



PUBLIC DISCLOSURE

JUNE 1, 2015

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**ALTERRA BANK
RSSD# 50957**

**11300 TOMAHAWK CREEK PARKWAY, SUITE 100
LEAWOOD, KANSAS 66211**

**Federal Reserve Bank of Kansas City
1 Memorial Drive
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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INSTITUTION'S COMMUNITY REINVESTMENT ACT RATING: *This institution is rated Satisfactory*

Alterra Bank (the bank) has a satisfactory record of meeting the credit needs of its assessment area (AA), including low- and moderate-income (LMI) families and neighborhoods, consistent with its resources, operating philosophy, and credit needs of the community it serves.

The bank's average net loan to deposit (NLTD) ratio reflects an outstanding effort to extend credit within its AA, in relation to the bank's size, financial condition, AA credit needs, and the ratios of other similarly-situated financial institutions. A majority of the bank's loans were originated within its designated AA. The bank's lending also reflected a reasonable dispersion of loans throughout its AA based on income level of census tracts. Additionally, the bank's distribution of lending to businesses of different revenue sizes was reasonable.

SCOPE OF EXAMINATION

The bank's Community Reinvestment Act (CRA) performance was evaluated using the Federal Financial Institutions Examination Council Interagency Small Institution Examination Procedures. The examination included an evaluation of the bank's lending performance with contextual consideration given to the demographic profile of the area in which the bank operates. Four of the five criteria used to evaluate a small bank's lending performance under the CRA were relevant to this review and are listed as follows:

- NLTD Ratio
- Lending Inside the AA
- Distribution of Loans by Income Level of Geography
- Lending to Businesses of Different Revenue Sizes

The bank's responsiveness to complaints under the CRA, the fifth core criterion used to assess small bank performance, was not evaluated as the bank has not received any CRA-related complaints since the previous examination.

The bank's CRA examination included an evaluation of the bank's performance with appropriate consideration given to demographic information. Conclusions regarding the four performance criterion were based on a review of the bank's major product line. The bank's major product line, commercial loans, was determined through discussions with bank management, a review of the Report of Condition and Income, and a review of the number of loan originations since the bank's last CRA examination in April 2011. Conclusions regarding the bank's lending performance were evaluated based on a statistically-derived sample of commercial loan files. The CRA examination included a statistical sample of 43 loans selected from a universe of 55 loans, which were originated between July 1, 2014 and December 31, 2014.

Additionally, an interview with a member of the community within the AA was conducted to ascertain local market conditions, and specific credit needs of the AA.

DESCRIPTION OF INSTITUTION

The bank is headquartered in Leawood, Kansas, which is part of the Kansas City, Kansas-Missouri Metropolitan Statistical Area (MSA). The bank also operates one branch in Overland Park, Kansas. Since the previous examination, the bank has closed one branch, located in Lee's Summit, Missouri. The bank is a wholly-owned subsidiary of First Business Financial Services, Inc., Madison, Wisconsin (the company). Additionally, the bank has several affiliates through the company. The bank's locations are both located in upper-income tracts in the southern Kansas region of the Kansas City MSA. While the bank is primarily a commercial lender, it offers a variety of products to meet the credit needs of the AA. Table 1 shows the distribution of the bank's loan portfolio as of March 31, 2015.

Loan Type	Dollar Amount (000)	Percent of Total
Commercial	187,793	88.7
Residential Real Estate	17,774	8.4
Agricultural	5,958	2.8
Consumer	64	0.0
Other	166	0.1
Gross Loans	211,755	100.0

There are no legal or financial factors that prevent the bank from meeting the credit needs of its AA. The bank received a satisfactory rating at its previous CRA evaluation conducted by the Federal Reserve Bank of Kansas City on April 25, 2011.

DESCRIPTION OF THE BANK'S ASSESSMENT AREA

The bank's AA includes all tracts in Johnson County, Kansas, and the southern portion of Jackson County, Missouri. The AA is comprised of 13 low-income, 41 moderate-income, 72 middle-income, 102 upper-income, and 6 unknown-income census tracts, according to 2010 Census data. The area includes the southern and western suburbs of the Kansas City MSA. Demographic data indicates that the AA's economy is more affluent than the Kansas City MSA as a whole.

Both of the bank's locations are located in Johnson County, Kansas, an affluent, upper-income community located approximately 20 miles south of Kansas City, Missouri, and are included within the Kansas City MSA. Additionally, the bank's AA includes the southern portion of

Jackson County, Missouri. The bank's AA has not changed since the previous CRA examination.

Population and Income Characteristics

According to 2010 Census data, the AA's population was estimated at 920,424 with considerable growth in the Johnson County portion of the AA. Overall, the AA is more affluent than other areas of the Kansas City MSA. The 2010 estimated median family income (MFI) for the AA, according to 2010 American Community Survey (ACS) information is \$79,708 which exceeds the Kansas City MSA average of \$68,846. Additionally, Johnson County has an estimated MFI of \$90,380 which greatly exceeds the Kansas City MSA MFI average. Moreover, only 30.5 percent of AA families are classified as LMI, and these families comprise 37.9 percent of families for the entire Kansas City MSA.

