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PUBLIC DISCLOSURE DOCUMENT

September 30, 1996

COMMUNITY REINVESTMENT ACT  
PERFORMANCE EVALUATION

**MERCANTILE BANK**  
**10-29-2550**  
**2413565**

**9900 W. 87th Street**  
**Overland Park, Kansas 66212-4799**

Federal Reserve Bank of Kansas City  
925 Grand Boulevard  
Kansas City, Missouri 64198

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**

This document is an evaluation of the Community Reinvestment Act (CRA) performance of Mercantile Bank, 9900 West 87th Street, Overland Park, Kansas, prepared by the Federal Reserve Bank of Kansas City, the institution's supervisory agency.

The evaluation represents the Reserve Bank's current assessment and rating of the institution's CRA performance based on an examination conducted as of September 30, 1996. It does not reflect any activities that may have been initiated or discontinued by the institution after the completion of the examination.

The purpose of the CRA of 1977 (12 U.S.C. 2901), as amended, is to encourage each financial institution to help meet the credit needs of the community in which it operates. The act requires that in connection with its examination of a financial institution, each federal financial supervisory agency shall (1) assess the institution's record of helping to meet the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operations of the institution, and (2) take that record of performance into account when deciding whether to approve an application of the institution or a deposit facility.

The Financial Institutions Reform, Recovery and Enforcement Act of 1989, Pub. L. No. 101-73, amended the CRA to require the supervisory agencies to make public certain portions of their CRA performance assessments of financial institutions.

### **Basis for the Rating**

The assessment of the institution's record takes into account its financial capacity and size, legal impediments and local economic conditions and demographics, including the competitive environment in which it operates. Assessing the CRA performance is a process that does not rely on absolute standards. Institutions are not required to adopt specific activities, nor to offer specific types or amounts of credit. Each institution has considerable flexibility in determining how it can best help to meet the credit needs of its entire community. In that light, evaluations are based on a review of 12 assessment factors, which are grouped together under five performance categories, as detailed in the following section of this evaluation.

## Assignment of Rating

In connection with the assessment of each insured depository institution's CRA performance, a rating is assigned from the following groups:

### **Outstanding record of meeting community credit needs**

*An institution in this group has an outstanding record of, and is a leader in, ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.*

### **Satisfactory record of meeting community credit needs**

*An institution in this group has a satisfactory record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.*

### **Needs to improve record of meeting community credit needs**

*An institution in this group needs to improve its overall record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.*

### **Substantial noncompliance in meeting community credit needs**

*An institution in this group has a substantially deficient record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.*

## GLOSSARY OF TERMS AND COMMON ABBREVIATIONS

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

Metropolitan Statistical Area (MSA) - Area consisting of one or more counties, including large population centers, and nearby communities that have a high degree of interaction.

Median Family Income - The median income determined by the United States Census Bureau. This figure is based on estimations developed by the Department of Housing and Urban Development (HUD) and is updated annually.

Low- and Moderate-Income - Income levels which are less than 80 percent of the median family income.

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 income of the applicant(s), the amount of loan requested and its disposition (i.e., originated, denied, withdrawn). The types of loan applications reported include governmentally-guaranteed home purchase and improvement loans, conventional home purchase loans, home improvement loans, refinancings of home purchase and improvement loans, and loans for the purchase of multifamily (five 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 USC 2801, as amended, and 12 CFR 203, as amended.)

Mercantile Bank (Mercantile)

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 USC 2901, as amended, and 12 CFR 25, as amended.)

## DISCUSSION OF INSTITUTION'S PERFORMANCE

**Institution's Rating:** *Outstanding record of meeting community credit needs.*

The evaluation period covers January 10, 1995, through September 30, 1996.

### I. ASCERTAINMENT OF COMMUNITY CREDIT NEEDS

**Assessment Factor A** - *Activities conducted by the institution to ascertain the credit needs of its community, including the extent of the institution's efforts to communicate with members of its community regarding the credit services being provided by the institution.*

**(Conclusion/Support):**

The bank has developed ongoing and meaningful contacts with local developers, economic and community development organizations, government agencies, and merchant associations. These contacts have resulted in productive relationships and credit extensions.

