



Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

December 23, 1997

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**National Bank of Andover
Charter Number 18478
225 West Central
Andover, Kansas 67002**

**Comptroller of the Currency
South Kansas Field Office
505 North Rock Road, Suite 505
Wichita, Kansas 67226**

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 the **National Bank of Andover** prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of December 23, 1997. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.*

INSTITUTION'S CRA RATING: This institution is rated Satisfactory.

- o The bank has a good record of lending to borrowers with different income levels and to businesses of different sizes.

- o A substantial amount of the bank's lending is within the bank's assessment area.

DESCRIPTION OF INSTITUTION

National Bank of Andover is a \$28 million bank located in Andover, Kansas. The bank has an attached drive-up facility and one automated teller machine (ATM). The bank does not have any branches. The bank offers a full range of traditional commercial and personal banking services. As of September 30, 1997, the bank's loan portfolio had the following composition: 39% commercial and commercial real estate, 26% residential real estate, 19% consumer, 15% construction, and 1% agricultural. There are no legal or financial impediments limiting the bank's ability to help meet community credit needs.

National Bank of Andover was rated a "Satisfactory record of meeting community credit needs" at its last CRA examination in May 1996.

DESCRIPTION OF ASSESSMENT AREA

The bank's assessment area is Butler and Sedgwick Counties. The assessment area is in a Metropolitan Statistical Area (MSA) and consists of 112 contiguous census tracts. The assessment area contains ten low-income census tracts, 25 moderate-income census tracts, 58 middle-income census tracts, and nineteen upper-income census tracts. The assessment area complies with the regulation and does not arbitrarily exclude any low- or moderate-income census tracts.

Butler County has a population of 50,580 based on 1990 census information. Andover, with a population of 4,047, is the third largest city in the county. Andover is located four miles east of Wichita, Kansas, and is primarily a bedroom community for Wichita. Butler County comprises eleven census tracts (ten middle-income census tracts and one moderate-income census tract).

Sedgwick County has a population of 403,392 based on 1990 census information. Wichita is the largest city in the county with a population of 304,011. Sedgwick County consists of 101 census tracts (nineteen upper-income census tracts, 48 middle-income census tracts, 24 moderate-income census tracts, and ten low-income census tracts). Most of the low-income census tracts are clustered together and are located fifteen miles west from National Bank of Andover.

The U.S. Department of Housing and Urban Development (HUD) updated median family income for the Wichita, Kansas, MSA is \$45,800. Family incomes in the area are 18% low-income, 18% moderate-income, 25% middle-income, and 38% upper-income. Twelve percent of the population is over 65 years old. The housing stock in the area has a median age of 35 years and a median value of \$58,446. The majority of all businesses have annual gross revenues less than \$1 million. Unemployment remains low at 3%.

The bank's trade area and employment for local residents is diverse and includes retail trade, services, government, and manufacturing. The area has a strong manufacturing base with four major airplane manufacturers, a major camping supply manufacturer, and a chemical manufacturer supplying the majority of the 60,000 manufacturing jobs. The service industry is also strong, employing 60,000 persons. The economy is stable.

A local community contact stated the credit needs of the community are primarily for residential and small business purposes. The contact provided favorable comments on how the bank was meeting community credit needs.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Loan-to-Deposit Analysis

The bank’s loan-to-deposit ratio is favorable based on its competitive environment. Based on the previous ten quarters, the bank’s average loan-to-deposit ratio is 71%. The bank is ranked eleventh when compared with average loan-to-deposit ratios over the previous ten quarters for all 21 banks located in the assessment area. Those ratios ranged from 46% to 97%, with an average of 69%. When compared with average loan-to-deposit ratios over the previous ten quarters for five similar-sized banks in the assessment area, the bank is ranked second. Those ratios ranged from 48% to 82%, with an average of 63%.

Comparison of Credit Extended Inside and Outside of the Assessment Area

A substantial majority of all loans are located within the assessment area. We reviewed a sample of 113 loans to determine the location and the pattern of loans originated in the assessment area. Management’s origination of real estate, consumer, and commercial loans inside the assessment area is strong. Our total loan sample showed 96% by number and 80% by dollar volume of loan originations are located within the assessment area.

The following table illustrates the bank’s loan penetration inside its assessment area. As shown in the table, the bank has a strong loan penetration inside the assessment area based on the number of loans extended to borrowers. The bank also has a strong residential real estate and consumer loan penetration inside the assessment area based on the dollar volume of loans extended to borrowers.

