



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

May 28, 2002

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Fort Riley National Bank
Charter Number 15637**

**5303 Normandy Drive
Fort Riley, KS 66442**

**Comptroller of the Currency
ADC - Kansas City North
6700 Antioch Road Suite 450
Merriam, KS 66204**

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.

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INSTITUTION'S CRA RATING

This institution is rated Satisfactory.

The major factors supporting the institution's rating are:

- The bank's record of lending to borrowers of different income levels is excellent. Loans are primarily made to low- and moderate-income borrowers.
- The geographic distribution of loans reflects an excellent penetration throughout the bank's assessment area.
- The majority of loans are to borrowers in the bank's assessment area.
- The average quarterly loan-to-deposit ratio is reasonable and compares favorably to similarly situated military institutions.

DESCRIPTION OF INSTITUTION

Fort Riley National Bank (FRNB) is a \$25 million dollar bank headquartered on the Ft. Riley, Kansas, army military base. FRNB is an intrastate bank and is a wholly owned subsidiary of Fort Riley Bancshares, Inc., a one-bank holding company. The bank operates the main office, one branch office, and a service center on the base. It also has one off-post branch located in nearby Junction City, Kansas. The bank offers a full range of financial services and primarily caters to active and retired military, their dependents, and civilian on-base personnel. Fifteen ATMs, expanded branch bank hours, a toll free telephone line, and an informational Internet site allow for convenient customer access to the bank.

The bank's primary lending focus is consumer installment products. Loans to individuals represent 70 percent of the bank's net loans and leases. The opportunity to provide commercial, agricultural, and real estate loans has been limited due to the bank's office locations on the military post. The military provides housing to soldiers living on the base and base businesses are limited to government or contract operators. The Junction City branch, opened in June 2000, will broaden the bank's ability to access a wider range of loan needs.

As of March 31, 2002 the bank's assets totaled \$25 million, with Tier 1 Capital of 21.80 percent. Net loans and leases comprise 19 percent, or \$4.8 million of total assets. Outstanding loans are comprised of \$1.4 million, or 30 percent residential real estate loans, and \$3.3 million, or 70 percent, in consumer loans.

There are no financial, legal, or other factors that impede the bank's ability to help meet the credit needs of its assessment area. FRNB received a Satisfactory rating in its last CRA evaluation dated September 23, 1997.

DESCRIPTION OF ASSESSMENT AREA

FRNB's assessment area (AA) consists of five contiguous Block Numbering Areas (BNAs) in Riley and Geary counties. The AA is a non-metropolitan statistical area. Three BNAs (60 percent) are moderate-income and two (40 percent) are middle-income tracts. There are no low- or upper-income tracts in this AA. The military base consists of two contiguous BNAs, one each in Riley and Geary counties. The AA was revised during our exam to include additional tracts to comply with the regulation. The revised AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income geographies.

1990 United States Census Data reflects a weighted average median family income of \$28,067 for the AA. The 2002 updated State of Kansas non MSA median family income is \$44,200. Total family income as a percent of the MSA median is comprised as follows: low-income 25 percent, moderate-income 33 percent, middle-income 25 percent, and upper-income 17 percent. Rental occupied units total 5,625 (70.31 percent) of total housing units. Weighted average monthly gross rent is \$377. There is one financial institution competitor on the military post and several bank competitors in Junction City. All of the Junction City institutions are larger than FRNB.

The largest employer in the AA is the federal government. As of September 2001, the Ft Riley military base employed 9,951 military personnel and 3,995 civilian personnel, or a total of 48 percent of the AA population. Another 32,396 reserve personnel rotate through the base annually. The military post payroll injects \$497 million into the economy annually. The unemployment rate as of March 2002 for the State of Kansas is 4.6 percent. The unemployment rate for Riley County is 3.2 percent and Geary county 6.7 percent.