The bank has established a three-tiered approach to ascertaining credit needs, which is effective in providing all levels of bank staff and management with information on community activities and development efforts. First, the bank's Community Development Officer (CDO) maintains contact with community development corporations (CDCs), economic development organizations, government agencies, developers, and others focused on meeting credit needs in low- and moderate-income areas. The CDO often recruits staff from the bank's Business Resource Center and mortgage lending department to help in these ascertainment efforts.

Following are some of the organizations and government agencies with which the CDO and bank staff meet on a routine basis to discuss development needs.

- City Vision Ministries, an organization which purchases, restores, and resells single-family dwellings in targeted Kansas City, Kansas neighborhoods using the city's federal HOME program funds. The HOME program provides leverage funding for use in public-private affordable housing projects.
- Rehabilitation Loan Corporation (RLC), a CDC serving the housing financing needs of low- and moderate-income areas in Jackson and Wyandotte Counties through federal, local, and private financing.

- Twelfth Street Heritage Corporation, a CDC serving the home construction, improvement, and financing needs of neighborhoods in the 12th Street and Brooklyn Avenue area in Kansas City, Missouri.
- The Coalition for Concerned Clergy (CCC), a ministerial alliance focusing on the credit and service needs of the low- and moderate-income areas of Kansas City, Missouri.
- Southtown Council, which focuses on the credit and service needs of small businesses in the south central area of Kansas City, Missouri.
- Community Builders, a nonprofit subsidiary of the Swope Parkway Health Center with the goal of revitalizing housing and businesses in the neighborhoods surrounding the health care center.
- Kansas City Neighborhood Alliance, an organization acting as a catalyst and leader in addressing affordable housing.
- Kansas City, Kansas Neighborhood Housing Services, a nonprofit organization formed to help stabilize and improve housing conditions particularly in the Chelsea and Prescott neighborhoods.
- Kansas City Neighborhood Housing Services, Inc., which focuses on stabilizing the housing conditions in Kansas City, Missouri inner core area neighborhoods.
- Greater Kansas City Lender's Consortium and Kansas City, Kansas Lender's Consortium, both of which are alliances of financial institutions monitoring metropolitan area credit needs and seeking to develop programs effectively addressing those needs.
- The Black Chamber of Commerce of Greater Kansas City, which monitors the needs of small and disadvantaged metropolitan area businesses and entrepreneurs.
- Johnson County Housing Coalition and the Independence Housing Coalition, which both are government entities focusing on the housing needs of low- and moderate-income neighborhoods and individuals.

Second, the bank has an aggressive call program, wherein bank officers regularly meet with a wide array of individuals and business owners to discuss their credit needs and private development efforts. The contacts include current and prospective customers, and contact documentation is forwarded to senior management for review and follow-up. Bank contacts for the month of July 1996 were reviewed during the examination. In that

month, bank officers made 403 contacts to business owners, organizations, and individuals throughout the assessment area.

Third, through its community task force volunteer program, the bank encourages its staff to participate in organizations and projects benefitting individuals in the assessment area and fostering awareness of credit and service needs. Organizations in which bank staff play an active role include Consumer Credit Counseling Services, the Kansas City Area Development Council, Habitat for Humanity, and the Lee's Summit Economic Development Council.

Through its service in metropolitan area chambers of commerce, the bank is regularly involved in the area's economic development projects. The bank's activity in these chambers gives it an additional means of maintaining awareness of business credit needs. Bank staff currently serves in leadership positions on chambers of commerce in the following cities: Independence, Leawood, Lee's Summit, Raytown, and Riverside. Bank staff also participates in several metropolitan area neighborhood development associations and merchant associations.

To ensure that the information obtained during community contacts is disseminated throughout the organization and taken into consideration in the bank's planning processes, the bank established a CRA committee. The committee meets every other month and consists of three directors, the CDO, senior officers from the commercial, retail lending and marketing departments, and at least one branch manager. Annual CRA Action Plans developed by the committee and information resulting from ascertainment efforts are gathered and discussed.

**Assessment Factor C** - *The extent of participation by the institution's board of directors in formulating the institution's policies and reviewing its performance with respect to the purposes of the CRA.*

**(Conclusion/Support):**

Bank directors play an active role in the bank's CRA ascertainment efforts and are highly responsive to recognized credit needs. Three directors serve on the bank's CRA committee, which monitors and plans the bank's ascertainment, marketing and community development strategies. The CRA committee regularly reviews bank CRA activities and performance.

