



Office of the
Comptroller of the Currency
Washington, DC 20219

INTERMEDIATE SMALL BANK

PUBLIC DISCLOSURE

October 17, 2016

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The First National Bank of Hutchinson
Charter Number 3180

One North Main Street
Hutchinson, KS 67504

Office of the Comptroller of the Currency

2959 N. Rock Road, Suite 510
Wichita, KS 67226

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: This institution is rated Satisfactory.

The Lending Test is rated: Satisfactory

The Community Development Test is rated: Satisfactory

- The First National Bank of Hutchinson's (FNB) average loan-to-deposit ratio reflects reasonable responsiveness to the credit needs of the assessment areas (AAs). The average loan-to-deposit ratio during the evaluation period was 61.25 percent.
- FNB extended the majority of its primary loan products to businesses and borrowers in the AA. The loan samples indicate that 68 percent of the number and 41 percent of the dollar volume of loans were granted within the AAs.
- FNB demonstrated reasonable penetration to businesses of different sizes and borrowers of different incomes in the AAs. The loan sample indicates that 71 percent and 70 percent of the number of commercial loans from the Reno County AA and the Sedgwick/Harvey AA, respectively, were made to businesses with annual gross revenues less than or equal to \$1 million. For HMDA products in the Sedgwick/Harvey AA, the bank's level of lending was near to the census demographics.
- FNB demonstrated excellent dispersion to businesses in moderate-income census tracts located in the Reno County AA. The loan sample indicates that FNB made 43 percent of its commercial loans to businesses in moderate-income census tracts, which exceeds the AA demographic of 42 percent. Given the distant proximity of the one moderate-income tract in the Sedgwick/Harvey AA, the bank did not originate any business or residential loans in the moderate-income tract. There were no low-income tracts in the bank's AAs.
- FNB demonstrated satisfactory responsiveness to community development needs. FNB's community development lending is excellent and represents 27 percent of the bank's overall tier one capital (capital). FNB's level of community development investments and donations is adequate and represents one percent of the bank's capital. FNB also supported seven local community organizations in the Reno County AA that promote community development

Scope of Examination

We evaluated FNB using Intermediate/Small Bank examination procedures, which include a lending test and a community development test. The lending test covers FNB's performance from January 1, 2014 through June 30, 2016. Each assessment area (AA) was evaluated based on its primary lending product(s).

Commercial loans represent FNB's primary loan product for the Reno County AA, while commercial and residential loans represent the primary products for the

Sedgwick/Harvey County AA. We selected samples of 20 commercial loans for the Reno County AA, as well as 20 commercial and 20 residential loans for the Sedgwick/Harvey AA to evaluate FNB's lending performance.

We selected both AAs for full-scope reviews; however, the bank's performance in the Reno County AA will receive the most consideration. Based on the most recent Federal Deposit Insurance Corporation's (FDIC) Summary of Deposits report dated June 30, 2016, the Reno County AA holds 91 percent of the bank's total deposits. Ninety-six percent of the loans from both AAs were originated in the Reno County AA.

The community development test included a review of community development loans, qualified investments and donations, and community development services. The community development evaluation period was from November 13, 2013 to October 11, 2016.

Description of Institution

FNB is a \$666 million financial institution headquartered in Hutchinson, KS. The bank is a wholly owned subsidiary of First Kansas Bancshares, Inc., a one-bank holding company with \$79 million in assets as of June 30, 2016. The bank has no affiliates requiring consideration for CRA activities.

FNB is a full-service banking institution offering a range of commercial, real estate, agricultural, and consumer credit products. As of June 30, 2016, FNB's \$386 million loan portfolio consists of 57 percent commercial loans; 13 percent residential real estate loans; 19 percent agriculture loans; seven percent municipal loans and lease financing; three percent consumer loans; and one percent other loans. FNB's net tier 1 capital totals \$74 million as of June 30, 2016.

FNB currently operates 10 branches (including the main branch) and 10 automated teller machine (ATM) locations. During 2012, FNB acquired a small community bank headquartered in Mt. Hope, KS. This acquisition provided three branches located in three towns in the western part of Sedgwick County. None of the branches were located in or near to low- or moderate-income census tracts.

No legal, financial, or other matters impede FNB's ability to meet the credit needs of the AAs. The Office of the Comptroller of the Currency last evaluated FNB's CRA performance on November 12, 2013. FNB received an overall rating of "Satisfactory" under the Intermediate/Small Bank Performance Standards.

Description of Reno County Assessment Area

FNB's 2014-2016 Reno County AA consists of all of Reno County, which is a non-metropolitan area located in south central Kansas. The AA contains 17 census tracts, with 41 percent designated moderate-income, 47 percent middle-income, and 12 percent upper-income. There are no low-income census tracts in the AA. The delineation of the AA does not reflect any illegal discrimination or arbitrarily exclude any low- or moderate-income geographies. There are no census tracts designated as distressed or underserved non-MSA middle-income tracts.