Lending in the Assessment Area		
Loan Sample	% BY NUMBER	% BY DOLLAR
Real Estate	95%	95%
Consumer	97%	95%
Commercial	95%	74%
Total	96%	80%
Sample of 113 loans for \$7MM in 1996 and 1997		

For residential real estate loans, we reviewed all residential loans originated during 1996 and through November 1997. Management originated 64 residential real estate loans totaling \$1.9 million during this timeframe as reported on the Home Mortgage Disclosure Act (HMDA) - Loan Application Register (LAR). For consumer loans, we reviewed a sample of automobile loans originated during October 1997. The 29 loans in this sample totaled \$175 thousand. For commercial loans, we reviewed a sample of new loans made during 1996 and year-to-date December 1997. The 20 loans in this sample totaled \$4.9 million.

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

Management has responded favorably to the credit needs of its assessment area by originating loans to low- and moderate-income borrowers and to small businesses. Examiners performed an income analysis on our sample of 113 loans. Our analysis of consumer and real estate loans shows the bank's lending to all income categories is consistent with the area's demographics. The bank's loan penetration to low-income borrowers (27% by number of loans in our sample) exceeds the low-income family composition of eighteen percent. The following tables illustrates the bank's loan penetration to borrowers of different income levels and businesses with different gross income levels.

Consumer and Real Estate Loans		
INCOME	% BY NUMBER	% BY DOLLAR
Low	27%	10%
Moderate	20%	18%
Middle	22%	31%
Upper	31%	41%
Sample of 93 loans for \$2.1MM in 1996 and 1997		

Commercial Loans		
GROSS REVENUES	% BY NUMBER	% BY DOLLAR
< \$100M	20%	3%
\$101M - \$250M	15%	9%
\$251M - \$500M	25%	26%
\$501M - \$1MM	20%	23%
> \$1MM	20%	39%
Sample of 20 loans for \$4.9 MM in 1996 and 1997		

The bank's volume of residential real estate loans equals 26% of the total portfolio as of September 30, 1997. An analysis of real estate loan data for 1996 and eleven months of 1997 shows that the bank has a reasonable level of penetration to borrowers of all income levels. The following table illustrates the bank's residential real estate loan penetration to borrowers with various income levels in 1996 and eleven months in 1997.

REAL ESTATE LOANS ORIGINATED BY INCOME LEVELS						
1990 Census Information			1996		YTD 1997	
INCOME	% HOUSEHOLDS	% FAMILIES	% BY NUMBER	% BY DOLLAR	% BY NUMBER	% BY DOLLAR
Low	22%	18%	14%	4%	23%	9%
Moderate	17%	18%	31%	43%	11%	6%
Middle	21%	26%	33%	14%	29%	40%
Upper	40%	38%	41%	39%	37%	45%

Geographic Distribution of Loans

The geographic distribution of the bank's credit extensions is satisfactory considering its small size, limited lending opportunities, and location of the bank. The bank is immediately surrounded by middle- and upper-income census tracts, where most of the bank's lending occurs.

The bank's lending distribution in the low- and moderate-income portions of the assessment area is poor. As depicted in the chart below, out of our sample of 109 loans totaling \$5.6 million located within the assessment area, the bank has not extended any credit to borrowers located in low-income census tracts. The bank has no deposit-taking or lending presence in the moderate- and low-income census tracts within the assessment area. In addition, almost all of the low-income census tracts are located in downtown Wichita, Kansas, which is fifteen miles west of the bank. The lack of deposit and lending activities in these census tracts, as well as the location of the bank in the assessment area, mitigates the lack of lending penetration in the low- and moderate-income census tracts.

GEOGRAPHIC DISTRIBUTION OF LOANS WITHIN THE BANK'S ASSESSMENT AREA					
CENSUS TRACTS	# TRACTS IN AREA	# OF LOANS	% BY NUMBER	\$ OF LOANS	% BY DOLLAR
Low-income	10	0	0%	0	0%
Moderate-income	25	6	5%	32	1%
Middle-income	58	84	78%	3,967	70%
Upper-income	19	18	17%	1,630	29%

In response to the lack of lending penetration in these areas, the bank has advertised its credit products throughout the entire assessment area, but has not received any recent loan applications from these low- and moderate-income census tracts.

Compliance with Antidiscrimination Laws and Regulations

The bank is in compliance with the applicable antidiscrimination laws and regulations. We did not find any violations of the fair lending laws at this examination.