Directors and senior management show a willingness to explore and offer loan products with special features or more relaxed underwriting criteria to address recognized credit needs while acting within the bounds of sound lending. As a result, bank credit products are reasonably suited to meet a majority of the credit needs identified by sources contacted during the examination. An example of the bank's willingness to use flexible

underwriting standards to meet credit needs is its continued use of the Community Partnership Program (CPP), which uses flexible underwriting criteria and gap financing loans and grants to make credit more affordable in low- and moderate-income areas to first-time home buyers. Through its Business Resource Center, the bank also explores innovative means of making small business loans more accessible throughout the assessment area.

Sources contacted during the examination listed the following credit and service needs:

- *Lease purchase residential loans.* The bank does not currently offer these types of loans but demonstrates awareness of the need and is discussing developing this product with an area housing development organization.
- Long-term multifamily housing loans with terms of at least 15 years. Through the Kansas City Lender's Consortium, bank management is currently attempting to acquire the expertise and participation funding necessary to address this need.
- *Home rehabilitation loans with high loan-to-values.* The bank currently offers 100 percent loan to value consumer home improvement loans through its Insured Credit Services (ICS) program.
- *Home buyer education.* The bank sponsored five workshops on home buyer education and the use of financial services. The workshops have taken place at churches and community centers in low- and moderate-income areas. Over 150 individuals benefitted from these workshops.

The bank's written CRA program contains annual action plans, which have reasonable yet aggressive goals and objectives. Bank progress with program goals is regularly monitored and used by senior management in its marketing and planning processes.

An informal methodology for self-assessment for compliance with the CRA has been established. Annually, the CDO has sent a questionnaire to the bank's regional managers requesting feedback on its performance under each CRA assessment factor. The results and solutions to any problems detected are then discussed with the CRA committee. The bank's most recent self-assessment resulted in refinements to how it markets its services in The Kansas City Star.

Senior management actively supports ongoing CRA training. All bank staff receives CRA and fair lending training at annual branch meetings or as part of the bank's new employee orientation process. Training is periodically updated through Merc Messages, a monthly staff newsletter.



The bank satisfactorily meets the technical requirements of the regulation. The appropriate CRA notices are posted, and the CRA public file contains the required documentation. The bank has received no public comments on its CRA performance as it relates to the examination function. The only public comment received related to an application filed by the bank's holding company. The bank expanded its CRA statement to include a description of its ascertainment and marketing efforts.

## II. MARKETING AND TYPES OF CREDIT OFFERED AND EXTENDED

**Assessment Factor B** - *The extent of the institution's marketing and special credit-related programs to make members of the community aware of the credit services offered by the institution.*

### **(Conclusion/Support):**

The bank has developed sound marketing and advertising strategies to ensure all segments of the community, including low- and moderate-income areas, are reached. The bank retains adequate documentation of its marketing efforts and ensures that advertisements comply with the applicable consumer laws and regulations.

Word-of-mouth advertising is the bank's primary means of marketing its services. CDO and officer calls primarily discuss bank credit products, are documented in detail, and are internally reviewed for lending opportunities. The contacts effectively reach low- and moderate-income areas. The bank has also discussed its loan programs at six churches in low- and moderate-income areas.

The bank's media advertising strategies are designed to stimulate awareness of its credit products in hard-to-reach markets, particularly in low- and moderate-income areas. Bank strategies incorporate feedback from the CRA committee and senior management and consider the bank's overall CRA Plan goals. The CRA committee monitors the effectiveness of the bank's marketing efforts primarily through discussions with regional managers on branch traffic patterns and shoppers surveys. Occasionally, the bank also reviews new loan reports to assess the effectiveness of targeted marketing campaigns.

In 1995, the bank sponsored a focus group at a church in a low- and moderate-income area to develop methods to effectively reach Jackson County's low- and moderate-income areas. Feedback from the focus group confirmed the overall effectiveness of the bank's marketing strategies but also resulted in the bank redesigning its CPP brochure.

Since the last examination, about 50 percent of bank newspaper advertisements were in newspapers targeting minority audiences and were widely distributed in low- and moderate-income areas, including the Kansas City Globe, Kansas State Globe, The Kansas

City Kansan, The Call, Dos Mundos, and El West Side Shopper. All of the bank's radio advertisements and sponsorships were on a minority radio station (KPRS), and the bank's only billboard advertisement is in a low- and moderate-income area. Brochures are also available in the bank's lobbies and distributed at workshops and community centers to market its services.

