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Comptroller of the Currency  
Administrator of National Banks

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## **PUBLIC DISCLOSURE**

May 13, 1997

# **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**Security National Bank  
Charter Number 23038**

**Post Office Box 308  
Manhattan, Kansas 66502-0308**

**Office of the Comptroller of the Currency  
Salina Duty Station  
Post Office Box 616  
Salina, Kansas 67402-0616**

**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 Community Reinvestment Act (CRA) performance of **Security National Bank, Manhattan, Kansas (SNB)** prepared by **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of May 13, 1997. 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:** This institution is rated “Satisfactory”.

SNB’s rating is based on the following factors:

- The bank has a reasonable record of extending credit to individuals of different income levels and to businesses of different sizes.
- The geographic distribution of loans is reasonable.
- The average loan-to-deposit ratio is satisfactory, with a substantial majority of loans being made within the bank’s designated assessment areas.

The following table indicates the performance level of *Security National Bank, Manhattan, Kansas* with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	SECURITY NATIONAL BANK MANHATTAN, KANSAS 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		X	
Response to Complaints	No complaints were received since the prior examination.		

## **DESCRIPTION OF INSTITUTION**

Security National Bank is a \$103 million bank headquartered in Manhattan, Kansas. It has one branch located in Auburn, Kansas. The Auburn branch was previously a state bank which was merged into the bank on December 31, 1995. The bank opened a branch in Topeka on May 5, 1997. In addition, the bank operates three automated teller machines and has one mobile branch.

SNB offers a variety of lending services. Net loans represent 61% of the bank's total assets. The loan portfolio mix is 50% residential real estate, 26% other types of real estate, 13% consumer, 8% commercial, 2% agricultural, and 1% other. The bank is owned by MNB Bancshares, Inc. This is a one-bank holding company that is publicly traded on the NASDAQ Small-Cap Issues exchange. There are no legal constraints, financial conditions, or other factors that prevent the bank from helping to meet the credit needs of its assessment area. The bank's last CRA examination, under the name of Manhattan National Bank, was dated January 18, 1995.

## **DESCRIPTION OF NAME OF ASSESSMENT AREA**

SNB has two separate assessment areas. Both assessment areas meet the requirements of the regulation and do not arbitrarily exclude any low or moderate income geographies. The entire assessment area contains portions of five counties in northeastern Kansas. The counties are all part of or contiguous to the bank's main office and branch locations.

### **Manhattan, Kansas Assessment Area**

This assessment area surrounds the bank's main office which is located in Manhattan. The area is specifically defined as the ten block numbering areas (BNA) in Riley County and two BNA's in Pottawatomie County. The area contains one low-income tract, two moderate-income tracts, six middle-income tracts, and three upper-income tracts. Total population of the assessment area is 76,418. Approximately 17% of the 16,205 families in the assessment area are considered low-income, 20% are moderate-income, 22% are middle-income, and 41% are upper-income. These income designations are based on the updated median family income of \$34,300.

Community contacts indicated there is a credit need for affordable housing in the area. The median housing value of the assessment area is \$56,300. Fort Riley Military Base personnel and students from Kansas State University increase the demand for affordable housing. However, personnel reductions at the military base have positively impacted the availability of these units to some extent. There are nine financial institutions in the immediate Manhattan area.

### **Auburn, Kansas Assessment Area**

The bank's second assessment area is comprised of the area surrounding the branch office located in Auburn which is in southern Shawnee County. The area includes 37 census tracts in Shawnee County, one BNA in eastern Wabaunsee County, and two BNA's in northern Osage County. The assessment area includes most of the Topeka metropolitan statistical area (MSA); the town of Harveyville in Wabaunsee County; and the towns of Burlingame, Scranton, and Carbondale in Osage County. The assessment area excludes seven census tracts in the Topeka MSA due to the distance from the branch office. Of the 40 census tracts or BNA's in the assessment area, 2 are designated as low-income, 10 are moderate-income, 21 are middle-income, and 6 are upper-income. One census tract in Shawnee County does not have a designated income level. Total population of the Auburn assessment area is 137,307. The assessment area includes 36,215 families with 19% designated as low-income, 18% moderate-income, 26% middle-income, and 37% upper-income. Income categories are based on the updated median MSA family income level of \$44,475.

We reviewed community contacts performed by other regulatory agencies and found there is a strong demand for housing credit in the Topeka area. The median housing value of the assessment area is \$43,900. The contacts further indicated competition is strong due to the large number of financial institutions in Topeka. Personnel contacted were not aware of any unmet credit needs.

### **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA :**

#### **Loan-to-Deposit Ratio (LTD)**

The bank's LTD ratio is slightly higher than most other comparable banks in the assessment area. SNB's average LTD ratio for the past eight quarters was 76%. The average LTD ratio for the ten area banks we reviewed was 73%. Average LTD ratios for these banks ranged between 62% and 104%, and SNB's ratio ranked third.

Security National Bank also originates and sells a large volume of secondary market home loans. During 1996, the bank sold 120 loans totaling \$9 million. With the inclusion of these loans, SNB's LTD ratio as of December 31, 1996, was 80%.

## Lending in the Assessment Area

The bank originates a substantial majority of its loans within its assessment area. Management collected information on the location of all loan originations during 1996. We verified the accuracy of loans made during the third and fourth quarter of 1996. This analysis shows 90% of the number of loans and 89% of the dollar volume of loans are originated within the assessment area.