The Reno County AA holds 91 percent of the bank's deposits as of June 30, 2016. Ninety-six percent of the dollar volume and 80 percent of the number of loans originated during the evaluation period were originated in the Reno County AA. This AA will receive substantially more weight in the conclusion for the Lending and Community Development tests.

The main bank and six branches are located in this AA for a total of seven facilities. Each location, with the exception of the main bank and the Dillon's grocery store branch, has a drive-up facility. There are also seven ATMs. Six branches have an ATM and there is an ATM facility at the Hutchinson Clinic. The main bank does not have an ATM. All ATMs are available 24-hours per day, except for the Hutchinson Clinic, which is only available during business hours. The main bank and two branches are located in moderate-income tracts. Two branches are located in middle-income tracts, as is the Hutchinson Clinic ATM. One branch is located in an upper-income tract.

The AA had a 2010 U.S. Census population of 64,511. The income distribution for families in the AA is 20 percent low-income, 20 percent moderate-income, 23 percent middle-income, and 37 percent upper-income. Thirty-seven percent of the AA's population is not in the workforce and 17 percent of the population is over the age of 65. Eighteen percent of the households in the AA are retired, 13 percent of the households have income below the poverty level, and 3 percent of the households receive public assistance. The Weighted Average of Median Family Income for 2016 is \$51,766.

Housing units in the AA consist of 89 percent one-to-four family units, 6 percent multi-family, and 5 percent mobile homes. The Weighted Average of Median Housing value from the 2010 U.S. Census data is \$87,945.

Reno County has 14 incorporated cities, the largest of which is the county seat, Hutchinson with a population of 41,889. The Hutchinson economy is diverse and offers various employment opportunities. Major employers include Hutchinson Regional Healthcare Systems, Dillon's Corporate and Store Front, Unified School District 308, Hutchinson Community College, Hutchinson Clinic, Tyson Prepared Foods, and Hutchinson Correctional Facility. Hutchinson also functions as a regional retail and service center for surrounding counties.

Reno County has a close proximity to the Wichita MSA. Significant employers in Wichita include Spirit Aerosystems, Inc., Textron Aviation, Via Christi Regional Medical Center, McConnell Air Force Base, and Koch Industries. Each of these employers provide more than 3,000 full-time jobs.

Reno County businesses have recovered from the economic downturn, with many businesses projecting growth and expansion through 2016. Recruiting skilled employees was rated the biggest weakness in 2015. As of July 2016, the unemployment rate in Reno County is 5.4 percent, which is above the statewide and nationwide rates of 4.0 percent and 4.9 percent, respectively. The cost of living continues to be low in comparison to the national average. The 2016 cost of living in Reno County is 78.7 compared to the national average of 100.

Based on the Federal Deposit Insurance Corporation's (FDIC) June 30, 2016, Deposit Market Share Report, FNB has a significant market share in Reno County. The bank ranks first in market share with 45.73 percent of deposits. There are 10 financial institutions with 26 offices located within Reno County.

Examiners communicated with a community based economic development organization first contacted during the prior CRA examination. The contact stated that there are ample lending opportunities and community development opportunities in both Hutchinson and Reno County. He stated that all banks are equally involved in sustaining the community.

Description of Sedgwick/Harvey Assessment Area

FNB's 2014-2016 Sedgwick/Harvey AA consists of a portion of the Wichita MSA (#28140), specifically 23 census tracts within Sedgwick County and one census tract within Harvey County. The AA contains 24 census tracts, with four percent designated moderate-income, 33 percent middle-income, and 63 percent upper-income. There are no low-income census tracts in the AA. The delineation of the AA does not reflect any illegal discrimination or arbitrarily exclude any low- or moderate-income geographies. There are no census tracts designated as distressed or underserved non-MSA middle-income tracts.

The Sedgwick/Harvey AA holds nine percent of the bank's deposits as of June 30, 2016. Only four percent of loans were originated in the Sedgwick/Harvey AA during the evaluation period.

FNB has three branches located within the AA with each having a drive-up facility and a 24-hour ATM. Of the three branches and three ATMs in the Sedgwick/Harvey AA, two of each are in middle-income tracts and one each is in an upper-income tract.

The AA had a 2010 U.S. Census population of 118,643. The income distribution for families in the AA is 10 percent low-income, 13 percent moderate-income, 20 percent

middle-income, and 57 percent upper-income. The demographics reflect that 25 percent of the AA's population is not in the work force and ten percent of the population is over the age of 65. Sixteen percent of the households in the AA are retired, six percent of the households have income below the poverty level, and one percent of the households receive public assistance. The Weighted Average of FFIEC Updated MSA Median Family Income for 2016 is \$65,000.