Booths at area expositions and the offices of economic development organizations also marketed bank services. The bank displays its services at the Southtown Council Annual Business Exchange, Independence Chamber of Commerce Business Expo, and Fiesta Hispana. Bank staff also participated in the monthly Meet the Lender program sponsored by the Minority Supplier Council in 1996. The program gave businesses the opportunity to discuss their strategies and credit needs with banks in an informal setting.

The bank provides financial service and information and technical assistance to small businesses and individuals living in low- and moderate-income areas. It sponsored a series of financial workshops, home owners seminars, and small business seminars and established a Business Resource Center to address the strategic planning and counseling needs of small businesses.

**Assessment Factor I** - *The institution's origination of residential mortgage loans, housing rehabilitation loans, home improvement loans, and small business or small farm loans within its community, or the purchase of such loans originated in its community.*

## BANK PROFILE

Mercantile Bank is a subsidiary of Mercantile Bancorporation, Inc. in St. Louis, Missouri. The corporate offices of the bank are in Overland Park, Kansas. Reports of Condition dated June 30, 1996, showed the bank had \$1,713,879M in total assets.

Primarily as a result of its acquisitions of Central Mortgage Bancshares, Inc. in April 1995 and Mercantile Bank of Kansas in February 1996, the bank significantly increased its number of locations. It currently has 35 branches, 2 drive-thru facilities, and 3 stand-alone automated teller machines (ATMs) located throughout the assessment area.

Reports of Condition indicated that the bank had a diverse loan portfolio containing a mix of all types of loans. However, a slightly larger percent of bank loans were for commercial than for other purposes. As of June 30, 1996, the bank's loan portfolio contained the following loan mix: loans secured by business properties, 19.3 percent; loans secured by 1- to 4-family dwellings, 18.8 percent; consumer loans, 18.8 percent; business loans, 18.0 percent; financial institution loans, 13.2 percent; construction loans, 4.3 percent; other real estate-secured loans, 2.1 percent; municipal loans, 1.3 percent; all other loan types, 4.2 percent.

**(Conclusion/Support):**

The bank's loan volume in relation to its capacity is consistent with other financial institutions in the market, and its lending levels indicate responsiveness to credit needs. On June 1996, the bank's net loan-to-total deposit ratio was 69.7 percent. Although there are no peer financial institutions in the MSA with which to compare the bank, this ratio fell in the middle ranges of MSA banks with asset sizes between \$700M and \$4,000M.

The bank affirmatively responds to identified individual and small business credit needs through loan originations. Through its Insured Credit Services (ICS) home improvement program, CPP home purchase program, and the small business loans originated by the Business Resource Center, the bank addresses some of the assessment area's most pressing needs, including home loan gap financing and credit counseling services. The bank extended 1,287 ICS home improvement loans ranging from \$900 to \$50,000. Since the CPP program's development in 1994, the bank's volume of CPP loans has increased annually. The bank originated 8 loans in 1994, 24 in 1995, and 37 in the first three quarters of 1996.

In 1995, the bank established its Business Resource Center. The center is designed to generate small business loans and provide credit counseling in conjunction with the Senior Corps of Retired Executives (SCORE). The center was also established to be the focal point of the bank's Small Business Administration (SBA) lending efforts. In the first three quarters of 1996, the center originated 307 loans to small businesses ranging from \$1,200 to \$281,250.

As noted in Table 2, a substantial majority of bank loans originate from within the assessment area. In addition, the CRA statement correctly lists the credit products available through the bank.

**Assessment Factor J** - *The institution's participation in governmentally-insured, guaranteed or subsidized loan programs for housing, small businesses, or small farms.*

**(Conclusion/Support):**

The bank participates in several government-sponsored or subsidized loan programs, including home loan and gap financing programs, through the Missouri Housing Development Commission (MHDC); Rehabilitation Loan Corporation (RLC), Housing Development Corporation and Information Center (HDCIC); the Community Housing Investment Partnership (CHIP) program; and City Vision Ministries. The bank also offers SBA 7(a) and Lowdoc program loans. As noted in Table 1, the bank has increased lending and qualified applicants using the SBA loan programs. The lack of sustained

funding for other partnership programs has hampered the bank's efforts to extend loans more widely within its community.