## Lending to Borrower's of Different Incomes and to Businesses of Different Sizes

The bank's performance under this assessment category is reasonable. We reviewed Home Mortgage Disclosure Act (HMDA) records to determine the percentage of borrowers within each income category. The following two tables demonstrate the bank's lending patterns for each assessment area relative to the local demographics:

<b>Manhattan Assessment Area</b>					
<b>Income Designation of Borrower</b>	Non-MSA HMDA Loans in 1996 (by Number)		Non-MSA HMDA Loans in 1996 (by Dollar Volume)		Percent of Families in Manhattan Assessment Area
	#	%	\$(000's)	%	
<b>Low</b>	5	3.13%	137	1.19%	17.05%
<b>Moderate</b>	20	12.50%	946	8.22%	19.80%
<b>Middle</b>	33	20.63%	1,762	15.31%	21.74%
<b>Upper</b>	102	63.75%	8,664	75.28%	41.42%
<b>Total</b>	160	100.00%	11,509	100.00%	100.00%

The bank's proportion of loans to low- and moderate-income borrowers is lower than the local demographic composition. Through discussions with management, we determined this could be attributed to the fact that the institution was previously chartered as a savings and loan institution. At that time, the customer base consisted primarily of persons with savings and time deposit accounts. These depositors typically were not low- and moderate-income individuals.

**Lending to Borrower's of Different Incomes and to Businesses of Different Sizes  
(continued)**

<b>Auburn Assessment Area</b>					
<b>Income Designation of Borrower</b>	<b>Non-MSA HMDA Loans in 1996 (by Number)</b>		<b>Non-MSA HMDA Loans in 1996 (by Dollar Volume)</b>		<b>Percent of Families in Auburn Assessment Area</b>
	<b>#</b>	<b>%</b>	<b>\$(000's)</b>	<b>%</b>	<b>%</b>
<b>Low</b>	0	0.00%	0	0.00%	18.97%
<b>Moderate</b>	4	20.00%	179	10.67%	18.38%
<b>Middle</b>	2	10.00%	170	10.14%	26.20%
<b>Upper</b>	14	70.00%	1,328	79.19%	36.45%
<b>Total</b>	20	100.00%	1,677	100.00%	100.00%

HMDA lending to low- and moderate-income borrowers in the Auburn assessment area is below the local demographics of the assessment area. However, management's analysis of consumer loans showed a good volume of loans to these individuals. Of the 46 loans in the bank's sample, 15% were to low-income borrowers and 43% were to moderate-income borrowers.

We reviewed a sample of 20 commercial and 10 agricultural borrowers to determine the bank's level of lending to businesses of different sizes. We found the revenue distribution of the bank's borrowers closely resembles that of the local business demographic information. The table on the following page depicts this comparison:

**Lending to Borrower's of Different Incomes and to Businesses of Different Sizes  
(continued)**

<b>Distribution of Commercial and Agricultural Borrowers</b>				
<b>Annual Revenues</b>	<b># of Loans in Sample of SNB Loans</b>	<b>% of Loans in Sample of SNB Loans</b>	<b>Total Number in Overall Assessment Area</b>	<b>Total Percent in Overall Assessment Area</b>
<b>&lt; 500,000</b>	21	70%	4,443	80%
<b>500,001 - 999,999</b>	3	10%	470	9%
<b>1 million - 24 million</b>	6	20%	567	10%
<b>Over 24 million</b>	0	0%	40	1%
<b>Total</b>	30	100%	5,520	100%

**Geographic Distribution of Loans**

The geographic distribution of loans reflects reasonable penetration throughout the various income level tracts within the assessment area. For this review, we focused on all loans originated from the Manhattan office during the third and fourth quarter of 1996. Management noted the bank has no loans in the one low-income tract in the bank's Manhattan assessment area. This is the tract on which Kansas State University is located. Loan demand from this area is very limited. A geographic analysis of loans originated at the Auburn office would not be meaningful because a substantial majority of the loans at this branch are from the middle-income tract on which the office is located. All of the low- and moderate-income tracts in the Auburn assessment area are within the city of Topeka. The bank will be able to better serve these low- and moderate-income tracts with the recent opening of a branch in Topeka. The table on the following page shows the results of our geographic analysis of loans originated in Manhattan:



<b>Manhattan Assessment Area Loans Made Between 7/1/96 and 12/31/96</b>						
<b>Tract Income Level</b>	<b>CT's/BNA's in Assessment Area</b>	<b>Percent of CT's/BNA's in Assessment Area</b>	<b>Percent of 45 Commercial Loans Reviewed</b>	<b>Percent of 141 Instalment Loans Reviewed</b>	<b>Percent of 70 Mortgage Loans Reviewed</b>	<b>Percent of 256 Total Loans Reviewed</b>
<b>Low</b>	1	8%	0%	0%	0%	0%
<b>Moderate</b>	2	17%	29%	14%	7%	14%
<b>Middle</b>	6	50%	44%	43%	42%	43%
<b>Upper</b>	3	25%	27%	43%	51%	43%
<b>Total</b>	12	100%	100%	100%	100%	100%

Note: The dollar volume of commercial, instalment, and mortgage loans have a similar distribution among the different designations of tract income level.

### **Compliance with Antidiscrimination Laws and Regulations**

Although we found several technical violations regarding fair lending laws and regulations, we did not find any evidence of discriminatory practices.