



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

March 19, 2008

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Verus Bank, National Association
Charter Number: 16286

1033 North Buckner Street
Derby, Kansas 67037

Office of the Comptroller of the Currency

Wichita Field Office
3450 North Rock Road, Suite 505
Wichita, Kansas 67226

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.

INSTITUTION'S CRA RATING: This institution is rated Satisfactory.

- Verus Bank's average loan-to-deposit ratio of 68% is reasonable when compared to the average of 82% for peer banks.
- A majority of the bank's primary loan products have been granted in the assessment area. The loan sample indicated that 87% of the number and 85% of the dollar amount of loans were granted within the assessment area.
- Verus Bank has demonstrated a good level of lending to borrowers of different incomes. The residential real estate loan sample showed that 16% of the loans were granted to low-income borrowers and 25% were granted to moderate-income borrowers. The consumer automobile loan sample revealed that 20% of the loans were granted to low-income borrowers and 30% were granted to moderate-income borrowers.
- Verus Bank's geographic distribution of loans reflects reasonable dispersion to borrowers located in low- and moderate-income tracts in the assessment area.

SCOPE OF EXAMINATION

The evaluation of lending products included a review of twenty consumer automobile loans and all residential real estate loans reported on the Home Mortgage Disclosure Act Loan/Application Report (HMDA LAR). All loans were originated during 2006, 2007, and year-to-date 2008. These were the primary loan products the bank granted since the previous Community Reinvestment Act (CRA) examination.

DESCRIPTION OF INSTITUTION

Verus Bank, National Association, is a \$94 million bank headquartered in Derby, Kansas. The bank is a wholly-owned subsidiary of First Team Resources Corporation, a \$103 million one-bank holding company also headquartered in Derby, Kansas. In addition to its main office, the bank has a branch in Derby; two branches in El Dorado, Kansas; and one branch in Augusta, Kansas. All bank locations have drive-up facilities and deposit-taking automated teller machines (ATMs). The Augusta branch was opened in April 2004 and no branches have been closed since the previous CRA examination.

Verus Bank is a full-service banking institution offering a variety of loan products. Net loans and leases represent 62% of the bank's total assets. On December 31, 2007, the bank's \$58 million loan portfolio consisted of 42% other real estate, 34% residential real estate, 11% consumer, 7% commercial and industrial, 5% agricultural, and 1% other loans. Loan products remain substantially the same since the previous CRA examination.

There are no legal, financial, or other factors impeding the bank's ability to help meet the credit needs of its assessment area. The Office of the Comptroller of the Currency (OCC) last evaluated Verus Bank's CRA performance on October 6, 2003. The bank received an overall "Satisfactory" rating under the Small Bank Performance Standards.

DESCRIPTION OF ASSESSMENT AREA

Verus Bank's assessment area (AA) consists of Sedgwick and Butler counties in Kansas. These counties are a significant portion of the Wichita Metropolitan Statistical Area (MSA) #48620. The delineation of the AA does not reflect any illegal discrimination, nor does it arbitrarily exclude any low- or moderate-income geographies. The AA contains 131 census tracts with the following breakdown: 4% low-income tracts, 30% moderate-income tracts, 40% middle-income tracts, and 26% upper-income tracts. As of the 2000 U.S. Census, the population of the AA was 512,351. The 2000 U.S. Census demographics show that 24% of the population is not in the workforce and 12% are over the age of 65. Demographics also show that 15% of the 198,182 households in the AA are retired, 9% of the households are below the poverty level, and 3% receive public assistance. The Housing and Urban Development Estimated 2008 Median Family Income is \$59,300. The median housing value from the 2000 U.S. Census data was \$79,672 and 62% of the housing units in the AA are owner-occupied.

The assessment area's economy is stable, with some pockets of growth. Major employers include Spirit Aerosystems, Cessna, Koch Industries, and the various school districts. The unemployment rate for Sedgwick and Butler counties in February 2008 was 3.8% and 3.7%, respectively. This compares favorably to the February 2008 Kansas statewide unemployment rate of 4.0% and the national rate of 4.8%.

Verus Bank faces strong competition in the AA. A total of 46 financial institutions have offices in the AA and Verus Bank ranks 14th in market share with 0.96% of deposits. Examiners selected 14 similarly situated institutions for comparison. These institutions have total assets ranging from \$43 million to \$3,462 million and Verus Bank ranks 8th in total asset size among this group.

Examiners reviewed two community contacts recently performed by the OCC. The contacts identified small business, affordable housing, and consumer loans as the primary credit needs of the communities. The contacts indicated that local financial institutions are meeting the credit needs of the communities and that these institutions are active in the communities they serve.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

Verus Bank's loan-to-deposit ratio is reasonable. The average quarterly loan-to-deposit ratio since the last CRA examination was 68%, compared to 82% for the peer banks.

For peer banks, examiners selected 14 similarly situated banks that have a majority of their deposits or offices in the AA and bank management considers direct competitors. The average loan-to-deposit ratios for these banks ranged from 71% to 102%. Although Verus Bank's ratio is lower than peer, it is attributed to the bank's large volume of residential real estate loans originated and then sold in the secondary market.

