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Comptroller of the Currency  
Administrator of National Banks

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## PUBLIC DISCLOSURE

June 18, 1996

### COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The First National Bank of LeRoy  
Charter Number 6149

6th and Main Streets  
P.O. Box 128  
LeRoy, Kansas 66857

Office of the Comptroller of the Currency  
Kansas City Duty Station  
6700 Antioch Road, Suite 450  
Merriam, Kansas 66204-1277

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 CRA performance of The First National Bank of LeRoy prepared by the Office of the Comptroller of the Currency (OCC), the institution's supervisory agency, as of June 18, 1996. 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: “Outstanding record of meeting community credit needs.”

The First National Bank of LeRoy is very responsive to meeting its community's credit needs. The bank has reinvested a large portion of its deposits in its community, and a substantial majority of loans are to borrowers within the bank's assessment area. Lending patterns reflect an excellent distribution of loans to borrowers and businesses of different incomes and sizes, including low- and moderate-income households. The bank's flexible underwriting standards demonstrate that management and the Board are sensitive to the credit needs of the community, particularly those of low- and moderate-income individuals.

The following table indicates the performance levels of The First National Bank of LeRoy with respect to each of the five performance criteria:

SMALL INSTITUTION ASSESSMENT CRITERIA	THE FIRST NATIONAL BANK OF LEROY PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does not meet Standards for Satisfactory Performance
Loan-to-Deposit Ratio	X		
Lending in Assessment Area	X		
Lending to Borrowers of Different Incomes and to Businesses of Different Sizes	X		
Geographic Distribution of Loans	Analysis not meaningful.		
Response to Complaints	No complaints were received since the prior examination.		

## DESCRIPTION OF INSTITUTION

The First National Bank of LeRoy is a \$17 million bank located in the city of LeRoy, in Coffey County Kansas. It is wholly owned by LeRoy Bancshares, Inc., a one bank holding company. There are no ATMs or branches. The bank's last CRA examination was in 1989. Almost all credits on the bank's books have been originated or renewed since that time.

The bank's lending focus is agricultural, residential and consumer, with agricultural and consumer loans extended most often. Agricultural and residential loans make up the largest dollar volume of loans. According to the bank's March 31, 1996 report of condition, \$5.4 million, or about 53 percent of loans are agriculture related. Approximately \$2.8 million, or 28 percent of loans are secured by 1 to 4 family residential properties. In addition, the bank extends auto, household and business loans.

## DESCRIPTION OF ASSESSMENT AREA

The bank's assessment area is comprised of five Block Numbering Areas (BNAs) in three counties in east central Kansas. Included are all three Coffey County BNAs, and one adjacent BNA in each of Anderson and Woodson counties. Based on 1990 census data, all 5 BNAs are designated as middle income and are not in a MSA (Metropolitan Statistical Area). The median family income at \$26,418 equates to 77 percent of the statewide non-MSA median family income of \$34,300. Within the assessment area, 20 percent of families are low income, 19 percent are moderate income, 25 percent are middle income, and 36 percent are upper income.

The bank's assessment area does not arbitrarily exclude low- or moderate-income areas. 1990 Census data shows a population of 13,521. There are 6,244 housing units, with 68 percent owner occupied. The average age of the housing stock is 48 years.

The local economy is dependent on agriculture and related industries. Some diversification is provided in the Wolf Creek Nuclear Power Plant. The economy and population are fairly stable, reflecting a 3 percent unemployment rate. Friendly competition is provided by several financial institutions in the assessment area. They are located in the Kansas communities of Aliceville, Burlington, Gridley, and Yates Center.

A local community group contact indicated the need for residential lending in the area, particularly lending to facilitate new housing stock. Bank management affirmed this need along with the need for low-cost residential loans and small consumer loans.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA :

### Loan-to-Deposit Ratio

The bank's loan-to-deposit ratio is more than reasonable. For the last eight quarters, loans have averaged 72 percent of deposits. This puts the bank near the top in comparison to its four primary competitors, whose averages range from 38 percent to 75 percent. Recent numbers are even more positive. The bank had the highest loan-to-deposit ratio of any of its competitors at both year end 1995 and at March 31, 1996. In addition, the bank far exceeds the national average for similar banks at 58 percent for March 31, 1996.

It's useful to note that all of the bank's principal competitors are much larger institutions. This hampers this bank somewhat because its lower lending limit restricts its ability to compete for large lines.

