



## **PUBLIC DISCLOSURE**

October 20, 2003

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**OLATHE STATE BANK  
RSSD# 463351**

**P.O. BOX 489  
500 Hwy. 50, Business Loop  
OLATHE, COLORADO 81425**

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

**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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## GENERAL INFORMATION

### **INSTITUTION'S CRA RATING:** *This institution is rated **Satisfactory***

An institution in this group has a satisfactory record of helping to meet the credit needs of its entire assessment area, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities. The rating of the bank was assessed under the following five core criteria developed for evaluating Community Reinvestment Act (CRA) performances of small banks:

- ✓ Loan-to-Deposit Ratio
- ✓ Lending Inside the Assessment Area
- ✓ Geographic Distribution of Loans
- ✓ Lending to Individuals of Different Income Levels and Businesses and Farms of Different Sizes
- ✓ Record of Responding to Complaints About the Bank's CRA Performance

Conclusions for each performance criterion were based on data compiled from a statistically-derived sample of files from the bank's product lines. Discussions with bank management, a review of the bank's Report of Condition and Income (Call Report), and a review of the volume of loan originations were used to determine the major product lines of the bank. As a result, the loans sampled included those designated as commercial loans including loans secured by non-farm and nonresidential properties, and agricultural loans including loans secured by farmland.

Olathe State Bank's loan-to-deposit ratio reflects a satisfactory effort to extend credit given the bank's size, financial capacity, and assessment area needs. The analysis shows that a majority of lending activity is within the bank's assessment area. The geographic distribution of loans reflects an outstanding dispersion throughout the assessment area. Lending patterns reveal a satisfactory penetration among businesses and farms of different revenue sizes, particularly to very small entities. Finally, the response to complaints criterion was not rated as the bank has not received any complaints about its performance under the CRA.

The bank's performance under the CRA was last evaluated as of October 4, 1999, at which time a Satisfactory rating was assigned.

### **DESCRIPTION OF OLATHE STATE BANK**

Olathe State Bank (OSB) is located in Olathe, Colorado, which is a small rural town in western Colorado. OSB is a full-service financial institution with one branch located in Delta, Colorado. Both offices have cash-only automated teller machines (ATMs).

The analysis of the bank's CRA performance considered the competitive environment in which the bank operates as well local economic conditions and demographics. Currently, there are no legal or financial factors that would hinder the bank's ability to meet the credit needs of its assessment area. Based on Call Report information, the dollar amount of total assets has remained constant between June 30, 2002 and June 30, 2003. As of June 30, 2003, total assets were \$33,673,000, including loans totaling \$21,748,000 and deposits totaling \$30,767,000. Table 1 illustrates the breakdown of the bank's loan portfolio by product.

<b>TABLE 1            DISTRIBUTION OF LOANS IN OLATHE STATE BANK'S            LOAN PORTFOLIO AS OF JUNE 30, 2003</b>				
<b>Type of Loan</b>			<b>Amount (\$000s)</b>	<b>Percent</b>
Secured by Real Estate:			15,610	72
	Amount (\$000s)	Percent		
Secured by non-farm, nonresidential properties	8,203	38		
Secured by farmland	4,142	20		
Secured by 1- to 4-family residential properties	1,840	8		
Construction and land development	1,352	6		
Multifamily	73	< 1		
Commercial			3,088	14
Agriculture			2,039	9
Consumer			1,011	5
<b>TOTAL</b>			<b>21,748</b>	<b>100</b>

### DESCRIPTION OF THE BANK'S ASSESSMENT AREA

Olathe is located in western Colorado, approximately 70 miles east of the Utah border. As of 2000, Olathe has a population of 1,573. The bank's assessment area is comprised of Montrose and Delta Counties. The assessment area's population has grown 35 percent since 1990, from 45,403 to 61,266 in 2000.

Characteristics of the bank's assessment area are summarized in Table 2. In addition, the percentage of families below poverty level is at 8.7 percent, 2.5 percent higher than the state. According to 2000 census data, the median family income for the assessment area is \$39,779 compared to \$55,883 for the state. The U.S. Department of Housing and Urban Development (HUD) indicates that the estimated 2003 median family income for Delta County is \$41,100 and \$43,300 for Montrose County.

The 2000 census data also indicates that the number of households with individuals 65 years and over represents 17.3 percent of the population in the assessment area. The

data also reveals that the labor force for Delta and Montrose Counties is 28,072 or 59 percent of the population 16 years and older. In 2000, the unemployment rate for the assessment area was 5.3 percent.

