



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

July 23, 2001

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The University National Bank of Lawrence
Charter Number 22241**

**1400 Kasold Drive
Lawrence, KS 66049**

**Comptroller of the Currency
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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.

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 The University National Bank of Lawrence, Lawrence, Kansas as prepared by The Comptroller of the Currency, the institution's supervisory agency, as of July 23, 2001. 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.

- The distribution of home purchase and home refinance real estate loans reflects reasonable penetration among individuals of different income levels.
- The distribution of home purchase and home refinance real estate loans reflects reasonable penetration across all geographies of the bank's assessment area, with the exception of the tracts affiliated with the University of Kansas. The bank's ability to penetrate these two census tracts is limited due to the tracts having a high percentage of rental housing units and high student population.
- A majority of the bank's commercial loans are made to small businesses and to businesses across all geographies of the bank's assessment area.
- The bank's loan to deposit ratio is excellent, averaging 91.63% since the last CRA review completed in 1996.
- The majority of the bank's loans are made within its assessment area.

Our conclusions are based on a review of University National Bank's CRA efforts from January 1, 1996 to June 30, 2001. We reviewed all home purchase and home refinance loans originated in the assessment area during 1998 through June 30, 2001, which are reported under the Home Mortgage Disclosure Act (HMDA). We also reviewed a random sample of twenty home purchase loans and twenty home refinance loans originated in 1996 and 1997 and twenty commercial loans originated between 1996 and June 30, 2001. The volume of consumer and agricultural lending is not considered significant.

Description of Institution

University National Bank (UNB) is a \$73 million financial institution owned completely by Lawrence Financial Corporation, a one-bank holding company. The bank's main office is located in Lawrence, Kansas. There are three non-depository Automatic Teller Machines, but no branch locations. Net loans represent 85% of total assets according to the March 31, 2001 Report of Condition. UNB offers a full range of lending and deposit services.

As of March 31, 2001, the dollar volume of UNB's loan portfolio consists of 78% real estate loans, 16% commercial loans, and 6% consumer loans. Forty-four percent of the real estate portfolio consists of 1-4 family residential mortgages. Bank management was unable to provide a summary of all loan originations by loan type for the review period. Therefore the main loan products were determined by using outstanding balances per the March 31, 2001 Report of Condition. The main loan products are real estate mortgages and commercial loans.

The HMDA Loan Application Registers (LARs) reveal home purchase and home refinance loans are the main real estate products. The following information represents HMDA reportable real estate loan originations from 1996 to June 30, 2001:

HMDA Purpose Code	Number of Loans	Dollar Volume of Loans
Home Purchase	44.51%	45.63%
Home Refinance	42.25%	45.46%

The bank demonstrates their commitment to reinvesting in their community by participating in several loan programs designed to assist low and moderate-income borrowers and small businesses obtain financing. There are no legal or financial impediments limiting the bank's ability to help meet the credit needs of the community. UNB was rated "Satisfactory" at its last Performance Evaluation dated April 1996.

Description of Assessment Area

UNB has one assessment area (AA), which meets regulatory requirements. The bank's AA is located within the Lawrence Metropolitan Statistical Area (MSA) and delineated as the eleven census tracts, which cover the city of Lawrence. The AA is comprised of one low-income census tract (9%), two moderate-income census tracts (18%), five middle-income census tracts (46%), and three upper-income census tracts (27%). The low-income tract and one of the moderate-income tracts include portions of the University of Kansas. The high student population residing in this area of Lawrence heavily influences the demographics of these tracts. Based on 1990 U.S. Census data, rental units represent 95% of the low-income tracts total housing units. The moderate-income tract near the university shows only 3.4% of the AA's owner occupied housing units are in this tract. The University does not significantly impact the other moderate-income census tract. It represents a more traditional moderate-income tract with 11.41% of the assessment areas owner occupied housing units.

The Lawrence population continues to grow and has reached 80,098 based on preliminary 2000 census figures obtained from the community contact. In the AA, 21.70% of families are low-income, 15.86% are moderate-income, 23.63% are middle-income, and 38.81% are upper-income. The updated HUD, MSA median family income for 2001 is \$51,500. Nearly 24% of families are considered below the poverty level. The average median housing value is \$69,472. The percentage of owner occupied housing is 44.64% with total occupied rental units at 50.13%, and vacant housing units of 5.23% of all housing units in the AA.