Lending in Assessment Area

Verus Bank's lending in its AA is good, as a majority of the bank's primary loan products were granted to borrowers located in the AA. Examiners found the bank made 87% of the number and 85% of the dollar amount of loans in the AA. The loan sample included twenty consumer automobile loans and all residential real estate loans from the HMDA LAR. The loans were originated or purchased this year, or the prior two calendar years.

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

Verus Bank's level of lending to borrowers of different incomes is good. Examiners did not evaluate the bank's lending to businesses of different sizes, as neither commercial nor agricultural loans were primary products. To assess the bank's performance, examiners selected a sample of twenty consumer automobile loans and all residential real estate loans reported on the HMDA LAR.

The level of lending to residential real estate borrowers of different incomes is good. The lending level to low-income residential real estate borrowers is adequate. Sixteen percent of the residential real estate loans were granted to low-income borrowers, as compared to 18% of AA families. The lending level to moderate-income residential real estate borrowers is excellent. Twenty-five percent of the residential real estate borrowers were moderate-income and this compares favorably to the demographics showing 19% of AA families are moderate-income.

| Table 2A - Borrower Distribution of Residential Real Estate Loans in AA | | | | | | | | | |
|--------------------------------------------------------------------------------|------------------|----------------------|------------------|----------------------|------------------|----------------------|------------------|----------------------|----------------------|
| Borrower Income Level | Low | | Moderate | | Middle | | Upper | | Unavailable |
| | % of AA Families | % of Number of Loans | % of AA Families | % of Number of Loans | % of AA Families | % of Number of Loans | % of AA Families | % of Number of Loans | % of Number of Loans |
| % of Total | 18% | 16% | 19% | 25% | 24% | 23% | 39% | 34% | 2% |

Source: Data reported under HMDA and U.S. Census data

The level of lending to consumer automobile borrowers of different incomes is good. The lending level to low-income consumer automobile borrowers is adequate. Twenty percent of the consumer automobile loans were granted to low-income borrowers, compared to 21% of the AA households. The level of lending to moderate-income consumer automobile borrowers is excellent, as 30% of the consumer automobile loans were to moderate-income borrowers. This compares favorably to the demographics

showing 17% of the AA households are moderate-income.

| Table 2B - Borrower Distribution of Consumer Loans in AA | | | | | | | | | |
|-----------------------------------------------------------------|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|----------------------|
| Borrower Income Level | Low | | Moderate | | Middle | | Upper | | Unavailable |
| | % of AA Households | % of Number of Loans | % of AA Households | % of Number of Loans | % of AA Households | % of Number of Loans | % of AA Households | % of Number of Loans | % of Number of Loans |
| % of Total | 21% | 20% | 17% | 30% | 21% | 20% | 41% | 30% | 0% |

Source: Loan sample and U.S. Census data

Geographic Distribution of Loans

The analysis of the geographic distribution of credit within the AA indicates that the bank has adequate penetration to borrowers in low- and moderate-income census tracts.

The geographic distribution of residential real estate loans is adequate. No residential real estate loans were granted to borrowers in low-income tracts. However, the low-income tracts in the AA are a considerable distance from any of the bank branches and demographics indicated that only 1% of the housing in low-income tracts is owner-occupied. The bank extended 13% of the number of residential real estate loans to borrowers located in moderate-income tracts. This represents adequate penetration; given the demographics of 20% of the housing in the moderate-tracts is owner-occupied.

| Table 3A - Geographic Distribution of Residential Real Estate Loans in AA | | | | | | | | |
|----------------------------------------------------------------------------------|--------------------------------|----------------------|--------------------------------|----------------------|--------------------------------|----------------------|--------------------------------|----------------------|
| Census Tract Income Level | Low | | Moderate | | Middle | | Upper | |
| | % of AA Owner Occupied Housing | % of Number of Loans | % of AA Owner Occupied Housing | % of Number of Loans | % of AA Owner Occupied Housing | % of Number of Loans | % of AA Owner Occupied Housing | % of Number of Loans |
| % of Total | 1% | 0% | 20% | 13% | 49% | 68% | 30% | 19% |

Source: Data reported under HMDA and U.S. Census data

The geographic distribution of consumer automobile loans is adequate. No consumer automobile loans were granted to borrowers in low-income tracts. However, the low-income tracts in the AA are a considerable distance from any of the bank branches and demographics indicate that only 2% of the AA households are located in low-income tracts. The bank extended 15% of the number of consumer automobile loans to borrowers located in moderate-income tracts. This represents adequate penetration; given the demographics of 28% of AA households are in moderate-income tracts.

| Table 3B - Geographic Distribution of Consumer Loans in AA | | | | | | | | |
|------------------------------------------------------------|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|
| Census Tract Income Level | Low | | Moderate | | Middle | | Upper | |
| | % of AA Households | % of Number of Loans | % of AA Households | % of Number of Loans | % of AA Households | % of Number of Loans | % of AA Households | % of Number of Loans |
| % of Total | 2% | 0% | 28% | 15% | 45% | 80% | 25% | 5% |

Source: Loan sample and U.S. Census data

Responses to Complaints

The bank has not received any CRA-related complaints since the previous CRA examination.

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.