Two community contacts were made with military base personnel during this review. The contacts stated that consumer loans are the primary credit needs in the military post area. The contacts also stated consumer financial education is also a primary need. FRNB responds well to base personnel needs.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The bank's loan to deposit ratio (LTD) is reasonable. The average quarterly LTD ratio from September 30, 1997 through March 31, 2002 is 25.35 percent. We compared the bank's LTD ratio to two similarly sized institutions in the AA. Ratios for these banks ranged from 50.02 percent to 70.07 percent over the same period. Due to FRNB's unique customer composition, we also compared the bank's LTD ratio to three financial institutions located on a military base identified as having military personnel as their primary clients. FRNB's LTD ratio compared favorably with this group. The LTD ratios for the military institutions ranged from 17.64 percent to 37.40 percent.

The bank's performance is considered reasonable given the bank's size, credit needs and

demands of its primary customer base, and liquidity needs within its AA. Customer credit needs are generally short-term consumer loans averaging \$1,400. Both the short-term nature and small dollar amounts impede the bank's ability to increase the loan portfolio size for any substantial length of time. The ratio is also affected by FRNB's liquidity needs. Higher than average liquidity is required due to the structure of the bank's deposit base. Demand deposit accounts comprise 81 percent of total deposits and semi-monthly military payrolls of approximately \$4 million cause large fluctuations in deposit accounts.

Lending in Assessment Area

The bank's lending to borrowers within their AA is reasonable. We sampled a total of 40 consumer loans originated during the evaluation period. The loans were comprised of 20 auto installments and 20 unsecured credits. These products represent the largest volume of lending by number and dollar of originations during the evaluation period. Sampling results demonstrate the bank adequately responds to credit needs in the bank's AA. Lending to borrowers within the AA is calculated at 73 percent by number and 62 percent by dollar.

Lending to Borrowers of Different Income Levels

The bank's record of lending to borrowers of different income level, including low- and moderate-income borrower, is excellent. We evaluated the bank's performance by sampling 40 consumer loans. Our sample period focused on loans originated in the current period and the prior two years. Sampling results demonstrate lending to low-income borrowers was 63 percent by number and 37 percent by dollar and moderate-income borrowers represented 28 percent by number and 30 percent by dollar. This performance is stronger than AA demographics that show 21 percent of households are low- and 26 percent are moderate-income. The table below illustrates the bank's performance as it compares to AA demographics.

| Borrower Distribution Consumer Loan Sample Originated January 2000 – May 2002 | | | |
|---|-----------------|------------------|---------------------------|
| Borrower income level | % of loans by # | % of loans by \$ | % of Households in the AA |
| Low-income | 63% | 37% | 21% |
| Moderate-income | 28% | 30% | 26% |
| Middle-income | 10% | 33% | 27% |
| Upper-income | 0% | 0% | 26% |

Geographic Distribution of Loans

The geographic distribution of loans reflects an excellent penetration throughout the bank's AA. Based on our sample of 40 consumer loans, the percentage of loans made to borrowers in moderate-income tracts exceeds the percentage of moderate-income tracts in the AA. FRNB penetrated all BNA's in the AA. The table below illustrates FRNB's performance as it compares with AA composition.

| Geographic Distribution Consumer Loan Sample Originated January 2000 – May 2002 | | | |
|---|----------------------------|-------------------------|----------------------------|
| <u>Income level of Tract</u> | <u>% of loans by #</u> | <u>% of loans by \$</u> | <u>% of BNAs in AA</u> |
| Moderate-income | 75% | 74% | 60% |
| Middle-income | 25% | 26% | 40% |

Responses to Complaints

The bank has not received any written CRA related complaints during our review period of September 30, 1997 through March 31, 2002.

Fair Lending Review

An analysis of 1997 to 2002 public comments and consumer complaint information was performed according to the OCC's risk based fair lending approach. Based on its analysis of the information, the OCC decided that a comprehensive fair lending examination would not need to be conducted in connection with the CRA evaluation this year. The latest comprehensive fair lending exam was performed in 1995.