<b>TABLE 2            CHARACTERISTICS OF BANK'S ASSESSMENT AREA            (Based on 2000 Census Data)</b>	
Total Number of Census Tracts	13
	Number of Tracts
Low-Income	0
Moderate-Income	5
Middle-Income	8
Upper-Income	0
Total Population in 2000	61,266
Median Family Income*	\$39,779
Percent of Low-Income Families	23
Percent of Moderate-Income Families	22
Percent of Middle-Income Families	25
Percent of Upper-Income Families	30
Housing Types	
Percent of Owner-Occupied Units	69
Percent of Rental Occupied Units	22
Affordability Ratio**	29
Approximate Number of Farms***	350
Percent of Businesses < \$1,000,000 in Total Revenue***	89
Approximate Number of Businesses***	3,650
Percent of Businesses < \$1,000,000 in Total Revenue***	88

\* Based on the 2000 U.S. Department of Housing and Urban Development figure for Delta and Montrose Counties  
 \*\* The affordability ratio is calculated by dividing 2000 median family income by 2000 median housing value  
 \*\*\* Based on 2001 Dun & Bradstreet data

Members of the community were interviewed to gain a perspective on local economic conditions and possible credit needs. The contacts included two local realtors and a local government official. According to the contacts, the economy has been relatively stable in 2003. Housing prices have begun to rebound after a stagnant year in 2002. Two of the contacts mentioned a need for affordable housing in the area. Average home prices in the area are approximately \$180,000, and many of the jobs in the community are in the service industry, which typically are low-paying positions. The major industries in the area include tourism, agriculture, and manufacturing, as well as a growing retail/service industry. The contacts mentioned the need for infrastructure improvements and revitalization of the downtown areas, but said that the tax base has not been sufficient to make all the necessary improvements.

**CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

**Loan-to-Deposit Ratio**

The bank's loan-to-deposit ratio is satisfactory given the institution's capacity to lend, demographic and economic factors present in the assessment area, and the availability of lending opportunities. Olathe State Bank's average quarterly loan-to-deposit ratio over the previous 16 quarters was 67 percent. The average quarterly loan-to-deposit ratio over the previous 16 quarters for the bank's local peer group (four similarly-situated banks in the assessment area) was 80 percent. As of June 30, 2003, the bank's national peer average loan-to-deposit ratio was 70 percent and OSB's loan-to-deposit ratio was 69 percent.

Although OSB's ratios are somewhat lower than similar banks in its assessment area, OSB's ratio tends to fluctuate over a considerable range due to the bank's deposit structure. In addition, the bank faces more competition for loans from several larger banks located in nearby Montrose and Delta than other banks in the assessment area located in more isolated towns.

**Lending in the Bank's Assessment Area**

This core performance criterion evaluates the concentration of agricultural and commercial loans originated by the bank in its assessment area. As shown in Table 3, a majority of agricultural and commercial loans were originated in the bank's assessment area. Consequently, the bank's performance is considered satisfactory for this criterion.

<b>TABLE 3 DISTRIBUTION OF LOANS IN AND OUT OF THE ASSESSMENT AREA</b>								
<b>Type of Loan</b>	<b>Inside the Assessment Area</b>				<b>Outside the Assessment Area</b>			
	<b>Number of Loans</b>	<b>Percent</b>	<b>Dollar Amount Of Loans</b>	<b>Percent</b>	<b>Number of Loans</b>	<b>Percent</b>	<b>Dollar Amount Of Loans</b>	<b>Percent</b>
<b>Agricultural</b>	53	88	3,676,266	89	7	12	436,891	11
<b>Commercial</b>	52	87	3,420,357	81	8	13	824,088	19
<b>TOTAL</b>	<b>105</b>	<b>88</b>	<b>7,096,623</b>	<b>85</b>	<b>15</b>	<b>12</b>	<b>1,260,979</b>	<b>15</b>

**Geographic Distribution of Loans**

This core performance criterion focuses on the bank's loan penetration among census tracts of different income levels in the assessment area with more emphasis placed on the penetration in low- and moderate-income tracts. The dispersion of loans throughout the assessment area is considered outstanding. Olathe State Bank made 57 percent of its agricultural loans in moderate-income tracts while only 25 percent of farms are located in the moderate-income tracts. In addition, the bank generated 77 percent of its commercial loans in the moderate-income tracts and only 25 percent of the businesses in the assessment area are in the moderate-income tracts. There are no low-income tracts in the assessment area; therefore, there are no loans generated in low-income tracts.

<b>TABLE 4 DISTRIBUTION OF LOANS ACROSS THE ASSESSMENT AREA BY INCOME LEVEL OF THE CENSUS TRACT</b>								
<b>Loan Type</b>	<b>Low-Income</b>		<b>Moderate-Income</b>		<b>Middle-Income</b>		<b>Upper-Income</b>	
	<b>#</b>	<b>\$</b>	<b>#</b>	<b>\$</b>	<b>#</b>	<b>\$</b>	<b>#</b>	<b>\$</b>
<b>Agricultural (53 Total)</b>	0	0	30	1,984,119	23	1,692,147	0	0
<b>Percent of Total</b>	<b>NA</b>	<b>NA</b>	<b>57</b>	<b>54</b>	<b>43</b>	<b>46</b>	<b>NA</b>	<b>NA</b>
<b>Commercial (52 Total)</b>	0	0	40	2,418,852	12	1,001,505	0	0
<b>Percent of Total</b>	<b>NA</b>	<b>NA</b>	<b>77</b>	<b>71</b>	<b>23</b>	<b>29</b>	<b>NA</b>	<b>NA</b>
<b>Percentage of Farms by Income Level of Census Tract</b>	0		25		75		0	
<b>Percentage of Businesses by Income Level of Census Tract</b>	0		38		62		0	