<b>TABLE 1 NUMBER OF SPECIAL LOAN PROGRAM ORIGINATIONS (INCLUDING GOVERNMENT-GUARANTEED)</b>			
<i>Program</i>	1994	1995	1996*
<i>CHIP</i>	-	-	6
<i>RLC</i>	4	7	8
<i>MHDC</i>	13	15	2
<i>HDCIC</i>	-	1	4
<i>Independence Housing Program</i>	NA	1	-
<i>SBA</i>	1	9	19
<i>City Vision (HOME Program)</i>	NA	NA	1
<b>TOTALS</b>	18	43	40
* Includes loans from January 1, 1996 to September 30, 1996.			

### III. GEOGRAPHIC DISTRIBUTION AND RECORD OF OPENING AND CLOSING OFFICES

#### Reasonableness of Delineated Community

##### (Conclusion/Support):

The bank's assessment area includes five counties in the central part of the Kansas City, Missouri-Kansas Metropolitan Statistical Area (MSA). The assessment area is reasonable as it does not arbitrarily exclude any low- or moderate-income areas and comprises the area within which a significant portion of the bank's ascertainment, marketing, and lending activities occur.

**Assessment Factor E** - *The geographic distribution of the institution's credit extensions, credit applications, and credit denials.*

##### (Conclusion/Support):

The bank's lending levels in low- and moderate-income areas exceed normal expectations given its resources and asset size. The 1995 HMDA record shows that the bank's level of lending in these areas is high. In addition, the bank's dollar volume of HMDA lending in low- and moderate-income areas increased from 1994 to 1995 by 25.2 percent. Table 2

compares the distribution of the bank's 1995 HMDA loans to two other banks in the assessment area which report a similar volume of HMDA loans. Examiners' analysis of lending by two other local banks for 1995 indicates Mercantile Bank has a much higher volume of HMDA loans in low- and moderate-income tracts relative to its asset size.

<b>TABLE 2 COMPARATIVE ANALYSIS OF 1995 HMDA LENDING MERCANTILE BANK AND TWO OTHER ASSESSMENT AREA BANKS</b>						
	<i>MERCANTILE</i>		<i>BANK 1</i>		<i>BANK 2</i>	
	\$	%	\$	%*	\$	%*
<i>Total Assets (\$000) (As of June 30, 1996)</i>	1,713,879	100	4,405,429	38.9	4,476,947	38.3
<i>HMDA Originations</i>	12,954	--	30,918	41.9	19,717	65.7
<i>Low- to Moderate Tract Originations</i>	999	--	2,065	48.4	1,414	70.7
<i>Home Purchase Loans</i>	5,969	--	19,665	30.4	7,990	74.7
<i>Low- to Moderate-Tract Originations</i>	536	--	1,417	37.8	693	77.3
<i>Home Refinance Loans</i>	5,678	--	8,249	68.8	5,844	97.2
<i>Low- to Moderate-Tract Originations</i>	287	--	208	138.0	232	123.7
<i>Home Improvement Loans</i>	1,307	--	3,004	43.5	5,883	22.2
<i>Low- to Moderate-Tract Originations</i>	176	--	440	40.0	489	36.0
<p>* This represents Mercantile Bank's asset size and loan volume compared to that of Bank 1 and Bank 2. For example, Mercantile Bank is 38.9 percent of the asset size of Bank 1 but generated 48.4 percent of Bank 1's volume of home purchase loans in low- and moderate-income areas. Thus, Mercantile generated a high home purchase loan volume in low- and moderate-income areas relative to Bank 1 considering its comparative asset size.</p>						

Table 3 shows the geographic distribution of the loans in the bank's portfolio analyzed during the examination. A substantial majority of bank loans are from within the assessment area. The percent of bank loans within low- and moderate-income areas is reasonable considering the economic characteristics of households within these areas, as described further under the Community Profile.

Information obtained from Mid-America Regional Council on the location of businesses within the MSA indicated approximately 29 percent of assessment area businesses are located in low- and moderate-income census tracts. While the bank's penetration of these tracts is moderate, however, the address information in the bank's commercial loan

trial balance was not a consistent indicator of business location. Bank records reflect the street address of the business benefitting from the loan in some instances and the owner's home address in other instances.

Because sources contacted during the examination indicated that area financial institutions are unwilling to lend to churches in low- and moderate-income areas, the bank's portfolio of loans to religious organizations was reviewed in detail. The bank extended 22 loans to MSA churches totaling \$3,316M. Eleven of the loans (totalling \$775M are to churches in low- and moderate-income areas.