### Lending in Assessment Area

A substantial majority of the bank's loans are to borrowers within the bank's assessment area. Our random sample of 26 residential real estate and 25 agricultural loans revealed that 82 percent were within the assessment area. As of March 31, 1996, agricultural and residential real estate loans comprised 81 percent of the bank's loan portfolio by dollar volume. These figures reflect loans on the bank's books, and not necessarily loan originations within the past year.

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

The bank actively lends to individuals and businesses of different incomes and sizes.

### Consumer Loans:

Management does not routinely take written applications on consumer loans, so income information was not readily available in all cases. However, we did find a very high volume of low-dollar consumer loans. For the 12 months ending May 20, 1996, 34 percent of consumer loans by number were in amounts of \$500 or less, and 79 percent were in amounts of \$1 thousand or less. Loans as small as \$100 are routinely extended, despite the fact that loans this size are not profitable

### Home Loans:

Examiners reviewed the 55 home purchase, home purchase renewals, and home improvement loans made in the last twelve months which total \$2,022,000. This sample represents 40 percent of the 137 outstanding home and home improvement loans, and 79 percent of the total \$2,800,000 home loans reported on the bank's March 31, 1996 Call Report. Of the 24 first-time home purchase loans, 50 percent were for homes with values under the \$24,300 median housing value in the assessment area.

In addition, an analysis of a sample of 26 existing residential real estate loans revealed excellent penetration among different income categories.

Lending Distribution by Family Income Category		
Income Level	Distribution of families In Assessment Area	Distribution of Bank's Loans to Different Income Families
Low	19.5%	19.3%
Moderate	18.9%	23.1%
Middle	25.2%	46.0%
Upper	36.3%	11.5%

The distribution to low- and moderate-income families is especially favorable since many of these borrowers might have trouble coming up with the cash for the fees and down payment required in a normal home loan. The bank's low cost home loan program helps overcome this obstacle, and enhances the low- and moderate-income individuals ability to qualify. Under this program, management charges only a small recording fee, and the standard title insurance premium. Most appraisals are done by management at no cost to the consumer. In addition, many of these loans are made with borrower down payments lower than the 20 percent required by the bank's policy. Chairman Freeman identified twenty such loans during our examination extended to families with income below the assessment area median.

In a management tour of LeRoy, we found that the bank is extensively involved in increasing and improving the available housing stock. The bank routinely finances home purchase and improvement loans for the abundant stock of older and deteriorated

homes in the area. According to management, upper income households are concentrated in and around the community of Burlington, Kansas. This community is aptly served by two competitor banks in addition to the First National Bank of LeRoy.

### Farm Loans:

The bank is also making a significant volume of small farm loans. The examiners reviewed all agricultural loans made in 1996. This sample totaled 121 loans, with total advances of \$4,017,000. The latter is 74% of the \$5,400,000 in outstanding farm loans. Forty seven percent of these loans by number were in amounts of \$10 thousand or less, and 83 percent were in amounts of \$50 thousand or less. Only 6 percent were in amounts exceeding \$100 thousand. By volume, 35% of loans in the sample were \$50 thousand or less, and 50% were \$100 thousand or below.

We found management is doing a good job of making loans to farms of various sizes. Examiners pulled a random sample of 25 existing agriculture lines (a borrower's line typically contains several loans). These 25 lines totalled \$1,950,000. We found that 84 percent of the total by number was extended to farms with annual revenues under \$100 thousand and 16 percent to farms with annual revenues over \$100 thousand. Forty-seven percent of the volume of loans in the sample were to farms with annual revenues under \$100 thousand. Our sample represents 42% of the total number of agricultural lines outstanding, and 36 percent of the bank's \$5,400,000 farm loans.

Management's analysis of the agricultural portfolio further supported these findings. Bank files contained gross income information on 53 of the 59 farm lines in the bank. Of the 53 lines, 37 (or 70 percent) were to farms with less than \$66 thousand in revenues. The \$66 thousand is significant because the County Extension Service identifies this as the average gross income before government payments for the 590 farms in Coffey county (the county ASCS office reports that average government payments in 1995 would not significantly affect this total). Of the remaining sixteen farm lines, ten were to farms with gross revenues over \$100 thousand, and six to farms with revenues in the \$66 thousand to \$100 thousand range.

### Geographic Distribution of Loans

All of the block numbering areas are middle income, therefore, an analysis of the distribution of loans within the area would not be meaningful.

## Compliance with Antidiscrimination Laws and Regulations

We found the bank in compliance with both substantive and technical provisions of antidiscrimination laws and regulations.