Housing units in the AA consist of 87 percent one-to-four family units, 10 percent multi-family, and 3 percent mobile homes. The weighted-average of Median Housing value from the 2010 U.S. Census data is \$149,725.

The June 2016 economic and consumer credit analysis performed by Moody's Analytics for Wichita concludes that the city's business cycle is still in a recovery status. Wichita has seen strong growth in demand for housing and strengthening payroll employment. However, more than half of all jobs in Wichita are in low-wage industries, which puts a strain on economic growth.

Current economic drivers are manufacturing and defense. Manufacturing is the most significant economic driver to Wichita with aerospace making up over half of all factory jobs. McConnell Air Force Base is also a strength for the economy, employing over 17,000 people, military and civilian.

Spirit Aerosystems, Inc. is the largest employer with 10,900 employees. Textron Aviation is the second largest employer with over 8,300 employees. Via Christi Regional Medical Center is ranked third at nearly 5,900 employees, followed by McConnell Air Force Base with over 5,000 civilian employees.

The unemployment rate in June 2016 for the Wichita MSA was 4.8 percent, which is above the Kansas unemployment rate of 4.0 percent and just below the national unemployment rate of 4.9 percent for the same period.

FNB faces strong competition in the AA. Based on the FDIC's June 30, 2016, Deposit Market Share Report, a total of 47 financial institutions have offices in Sedgwick and Harvey Counties. FNB ranks 29th in market share with 0.39 percent of deposits.

Examiners reviewed two community contacts recently performed by the OCC. The contacts identified mortgage lending, home improvement, small business development, entrepreneurship, and startup business loans has the primary lending need in the community. There is also a need for volunteers for committees. Banks are adequately supporting community needs.

Conclusions with Respect to Performance Tests

LENDING TEST

FNB's performance under the lending test is rated "Satisfactory". Performance in the Reno County AA and the Sedgwick/Harvey AA is reasonable.

Loan-to-Deposit Ratio

FNB's level of lending is reasonable. The average quarterly loan-to-deposit ratio since the last CRA examination is 61.25 percent, compared to 70.76 percent for similarly situated banks. FNB's loan-to-deposit ratio ranged from 52.72 percent to 71.36 percent. The loan-to-deposit ratio for similarly situated banks ranges from 52 percent to 95.35 percent.

Lending in Assessment Area

FNB extended a majority of commercial and residential loan products to businesses and borrowers in the AAs. The in-out ratio was determined by using a sample of 40 commercial loans and 20 residential real estate loans originated or purchased during the evaluation period. FNB granted 68 percent of the number and 41 percent of the dollar volume of loans within the AA during this period.

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

Reno County

FNB's performance for commercial lending demonstrates reasonable penetration to businesses of different sizes.

The loan sample indicates that FNB originated approximately 71 percent of the number of loans to businesses with gross revenues of less than or equal to \$1 million. This is near to the census demographic, which reflects approximately 76 percent of business in the AA have gross revenues of less than or equal to \$1 million.

FNB granted a majority of the loan dollars to businesses with gross revenues greater than \$1 million. This did not detract from the overall performance conclusion as the bank's size and correspondent status allows it to participate in larger loans originated by smaller banks, as well as lend to larger borrowers in the AA. The loan sample contained three large borrowers with loan amounts greater than \$500 thousand.

Borrower Distribution to Businesses in Reno County AA				
Business Revenues (or Sales)	<= \$1,000,000	> \$1,000,000	Unavailable	Total
% of AA Businesses	76.12	7.57	16.31	100.00
% of Bank Loans in AA by #	71.43	23.81	4.76	100.00
% of Bank Loans in AA by \$	41.48	56.33	2.19	100.00

Source: Loan Sample and 2010 U. S. Census

Sedgwick/Harvey AA

FNB’s commercial lending demonstrates reasonable penetration to businesses of different sizes.

The loan sample shows that FNB originated 70 percent of the number of loans in the AA to businesses with gross revenues less than or equal to \$1 million. This is somewhat lower than the demographics, which reflect that 83.43 percent of businesses have gross revenues of less than or equal to \$1 million. The bank’s somewhat lower percentage is a result of three loans in the sample having no income information available. Considering loan size as a proxy, these loans may qualify as loans to small businesses as loan sizes were less than \$100 thousand.

FNB granted a majority, or 61.17 percent of loan dollars to businesses with gross revenues of less than or equal to \$1 million. As noted above, the three businesses with no income information represent 21.83 percent of the dollar volume.

