended during this evaluation period to verify the accuracy of revenues since the bank erroneously reported net profits instead of gross annual revenues. Based on these samples, the bank extended 90 percent of the business loans and 100 percent of farm loans to enterprises with gross annual revenues of \$1 million or less.

In addition, as shown in the following table, a substantial majority (over 90 percent) of the bank's loans to businesses and farms, by number, were made in amounts of \$100 thousand or less during the time period we reviewed. The following table shows the distribution of the bank's lending by loan size for the time period we evaluated.

***Distribution of Small Loans to Businesses and Farms by Loan Size - All Revenue Categories***

<b>Loans Within Assessment Area Only</b>	<b>Loans to Businesses</b>				<b>Loans to Farms</b>			
	<b>#</b>	<b>% of # Total</b>	<b>\$</b>	<b>% of \$ Volume</b>	<b>#</b>	<b>% of # Total</b>	<b>\$</b>	<b>% of \$ Volume</b>
<b>&lt;=\$100,000</b>	185	91%	3,428	33%	317	94%	7,703	67%
<b>&gt;\$100,000 and &lt;=\$250,000</b>	12	6%	1,785	17%	16	5%	2,817	25%
<b>&gt;\$250,000</b>	7	3%	5,108	50%	2	1%	925	8%
<b>Totals</b>	<b>204</b>	<b>100%</b>	<b>10,321</b>	<b>100%</b>	<b>335</b>	<b>100%</b>	<b>11,445</b>	<b>100%</b>

Furthermore, based on the loans the bank extended to businesses and farms during the first quarter of 1997, 73 percent of loans to businesses and 50 percent of loans to farms were in amounts of \$20 thousand or less. This further supports the bank's responsiveness in meeting the

credit needs of smaller businesses and farms in its assessment area.

***Community Development Lending:***

A community development loan must meet the definition in the revised CRA regulation which states that such a loan must have as its *primary* purpose community development. Community development purpose is defined as affordable housing (including multifamily rental housing) for LMI individuals; community services targeted to LMI individuals; activities that promote economic development by financing businesses or farms that meet size and revenue standards defined by regulation; and, activities that vitalize or stabilize LMI geographies. Community development loans specifically exclude loans which have been reported as HMDA or small business loans, except for multi-family rental housing loans which can be reported under both categories.

FNB made an adequate level of community development loans based on the limited opportunities available during this evaluation period. FNB made one community development loan and committed funds for one other loan. These were:

- A \$248 thousand construction loan to build a strip office building to house five small businesses. As mentioned in the description of the bank's assessment area, additional commercial property is an identified need of the bank's assessment area.
- A \$500 thousand commitment to provide construction and permanent financing for a multi-family low-income housing tax credit project for elderly low- and moderate-income individuals.

***Flexible Loan Programs:***

FNB makes some use of flexible lending programs to serve its assessment area's credit needs. The bank uses Farmers Home Administration (FmHA) programs to assist farm borrowers in obtaining financing with lower interest rates and through guaranteed loan programs. Since the last CRA evaluation, the bank has made five FmHA loans totaling \$677 thousand. Two of these loans are included in the farm lending totals discussed previously. Others were made subsequent to the last CRA evaluation, but prior to January 1, 1996 when data collection requirements became mandatory.

FNB offers small loans with no minimum loan amount to assist primarily low- and moderate-income customers with short-term monetary needs.

## **INVESTMENT TEST**

FNB has an adequate level of qualified community development investments or grants based on the limited opportunities available in its assessment area. The bank made \$2,900 in donations to community organizations which primarily serve low- and moderate-income individuals.

## SERVICE TEST

### *Retail Banking Services:*

FNB's branches and services are reasonably accessible to its customers considering the bank's rural assessment area. All of FNB's locations provide deposit services. The main office provides all lending services and offers after-hours appointments to customers who can not conduct banking business during regular banking hours. The two drive-in facilities have extended weekday hours and one has an Automated Teller Machine (ATM). The main office and one drive-in facility offer Saturday hours. In May 1996, the bank implemented 24 hour telephone banking services which allow customers access to select financial services including account information, funds transfer and rate information. There have been no branch closings during this evaluation period.

### *Community Development Services:*

FNB provides a relatively high level of community development services. Community development services must have as their primary purpose community development and must relate to the provision of financial services. The bank's community development service activities include:

- A bank officer is a member of the Abilene Economic Development Council and serves on its Housing Subcommittee. Through the efforts of the Subcommittee, city officials agreed to relax housing development standards and provide interest-free financing of infrastructure improvements in order to attract affordable housing developers to Abilene.
- A bank officer has taken the initiative to form a limited liability company (LLC) in partnership with two local businessmen and a local developer in an attempt to spur the development of affordable housing in Abilene. The LLC will act as developer, acquire property and build single-family and multi-family units in Abilene, which will be more affordable than recent construction.
- A bank officer serves as the treasurer of a local non-profit organization which provides assistance to temporarily unemployed low- and moderate-income individuals. The officer also assisted the organization in its fund-raising efforts.
- Two bank employees periodically provide education on banking and financial services to local grade school and high school students. Instruction includes money management, how to make payments and the loan application process.
- FNB began offering free checking May 1, 1997. A minimum opening deposit of \$50 is required to open the account.
- FNB offers free government check cashing for customers and noncustomers.

## **FAIR LENDING REVIEW**

We found no violations of the substantive provisions of anti-discrimination laws and regulations.

## **ADDITIONAL INFORMATION**

The Office of the Comptroller of the Currency (OCC) is the regulatory agency responsible for supervision. If you have questions, concerns, or issues, contact the agency at the address below.

Office of the Comptroller of the Currency  
Salina Duty Station  
1516 East Iron Avenue  
Salina, Kansas 67402