Employment and Banking Characteristics

Although government and professional services are the largest industries in the AA, the Kansas City MSA offers a wide variety of employment opportunities. According to the Kansas City Area Development Council, large AA employers include Sprint Nextel, Cerner Corporation, Black and Veatch, and Federal, State, and Local government. According to the Bureau of Labor Statistics, the Kansas City MSA unemployment rate was 4.9 percent as of fourth quarter 2014, which is less than the national average of 5.5 percent.

The market for financial services in the Kansas City MSA is very competitive; 136 Federal Deposit Insurance Corporation (FDIC)-insured institutions operate 722 facilities throughout the entire Kansas City MSA. According to the FDIC deposit market share information as of June 30, 2014, the bank had 0.4 percent of all deposits in the Kansas City MSA, ranking 37th out of 136 institutions. Additionally, the bank had 1.2 percent of the deposits in Johnson County and no significant market share in Jackson County. This can be attributed to the closing of the Lee's Summit branch location, which left the absence of a physical location in the Jackson County portion of the bank's AA. According to one community contact the strong competition among community banks and over-saturation of lending opportunities in Jackson County make it difficult for Johnson County based institutions to penetrate the Jackson County market.

**TABLE 2
ALTERRA BANK AA DEMOGRAPHICS**

Income Categories	Tract Distribution		Families By Tract Income		Families < Poverty Level as a % of Families by Tract		Families By Family Income	
	#	%	#	%	#	%	#	%
Low-Income	13	5.6	8,882	3.7	2,523	28.4	36,760	15.3
Moderate-Income	41	17.5	36,089	15.0	4,691	13.0	36,391	15.2
Middle-Income	72	30.8	76,298	31.8	3,584	4.7	49,368	20.6
Upper-Income	102	43.6	118,788	49.5	2,550	2.1	117,538	49.0
Unknown-Income	6	2.6	0	0.0	0	0.0	0	0.0
Total AA	234	100.0	240,057	100.0	13,348	5.6	240,057	100.0
	Housing Units By Tract	Housing Type By Tract						
		Owner-Occupied			Rental		Vacant	
		#	% By Tract	% By Unit	#	% By Unit	#	% By Unit
Low-Income	17,835	6,483	2.5	36.3	8,537	47.9	2,815	15.8
Moderate-Income	69,481	32,570	12.8	46.9	28,507	41.0	8,404	12.1
Middle-Income	128,951	83,114	32.6	64.5	37,653	29.2	8,184	6.3
Upper-Income	172,436	132,404	52.0	76.8	31,259	18.1	8,773	5.1
Unknown-Income	0	0	0.0	0.0	0	0.0	0	0.0
Total AA	388,703	254,571	100.0	65.5	105,956	27.3	28,176	7.2
	Total Businesses by Tract	Businesses By Tract & Revenue Size						
		Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported		
		#	%	#	%	#	%	#
Low-Income	1,412	3.1	1,225	3.0	128	3.4	59	4.4
Moderate-Income	5,778	12.6	5,048	12.4	557	14.9	173	12.8
Middle-Income	13,713	29.9	12,290	30.1	1,021	27.3	402	29.8
Upper-Income	24,097	52.5	21,725	53.3	1,689	45.1	683	50.6
Unknown-Income	871	1.9	491	1.2	347	9.3	33	2.4
Total AA	45,871	100.0	40,779	100.0	3,742	100.0	1,350	100.0
Percent of Total Businesses:				88.9		8.2		2.9
	Total Businesses by Tract	Farms By Tract & Revenue Size						
		Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported		
		#	%	#	%	#	%	#
Low-Income	9	1.9	8	1.7	1	10.0	0	0.0
Moderate-Income	24	5.1	24	5.2	0	0.0	0	0.0
Middle-Income	165	35.0	163	35.4	2	20.0	0	0.0
Upper-Income	273	57.8	265	57.5	7	70.0	1	100.0
Unknown-Income	1	0.2	1	0.2	0	0.0	0	0.0
Total AA	472	100.0	461	100.0	10	100.0	1	100.0
Percent of Total Farms:				97.7		2.1		0.2

Based on 2014 Dun & Bradstreet (D&B) information according to 2010 ACS.
(Note: Total percentages shown may vary due to automated rounding differences.)

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Net Loan to Deposit Ratio:

The bank’s average NLTD ratio is outstanding, based on the bank’s size, financial condition, credit needs of the AA, and the NLTD ratios of other similarly-situated institutions and peer groups. The bank’s average NLTD ratio of 92.1 percent is greater than most comparable banks, whose average NLTD ratios range between 46.2 percent and 78.9 percent, with one competitor greater than the bank at 98.9 percent. Additionally, the bank’s NLTD ratio is greater than the Kansas City MSA at 71.0 percent, and the state of Kansas and national peer group averages at 65.6 percent and 69.7 percent, respectively.