Bank management and directors regularly review and document the geographic distribution of some types of loans. Annually, the CRA committee reviews and documents the geographic distribution of bank HMDA loans.

At the urging of CCC, the bank began monitoring its volume of lending in Kansas City's East Side area in 1995. CCC defines the East Side as an area in Jackson County bounded by the Missouri River on the north, 85th Street on the south, Troost on the west, and Interstate 435 on the east. The area contains a high percent of low- and moderate-income census tracts. Bank documentation indicates that it originated 140 business, church, and consumer loans (totalling \$7.8 million) on the East Side in 1995 and 185 (totalling \$12.8 million) in the first three quarters of 1996. The bank does not review the geographic distribution of non-HMDA- related loans in other areas of the MSA.

<b>TABLE 3 GEOGRAPHIC DISTRIBUTION OF LOANS SAMPLED</b>				
<b>LOAN PORTFOLIO</b>	<b>No. Loans Geocoded</b>	<b>% Inside AA</b>	<b>L/M Tract Loans*</b>	
			<b>No.</b>	<b>% of Tot.</b>
<i>Consumer Portfolio:</i>				
<i>Real Estate Secured</i>	1,400	92.9	136	10.5
<i>Unsecured</i>	993	95.6	148	15.6
<i>Vehicle/Boat Secured</i>	1,152	94.1	150	13.8
<i>Misc. Consumer Purpose</i>	750	95.6	127	17.7
<i>Commercial Portfolio#</i>	2,249	95.4	231	10.8
<b>TOTALS</b>	6,544	94.7	792	12.8
<p>* Includes only tracts inside of the assessment area (including tracts with zero housing and/or population).</p> <p># Addresses were taken from the bank's trial balance and reflect either the street address of the businesses or the owner's home address.</p>				

**Assessment Factor G** - *The institution's record of opening and closing offices and providing services at offices.*

**(Conclusion/Support):**

Bank offices are reasonably accessible to all portions of the MSA. Four bank branches are in low- and moderate-income areas, two in Missouri and two in Kansas. Bank accessibility was enhanced by six supermarket locations in Johnson County, which provide 7-day-a-week access to bank services. The store locations were obtained as a result of the Mercantile Bank of Kansas acquisition.

Full implementation of its Loan-By-Phone program and the establishment of an Internet Webb site increased bank accessibility. Through its Loan-by-Phone program, customers and noncustomers may apply for loans from 8:00 a.m. to 5:00 p.m. Monday through Friday from the convenience of their homes. The bank's Web site contains information on bank financial services, including loan applications and credit program information.

Bank directors established a branch opening and closing policy which evaluates the impact of branch closings. The policy contains a procedure for contacting government



agencies and community development organizations prior to branch closings to discuss the impact of the closings and the need for alternative service arrangements to lessen the adverse impact of closings.

Senior management adequately followed the bank's branch opening and closing procedures in all instances where branches were eliminated. No evidence was found that the bank's record of closing offices had a significant adverse impact on any part of the assessment area. The bank has acquired several branches, one of which was in a low- and moderate-income area. Redundancy of location resulted in the bank closing three branches. None were in low- or moderate-income areas. All closed branches were within close proximity to other bank offices.

Bank office hours at each location are reasonable and designed to ensure equal access to bank services throughout the assessment area. To foster consistency between branch locations after its branch acquisitions in 1995 and as a result of shoppers surveys conducted at each of its branches, the bank adjusted its branch hours based on location. All branches, with the exception of the downtown branch and drive-thru facility, are now open six days a week. The changes also staggered branch Monday to Friday hours based on location. Branches located further away from downtown Kansas City have longer hours to accommodate commuters.

#### **IV. DISCRIMINATION AND OTHER ILLEGAL CREDIT PRACTICES**

**Assessment Factor D** - *Any practices intended to discourage applications for types of credit set forth in the institution's CRA statement.*

**(Conclusion/Support):**

No practices designed to discourage applications for any type of credit offered by the bank were found. Loan officers actively solicit applications from all segments of the community. The bank conducts periodic audits to ensure ongoing compliance.

**Assessment Factor F** - *Evidence of prohibited discriminatory or other illegal credit practices.*

**(Conclusion/Support):**

The bank is in substantial compliance with the antidiscrimination laws and regulations.