**Lending to Businesses and Farms of Different Sizes**

This core performance criterion evaluates the bank's loan originations to farms and businesses of different sizes based on their gross annual revenues. The distribution of loans in the bank's assessment area represents a reasonable penetration to businesses and farms of different sizes based on Dun & Bradstreet data and the number of loans to entities with gross annual revenues less than \$100,000 which is 64 and 52 percent. In addition, 81 percent of the farms and 85 percent of the businesses had loan amounts less than or equal to \$100,000. This indicates that the bank is willing to make smaller loans which, are generally made to the smallest farms and businesses. Therefore, the bank performance for this criterion is considered satisfactory.

**Agricultural Loans:**

Table 5 shows that 83 percent of the agricultural loans sampled were to farms with gross annual revenues of \$1,000,000 or less. Dun & Bradstreet's 2001 data indicates that 89 percent of the farms within the assessment area have gross annual revenues of less than \$1,000,000.

<b>TABLE 5 LENDING TO FARMS OF DIFFERENT SIZES WITHIN THE ASSESSMENT AREA</b>				
<b>Gross Annual Revenue</b>	<b>Number of Farm Loans</b>	<b>%</b>	<b>Total \$ Amount of Loans</b>	<b>%</b>
Less than \$100,000	34	64	1,067,932	29
\$100,000 to \$250,000	8	15	1,800,412	49
\$250,001 to \$500,000	1	2	5,605	< 0
\$500,001 to \$1,000,000	1	2	276,395	8
Greater than \$1,000,000	1	2	100,520	3
Revenue N/A	8	15	425,402	11
<b>TOTALS</b>	<b>53</b>	<b>100</b>	<b>3,676,266</b>	<b>100</b>

**Commercial Loans:**

Table 6 shows that 77 percent of the commercial loans sampled were to businesses with gross annual revenues of \$1,000,000 or less. According to Dun and Bradstreet's 2001 data, 88 percent of the businesses in this assessment area have gross annual revenues of less than \$1,000,000.



**TABLE 6  
 LENDING TO BUSINESSES OF DIFFERENT SIZES WITHIN THE ASSESSMENT AREA**

Gross Annual Revenue	Number of Loans	%	Total \$ Amount of Loans	%
Less than \$100,000	27	52	977,188	28
\$100,000 to \$250,000	11	21	1,124,922	33
\$250,001 to \$500,000	8	15	225,881	7
\$500,001 to \$1,000,000	1	2	137,500	4
Greater than \$1,000,000	4	8	924,537	27
Revenue N/A	1	2	30,330	1
<b>TOTALS</b>	<b>52</b>	<b>100</b>	<b>3,420,358</b>	<b>100</b>

**Record of Responding to Complaints**

The bank has not received any complaints about its performance in meeting assessment area credit needs. Therefore, the bank's performance in responding to complaints was not assessed.

**COMPLIANCE WITH ANTIDISCRIMINATION LAWS AND REGULATIONS**

The bank is in compliance with the substantive provisions of the antidiscrimination laws and regulations. A review of policies, credit applications, and loans revealed no prohibited practices designed to discourage loan applicants. Further, the bank was not engaged in other illegal credit practices inconsistent with helping to meet community credit needs.

## GLOSSARY OF COMMON CRA TERMS

(For additional information, please see the Definitions section of Regulation BB at 12 CFR 228.12.)

**Assessment Area** – The geographic area(s) delineated by the bank and used in evaluating the bank’s record of helping to meet the credit needs of its community. The assessment area must include the geographies where the main office, branches, and deposit-taking automated tellers machines are located. The assessment area must consist only of whole geographies, may not reflect illegal discrimination, and may not arbitrarily exclude low- or moderate-income geographies.

**Dun & Bradstreet Data** – Data collected by Dun & Bradstreet regarding types of businesses and their respective gross annual revenues. The data can be sorted by geographies.

**Geography** – A census tract or a block numbering area.

**Income Level** – Both geographies and individuals can be described in terms of their income levels. In MSAs, the level is based on the MSA median income. In nonMSA areas, the level is based on the statewide, nonMSA median income.

**Low-Income** – Less than 50 percent of the area median income

**Moderate-Income** – At least 50 percent and less than 80 percent of the area median income

**Middle-Income** – At least 80 percent and less than 120 percent of the area median income

**Upper-Income** – At least 120 percent or more of the area median income

**Small Business** – A business with gross annual revenues of \$1 million or less.

**Small Business Loan** – A loan with an original amount of \$1 million or less that has been reported in the Consolidated Report of Condition and Income in the category “Loans secured by nonfarm nonresidential properties” or “Commercial and industrial loans.”

**Small Farm** – A farm with gross annual revenues of \$1 million or less.

**Small Farm Loan** – A loan with an original amount of \$500,000 or less that has been reported in the Consolidated Report of Condition and Income in the category “Loans secured by farmland” or “Loans to finance agricultural production and other loans to farmers.”