Major employers in the Lawrence MSA primarily represent the industries of government (29%) and retail trade and service (24%) each. Economic conditions are very good. The average unemployment rate for the year 2000 was 3.6%, the second lowest rate in the last decade according to the Economic Analysis Report prepared by The University of Kansas Policy Research Institute.

UNB faces strong competition in the area from other financial institutions. Four institutions have charters in the Lawrence MSA, with total assets ranging from \$20 million to \$165 million. Many of the bank's competitors are branches of large financial institutions from the Kansas City and Topeka areas.

During the evaluation, we made one community contact. We also reviewed reports from two previous contacts made in the AA by various regulators since the last review period. We met the director of a government organization with the city of Lawrence, Kansas. According to the contact, the area's primary credit need is affordable housing. The contact stated housing values continue to increase and are the highest in the state, which makes it very difficult for low and moderate-income residents to obtain financing. The contact stated there are ample opportunities for financial institutions to help meet the areas credit needs. The contact also believes financial institutions are meeting the community credit needs in Lawrence.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Lending to Borrowers of Different Incomes and Businesses of Different Sizes

UNB's lending to borrowers of different income levels and businesses of different sizes is reasonable. Our analysis focused on the bank's primary products of real estate and commercial loans. In the real estate category, we focused on home purchase and refinance loans since they represent the largest number and dollar amount of real estate loans originated during the review period.

We reviewed a random sample of home purchase and home refinance loans originated between 1996 and 1997, and all HMDA reportable loans originated from 1998 to June 30, 2001. The following table summarizes bank performance compared to the percentage of families in each AA.

1996 -June 30, 2001 Residential Real Estate Loan Originations					
Income Designation for Borrower	Families in Income Category	Home Purchase		Home Refinance	
		Number of Loans	Dollar Amount of Loans	Number of Loans	Dollar Amount of Loans
Low	21.70%	4.31%	3.26%	3.34%	1.95%
Moderate	15.86%	14.61%	9.47%	7.68%	4.58%
Middle	23.63%	20.04%	16.09%	20.37%	14.50%
Upper	38.81%	55.05%	65.17%	61.93%	72.28%
Borrowers Not Reporting Income	0%	5.99%	6.01%	6.68%	6.69%

All HMDA reportable loans originated from 1998 - June 30, 2001 were used in the above analysis. HMDA data was not retained electronically during 1996 and 1997. Therefore, we could not use 100% of HMDA data for the entire review period. A random sample of 20 home purchase and 20 home refinance loans was selected from the 1996 and 1997 HMDA LARs in order to include this time frame into the bank's assessment. The table above reflects the combination of both time frames.

Based upon the above information, the bank regularly originates loans to borrowers of all income levels. Lending to low-income borrowers appears significantly below demographics. However, UNB's performance is reasonable considering they are faced with lending in an AA with a high poverty level and a large concentration of students. Information from the community contact also indicated credit needs in Lawrence are being met.

The poverty level is at 24% of all households in the AA. These borrowers are included in the low-income category. It would be more difficult for these credit applicants to qualify for credit based on prudent underwriting guidelines.

The University of Kansas student population is over 25,000. Based on 1990 U.S. Census data, many students are included in the demographics of the census tracts surrounding the University. Many of these students are likely to be lower wage earners, and not typically in the market for home purchase or refinance loans.

We also reviewed twenty commercial loans originated and purchased from 1996 to June 30, 2001.

The table below summarizes bank performance compared to the percentage of businesses in the AA.

1996 -June 30, 2001 Commercial Loan Originations			
Revenue Size	% of Businesses in AA	Number of Loans	Dollar Amount of Loans
Borrowers with revenues < \$1MM	88.44%	70%	59%
Borrowers with revenues > \$1MM	7.06%	30%	41%
Not Reported	4.50%		

The bank's lending to businesses of different sizes is also reasonable. A majority of the bank's commercial loans are to businesses with annual revenues less than \$1 million. Fifty percent of the commercial loans sampled were to businesses with annual revenues under \$500 thousand. While the percentage of loans to small businesses is below demographics, performance is reasonable considering the strong competition the bank faces from larger financial institutions in the AA.

Geographic Distribution of Loans

Overall UNB's distribution of loans among the various geographies in its assessment area is reasonable. Based on the bank's primary credit products of home purchase loans, home refinance loans, and commercial loans, adequate penetration in the various census tracts is demonstrated when compared to demographics.