## V. COMMUNITY DEVELOPMENT

**Assessment Factor H** - *The institution's participation, including investments, in local community development and redevelopment projects or programs.*

**(Conclusion/Support):**

Considering its asset size and resources, the bank maintains a high level of participation in community and economic development programs and often takes a leadership role in these activities. Following are some of the major community and economic development activities in which the bank participated:

- provided a \$250M loan to a CDC that rehabilitates homes and extends home purchase loans in low- and moderate-income areas of Kansas City, Kansas;
- renewed a \$250M line of credit to a CDC serving the housing financing needs of the MSA's low- and moderate-income areas, which enabled the CDC to continue operating until Community Development Block Grant funding was approved;
- renewed a \$500M line of credit to a CDC building homes in a low-to-moderate income neighborhood southeast of downtown Kansas City, Missouri;
- extended a \$1.8MM loan and line of credit to construct and provide the permanent financing for a health care facility in a low- and moderate-income area;
- renewed a \$2.1MM loan commitment to complete the construction of single-family homes in a low- and moderate-income area;
- extended a \$650M loan to a school district in a low- and moderate-income area so that it could lease computers, and;
- provided a \$2.6MM loan to the Industrial Development Authority of Jackson County to build an apartment complex that will house low- and moderate-income individuals.

The bank's participation in these projects evidences a good working relationship with community and economic development leaders.

**Assessment Factor K** - *The institution's ability to meet various community credit needs based on its financial condition and size, legal impediments, local economic conditions and other factors.*

## COMMUNITY PROFILE

Five counties in the central part of the 11-county Kansas City, Missouri-Kansas MSA comprise the bank's assessment area. The counties in the assessment area are Clay, Jackson, and Platte Counties in Missouri and Johnson and Wyandotte Counties in Kansas. Most of the MSA's population and housing stock lie within the assessment area.

According to 1990 census data, the assessment area has a population of 1,361,557. Regional Employment and Income Series (REIS) data show that, with the exception of Wyandotte County, all assessment area counties experienced an increase in population from 1990 to 1994. Wyandotte County's population decreased by 4.1 percent during that period. Platte County experienced the highest population increase (11.1 percent). Table 4 shows the general population and income characteristics of the assessment area and provides the basis for the lending analyses performed.

The MSA has a diverse economy with an employment base that slowly expanded from 1990 to 1994. REIS data indicates that from 1990 to 1994, the job base rose by 6.0 percent with the largest increases occurring in the service and construction industries. Service industries are the MSA's largest employer and provide 68.7 percent of area jobs. Government and manufacturing jobs are the second and third largest employment bases and provide 13.8 percent and 10.7 percent, respectively, of MSA jobs. No assessment area county recorded an overall loss in its number of jobs from 1990 to 1995.

Recent articles in The Kansas City Star cite economic development organization representatives as stating that the area's labor force has not kept pace with the growing employment base. U.S. Bureau of Labor Statistics (BLS) figures show that, although the MSA's labor force increased from 1992 to 1995 by 5.6 percent, the MSA unemployment rate steadily decreased during that period to a low of 3.7 percent for the fourth quarter of 1995.

The deteriorated condition of low- and moderate-income area housing units, considered in conjunction with the income restraints of residents in these areas, may effect financial institution ability to lend outside of specially designed and subsidized loan programs. Although the MSA unemployment rate is low, underemployment may effect residents living not only in low- and moderate-income tracts but also middle-income tracts. According to census data, 56.1 percent of assessment area low- and moderate-income households live in low- and moderate-income tracts and 34.0 percent live in middle-income tracts. In addition, 41.1 percent of assessment area households paying more than 30 percent of their gross monthly incomes for rent live in middle-income tracts.

With the exception of three tracts in Clay County and one in Platte County, all area low- and moderate-income tracts are located in Jackson or Wyandotte Counties and are primarily in the central part of the assessment area. Housing stock within these tracts is deteriorated and have much lower values than housing stock in other parts of the assessment area, according to 1990 census data. A large portion of low- and moderate-income area housing units are non-owner occupied, and vacancy rates and boarded-up rates are high.

The median age of assessment area housing stock varies greatly by the income of the census tract. Housing units in low- and moderate-income tracts have median ages of 53 and 55 years, respectively, while housing units in middle-income tracts have a median age of 31 years. Upper-income housing units have a median age of 21 years.