Borrower Distribution to Businesses in Sedgwick/Harvey AA				
Business Revenues (or Sales)	<= \$1,000,000	> \$1,000,000	Unavailable	Total
% of AA Businesses	83.43	5.06	11.52	100.00
% of Bank Loans in AA by #	70.00	15.00	15.00	100.00
% of Bank Loans in AA by \$	61.17	17.00	21.83	100.00

Source: Loan Sample and 2010 U. S. Census

For HMDA products collectively, FNB’s lending to low- and moderate-income borrowers reflects satisfactory penetration in the Sedgwick/Harvey AA. The bank’s performance was near the demographics.

Borrower Distribution of HMDA Products in Sedgwick/Harvey 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
Residential RE	10.17	10.00	12.72	10.00	20.50	15.00	56.61	65.00

Source Loan Sample and 2010 U.S. Census:

Geographic Distribution of Loans

Reno County AA

FNB’s geographic dispersion to businesses located in moderate-income tracts is excellent. The AA does not contain any low-income census tracts.

FNB extended 42.86 percent of the number of loans to businesses located in moderate-income census tracts. This exceeds the demographic data of 41.90 percent.

Geographic Distribution of Commercial Loans in Reno County AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
% of Total	0.00	0.00	41.90	42.86	40.70	38.10	17.40	19.05

Source: Loan Sample and 2010 U. S. Census

Sedgwick/Harvey AA

FNB’s geographic dispersion to borrowers and businesses is reasonable. FNB did not extend any loans to businesses or loans for HMDA products in the one moderate-income census tract. The lack of lending in this census tract did not negatively impact the overall conclusion. The AA does not contain any low-income census tracts.

The moderate-income census tract is more than seven miles east of the closest branch, which is located in a more rural area of the AA in Goddard, KS. The percentage of businesses in the census tract is very low at 3.86 percent when compared to all businesses in the AA. The tract also has a low percentage of the AA’s owner-occupied housing at just 2.91 percent. The tract has a low volume of 1-4 family housing given the large public park and two substantial school properties serving approximately 1,300 students. Additionally, only 54 percent of the housing is owner occupied. There is significant banking competition between the location of the moderate-income census tract and the location of the bank’s branch in Goddard.

Responses to Complaints

FNB has not received any CRA-related complaints since the last CRA examination.

COMMUNITY DEVELOPMENT TEST

FNB’s overall performance under the community development test is “Satisfactory”. FNB demonstrated adequate responsiveness to CD needs. The bank provides CD

loans, investments, grants, and services that support affordable housing, community services, small business lending, and economic development.

Reno County AA

The community development test for Reno County AA is rated “Satisfactory”. Responsiveness to CD needs in the Reno County AA is adequate.

FNB granted 14 loans totaling \$18.8 million for community development purposes during the evaluation period, reflecting strong commitment to CD lending needs in the Reno County AA. All the loans were extended for the purpose of supporting affordable housing in the AA.

FNB’s level of qualified investments in the Reno County AA totals \$880 thousand and represents one percent of allocated tier 1 capital as of June 30, 2016. This reflects adequate responsiveness to community development investment needs. FNB also has qualified investments outstanding from the prior evaluation period with a book value of \$88 thousand. FNB’s equity investments were to organizations receiving Low Income Housing Tax Credits for producing, rehabilitating or preserving affordable housing. One of the organizations specifically provides affordable housing for elderly.

FNB provided \$77 thousand in qualifying grants to 13 organizations during the evaluation period. Donations were primarily to non-profit organizations that provide financial education and social services to low- and moderate-income individuals and also to organizations working to revitalize moderate-income geographies.

FNB provided an adequate level of CD services in the Reno County AA. Five different bank officers provided services to six different CD organizations. FNB officers were responsive to community needs by providing bank services for an affordable housing organization and by serving on boards and committees for organizations that provide financial guidance for low- and moderate-income individuals in the community. Other officers served on boards and committees for organizations that provide community services for low- and moderate-income individuals.

Sedgwick/Harvey AA

The community development test for the Sedgwick/Harvey AA is rated “Needs to Improve”. Responsiveness to community development needs in the Sedgwick/Harvey AA is poor.

FNB did not originate any qualified CD loans or make any qualified CD investments in the Sedgwick/Harvey AA. The bank made two qualifying grants totaling \$150. The grants were made to a non-profit organization that provides community services to low- and moderate-income children. FNB provided one community development service. A loan officer provided consulting services to a moderate-income home buyer receiving a Federal Home Loan Bank grant for a home purchase.

Statewide Benefit

In addition to investments made within the bank’s AAs, FNB provided investments in the broader statewide area that includes the bank’s assessment area and that have the potential to benefit the bank’s AAs. Investments of \$155 thousand were made to support affordable housing.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. 25.28(c), or 12 C.F.R. 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 AA 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.