We reviewed a random sample of home purchase and home refinance loans originated between 1996 and 1997, and all HMDA reportable loans originated from 1998 - June 30, 2001. The table below summarizes bank performance compared to the percentage of owner occupied homes in the AA.

1996-June 30, 2001 Residential Real Estate Loan Originations					
Income Designation for Census Tract	% of Owner Occupied Homes in Assessment Area	Home Purchase		Home Refinance	
		Number of Loans	Dollar Amount of Loans	Number of Loans	Dollar Amount of Loans
Low	0.18%	0%	0%	0%	0%
Moderate	14.85%	12.36%	8.43%	11.85%	7.53%
Middle	52.82%	38.95%	33.35%	32.89%	23.94%
Upper	32.15%	48.69%	58.22%	55.26%	68.53%

All HMDA reportable loans originated from 1998 - June 30, 2001 were used in the above analysis. HMDA data was not retained electronically during 1996 and 1997. Therefore we could not use 100% of HMDA data for the entire review period. A random sample of 20 home purchase and 20 home refinance loans was selected from the 1996 and 1997 HMDA LARs in order to include this time frame into the bank's assessment. The table above reflects the combination of both timeframes.

Based on the above information, there is a lack of lending in the low-income census tract. This is mitigated, however, by the impact the University of Kansas has on this tract. Based on 1990 U.S.

Census data, this tract is comprised largely of students and rental housing. Demographics show the low census tract is made up of 95% rental housing units, limiting management's ability to penetrate this area with home purchase and home refinance loans.

We reviewed twenty commercial loans originated and purchased from 1996 to June 30, 2001. The table below summarizes bank performance compared to the percentage of businesses in the AA.

1996-June 30, 2001 Commercial Loan Originations			
Income Designation for Census Tract	% of Businesses in Assessment Area	Commercial Loans	
		Number of Loans	Dollar Amount of Loans
Low	4.17 %	0%	0%
Moderate	19.08%	10%	10.5%
Middle	47.39%	40%	31.24%
Upper	24.87%	50%	58.27%
Businesses not reporting income	4.49%	0%	0%

The level of commercial lending reasonably compares to the percentage of businesses located in the respective census tracts in the AA. The bank's lack of lending in the low-income census tract is mitigated based upon the tract's predominately student based population and high level of rental housing units.

Loan-to-Deposit Ratio

The bank's loan-to-deposit ratio is excellent, considering the competition in the bank's AA. The bank's quarterly average loan-to-deposit ratio since the last evaluation is 91.63%. The quarterly average loan-to-deposit ratio of peer banks during the same period is 61.52%. The peer information is taken from the March 31, 2001 Uniform Bank Performance Report (UBPR). Many of the competitor banks in the AA consist of branches of larger financial institutions. The UBPR peer is more consistent with similarly situated banks chartered in the Lawrence MSA.

Lending in Assessment Area

UNB's record of lending within its assessment area is reasonable. The bank originated the majority of its primary loan products, both by number and dollar amount, within its AA. The following table details residential real estate loans extended inside and outside the bank's AA by number and dollar volume of loans originated.

	Home Purchase		Refinance	
	1996-6/30/2001		1996-6/30/2001	
	#	\$	#	\$
Inside Assessment Area	81.10%	79.65%	73.19%	70.84%
Outside Assessment Area	18.90%	20.35%	26.81%	29.16%

All HMDA reportable loans originated from 1998 - June 30, 2001 were used in the above analysis. HMDA data was not retained electronically during 1996 and 1997. Therefore we could not use 100% of HMDA data for the entire review period. A random sample of 20 home purchase and 20 home refinance loans was selected from the 1996 and 1997 HMDA LARs in order to include this time frame into the bank's assessment. The table above reflects the combination of both timeframes.

In addition, we reviewed a random sample of twenty commercial loans originated during the review period. The table below documents the number of commercial loans extended inside and outside UNB's AA.

Commercial Loans		
	1996-June 30, 2001	
	#	\$
Inside Assessment Area	85%	82%
Outside Assessment Area	15%	18%

Responses to Complaints

UNB has not received any complaints about its performance in helping to meet AA credit needs during this evaluation period.

Fair Lending Review

An analysis of recent HMDA, small business, public comments, and consumer complaint information was performed according to the OCC's risk based fair lending approach. Based on its analysis of the information, the OCC decided a comprehensive fair lending examination would not need to be conducted in connection with the CRA evaluation this year. The latest comprehensive fair lending exam was performed in 1999.