The highest concentration of upper-income tracts is in Johnson County, which is in the southwest part of the assessment area. Of the 75 tracts in Johnson County, 46 (61.3 percent) are upper-income tracts.

**(Conclusion/Support):**

No impediments to the bank's ability to meet community development needs are noted. However, income factors and housing quality trends noted in the statistical record show that the bank's ability to lend is affected by underemployment in some portions of the assessment area as well as the quality of housing stock.

<b>TABLE 4 TRACT CHARACTERISTICS OF THE BANK'S ASSESSMENT AREA (Based on 1990 Census Data)</b>	
<i>Total Number of Tracts</i>	401
<i>Total Population</i>	1,361,557
<i>LESS: Tracts with Zero Population/Housing</i>	(11)
<i>Population of Tracts with Zero Population/Housing</i>	(369)
<i>Tracts Considered for Analysis (the Market)*</i>	390
<i>Number of Owner-Occupied Units</i>	342,394
<i>Market Population</i>	1,361,188
<i>Number of Low-/Moderate-Income Tracts</i>	136
<i>Percent Low-/Moderate-Income Tracts</i>	34.9%
<i>Number of Owner Occupied Units in Low-/Moderate Tracts</i>	61,112

<b>% Low/Moderate-Income Owner Occupied Units</b>	17.9%
<b>Population Within Low-/Moderate-Income Tracts</b>	314,766
<b>Percent Low/Moderate-Income Tract Population</b>	23.1%
<p>* This generally represents where a financial institution may reasonably be expected to extend home and consumer loans. Tracts with zero population/housing were included in the analysis of bank commercial lending.</p>	

**Assessment Factor L** - *Any other factors that, in the regulatory authority's judgment, reasonably bear upon the extent to which an institution is helping to meet the credit needs of its entire community.*

**(Conclusion/Support):**

The bank engages in other meaningful activities and services that indirectly contribute to its ability to meet area credit needs.

- As a result of the bank's willingness to provide a commitment to purchase \$100M in subordinated debentures, a local CDC operating in the MSA's low- and moderate-income neighborhoods was able to apply for federal Community Development Financial Institution Program funding.
- The bank's commitment to participate in a housing project with two other area financial institutions enabled a joint CDC venture to qualify for UDAG funding to purchase, rehabilitate, and resell homes in a low- and moderate-income Kansas City, Missouri neighborhood.
- The bank's CDO regularly provides technical assistance to government entities and economic development organizations by reviewing the credit assistance applications of low- and moderate-income individuals.
- The bank plays a leadership role in the development and ongoing maintenance of the Johnson County Housing Coalition, Inc.'s down payment assistance program. This program helps low- and moderate-income borrowers qualify for home loans by providing the "gap" financing needed for down payments.
- The bank also plays a leadership role in developing the Greater Independence Housing Coalition's program to help low- and moderate-income individuals qualify for home loans through down payment assistance and serves on the loan committee to review credit applications for the program.

- The bank served on the loan committees of both Kansas City Kansas Neighborhood Housing Services and Neighborhood Housing Services, Inc. In its positions, the bank aided in the review of home loan credit applications to low- and moderate-income individuals.
- A series of homeowner counseling and financial workshops held by the bank at churches and community centers in low- and moderate-income areas in conjunction with Consumer Credit Counseling Services were designed to increase awareness of credit services and help participants understand how to qualify and apply for credit.
- Two housing development organizations serving low- and moderate-income areas use the bank's 7th and Central branch without charge to take applications for their home loan programs.
- Bank staff served on the Mayor's Task Force on Race Relations financial services committee, which was charged by the city of Kansas City, Missouri, with defining and finding solutions for under-served credit markets.
- Computers and fax machines were donated by the bank to economic and community development organizations.
- Through its community task force volunteer program, bank staff participates in activities designed to improve and rehabilitate homes in low- and moderate-income areas. Such activities improve neighborhoods and housing values. Increased housing values may improve occupants' abilities to obtain home-secured credit for housing and other needs.
- The bank offers free government check cashing to customers and noncustomers with proper identification. This helps address the service needs of low- and moderate-income individuals and may further benefit these individuals by building a relationship with the bank that later helps them qualify for credit.

**Violations of Regulation BB**

No violations of the regulation were found.

**Mercantile Bank**  
September 30, 1996