Assessment Area Concentration:

This core performance criterion evaluates the bank’s lending inside its AA. As illustrated in Table 3, a majority of the bank’s commercial lending originated within the bank’s AA at 65.1 percent by number volume and 61.2 percent by dollar volume. The bank’s penetration is reasonable and indicates a satisfactory effort to serve the credit needs of the community in which it operates. Only those loans originated inside the AA were considered for the remaining of the analysis.

TABLE 3 LENDING INSIDE AND OUTSIDE THE BANK'S AAs								
Bank Loans	Inside				Outside			
	#	\$(000)	#%	\$%	#	\$(000)	#%	\$%
Small Business Loans	28	32,446	65.1	61.2	15	20,540	34.9	38.8
Total Loans	28	32,446	65.1	61.2	15	20,540	34.9	38.8

Distribution by Income Level of Geographies:

This performance criterion compares the bank's small business loans to the percentage of all businesses located in each income tract category. Focus is placed on lending within the LMI tracts in the bank's AA.

Although the bank did not originate any loans in low-income tracts, its geographic distribution is reasonable given the low number of businesses located in LMI areas as well as geographical and competitive constraints.

Only 3.1 percent of AA businesses are located in low-income tracts and 12.6 percent of AA businesses are located in moderate-income tracts. While the bank did not originate any loans in low-income tracts, it originated 7.1 percent (16.5 percent by dollar volume) of small business loans in moderate-income tracts.

There are no low-income tracts in Johnson County, where the bank conducts most of its business and where both of its branches are located. Additionally, the bank no longer has a physical location in Jackson County, which challenges its ability to reach LMI areas in Missouri. Additionally, a member of the community noted that the high saturation of the banking market in Jackson County and strong competition between community banks make it difficult for Johnson County institutions to lend in Jackson County. Currently, there are 47 different financial institutions in Jackson County with 192 different locations and 62 different financial institutions in Johnson County with 235 different locations.

Additionally, the bank originated 17.9 percent (29.3 percent by dollar volume) of small business loans in middle-income tracts which is lower than demographic at 29.9 percent. The bank originated the majority of small business loans, 75.0 percent (54.2 percent by dollar volume) in upper-income tracts which is greater than demographics at 52.5 percent.

TABLE 4 DISTRIBUTION OF BUSINESS LOANS BY INCOME LEVEL OF GEOGRAPHY ALTERRA BANK AA 2014					
Census Tract Income Level	Bank Loans				% of Businesses¹
	#	\$(000s)	# %	\$ %	
Low	0	0	0.0	0.0	3.1
Moderate	2	5,361	7.1	16.5	12.6
Middle	5	9,503	17.9	29.3	29.9
Upper	21	17,582	75.0	54.2	52.5
Unknown²	0	0	0.0	0.0	1.9
Total	28	32,446	100.0	100.0	100.0

¹ The percentage of businesses in the AA is based on 2014 D&B Data.
² Does not include loans in tracts where the income level is unknown. Only includes loans with no tract location reported.
 (Note: Total percentages shown may vary due to automated rounding differences.)

Distribution by Revenue Size of Businesses:

This performance criterion evaluates the bank's distribution of lending to businesses of different revenue sizes with an emphasis on businesses with gross annual revenues of \$1 million or less. The bank's distribution of loans to businesses of different revenue sizes is reasonable. While the bank only originated 50.0 percent (52.4 percent by dollar volume) of small business loans to small businesses with revenue of \$1 million or less, the bank's lending (number and dollar) exceeded 2014 aggregate data at 42.7 percent by number and 35.5 percent by dollar. In addition, the bank was ranked number one in 2012 and 2013 as the top Small Business Administration (SBA) Lender in the Kansas City MSA, indicating the bank is very involved with lending to small businesses in the community. However, many SBA loans generated are not in the bank's AA. Additionally, a member of the community noted that there is strong competition among community banks for small business lending, because many local

community banks offer these products. Therefore, the bank’s percentage of small business lending at 50.0 percent compared to the percentage of small businesses in the AA area at 88.9 percent, is reasonable.

TABLE 5 DISTRIBUTION OF SMALL BUSINESS BY REVENUE SIZE ALTERRA BANK AA					
Business Revenue	Small Business Loans¹				% of Businesses by Revenue²
	#	\$(000)	#%	\$%	
\$1MM or Less	14	17,017	50.00	52.4	88.9
Over \$1MM	14	15,429	50.00	47.6	8.2
Income Not Known	0	0	0	0	2.9

¹ CRA defines small businesses loans as loans in the amount of \$1 million or less.
² Based on 2014 D&B Data
 (Note: Total percentages shown may vary due to automated rounding differences.)

FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

An evaluation of the bank’s fair lending activities was conducted during the examination to determine compliance with substantive provisions of the antidiscrimination laws and regulations, including the Equal Credit Opportunity Act and the Fair Housing Act. No evidence of discrimination was identified. Furthermore, the bank has not engaged in any illegal credit practices inconsistent with helping to meet community credit needs.