



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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## **PUBLIC DISCLOSURE**

**July 7, 2003**

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

**Kennett National Bank  
Charter Number 15155**

**805 First Street  
Kennett, MO 63857**

**Comptroller of the Currency  
F. Christian Dunn, Assistant Deputy Comptroller  
10201 West Markham, Suite 105  
Ozark National Life Building  
Little Rock, AR 72205**

**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 CRA RATING

**This institution is rated Satisfactory.**

- ◆ The average loan-to-deposit ratio at 68% is reasonable given the bank's size, financial condition, and assessment area credit needs.
- ◆ A majority of loans are in the bank's assessment area.
- ◆ The distribution of loans reflects reasonable penetration among individuals of different income levels and businesses of different sizes.
- ◆ The geographic distribution of loans reflects reasonable dispersion throughout the assessment area.

## DESCRIPTION OF INSTITUTION

Kennett National Bank (KNB) is located in Kennett (Dunklin County), Missouri (MO) that has a population of 11,260 according to the 2000 census, compared to 10,941 in 1990. The bank has only one banking facility and four automated teller machines (ATMs). There is an ATM located two blocks west of the main office, an ATM at a supermarket in Kennett, an ATM in Senath, MO (13 miles south of Kennett) and an ATM in Hornerville, MO (17 miles south of Kennett). As of March 31, 2003, the bank reported total assets of \$113 million with \$90 million in deposits and \$52 million in loans (46% of total assets).

The bank's primary business focus is residential real estate, agriculture, and commercial loans. KNB offers residential real estate, home improvement, consumer, agriculture, commercial real estate, commercial and business loans. The loan portfolio composition as of March 31, 2003, is as follows:

<b>Loan Category</b>	<b>\$ (000)</b>	<b>%</b>
Residential Real Estate Loans	\$19,369	37%
Agriculture Loans	\$12,891	25%
Commercial & Commercial Real Estate Loans	\$11,870	23%
Consumer Loans	\$7,934	15%
<b>Total</b>	<b>\$52,064</b>	<b>100%</b>

KNB offers convenient banking hours and a variety of loan and deposit products to meet the needs of the assessment area. There are no financial impediments that would limit the bank's ability to help meet the credit needs in its assessment area.

The bank is 100% owned by Kennett Bancshares Inc., a one-bank holding company located in

Kennett, MO. The bank's last CRA examination was performed as of April 13, 1998 and was rated **Satisfactory**.

## **DESCRIPTION OF DUNKLIN COUNTY**

KNB's assessment area (AA) is Dunklin County, MO. The assessment area meets the requirements of the regulation and does not arbitrarily exclude low- and moderate-income geographies. There are 10 Block Numbering Areas (BNAs) in the assessment area, six of which are middle-income and four that are moderate-income. These BNAs are 9601 through 9610. The Median Family Income (MFI) for non-Metropolitan Statistical Areas (MSA) in Missouri was \$24,324 in 1990. This income figure is used to determine the income level of individual BNAs. BNAs 9601, 9604, 9606, and 9610 are moderate-income tracts. The 2002 Housing and Urban Development (HUD) estimated MFI for non-MSA in Missouri was \$40,600. HUD estimated MFI is updated annually and is used to determine the income level of individual applicants. The income ranges for the four income levels are as follow: Low-Income = below \$20,299; Moderate-Income = \$20,399 - \$32,479; Middle-Income = \$32,480 - \$48,719; and, Upper-Income = above \$48,720.

Kennett is located in the southeastern part of the state commonly known as the "Missouri Bootheel." According to 2000 Census Data, the population of Dunklin County was 33,155, a slight increase from 33,112 in 1990. The economy of the county is considered to be in a slow growth mode.

The largest employers in Dunklin County are: Emerson Electric Company (electric motors) with 700 employees; SEMO Association of Public Health (medical) with 650 employees; and, Federal Mogul Corporation (mufflers) with 400 employees. Unemployment as of May 2003 was 7.4% for Dunklin County. The unemployment rate is above the Missouri average of 4.9% and the U.S. average of 6.1% as of May 2003.

The following table shows the demographic and economic characteristics of the assessment area.

<b>DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA</b>	
<i>Population</i>	
Number of Families	9,370
Number of Households	13,107
<i>Geographies</i>	
Number of Census Tracts/BNA	10
% Low-Income Census Tracts/BNA	0%
% Moderate-Income Census Tracts/BNA	40%
% Middle-Income Census Tracts/BNA	60%
% Upper-Income Census Tracts/BNA	0%
<i>Median Family Income (MFI)</i>	
1990 MFI for AA	\$22,324
2002 HUD-Adjusted MFI	\$40,600
<i>Economic Indicators</i>	
Unemployment Rate	7.4%
1964 Median Housing Value	\$29,260
% of Households Below Poverty Level	29%

A community contact with the executive director of the Kennett Chamber of Commerce was conducted in conjunction with this CRA examination. This contact revealed that local banks are meeting the primary credit needs in the area.

## **CONCLUSIONS ABOUT PERFORMANCE CRITERIA**

### **Loan-to-Deposit Ratio**

KNB's loan-to-deposit ratio is reasonable given the bank's size, financial condition, and assessment area credit needs. There are two other banks that are headquartered and similarly situated in the assessment area. These banks are the First National Bank, Malden, MO and Senath State Bank, Senath, MO. The following table shows total assets as of March 31, 2003 and the quarterly average loan-to-deposit ratio from December 31, 1999 through March 31, 2003 (14 quarters) for these three similarly situated banks.

<b>Institution</b>	<b>Assets (as of 3/31/2003)</b>	<b>Average LTD Ratio</b>
KNB, Kennett, MO	\$113 million	68%
First National Bank, Malden, MO	\$133 million	81%
Senath State Bank, Senath, MO	\$41 million	99%

## Lending in Assessment Area

A majority of KNB loans are in the bank's assessment area. A sample of 30 consumer loans, 30 residential real estate loans, and 30 agriculture and commercial loans made during 2002 was reviewed to determine lending within the assessment area. Lending within the assessment area is detailed in the following table.

TOTAL LOANS REVIEWED								
LOAN TYPE	IN ASSESSMENT AREA				OUT OF ASSESSMENT AREA			
	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Consumer	22	73%	\$189	79%	8	27%	\$51	21%
Residential	26	87%	\$929	87%	4	13%	\$138	13%
Agriculture & Commercial	24	80%	\$2,520	83%	6	20%	\$532	17%
Total Reviewed	72	80%	\$3,638	83%	18	20%	\$721	17%

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

The distribution of borrowers reflects, given the demographics of the assessment area, reasonable penetration among individuals of different income levels (including low-and moderate-income) and businesses of different sizes. The same samples for lending within the assessment area were used to determine lending to borrowers of different incomes. The following tables show the distribution of residential real estate and consumer loans within the various income levels.

RESIDENTIAL REAL ESTATE								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Families	31%		19%		18%		32%	
LOANS BY YEAR	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
2002	15%	14%	35%	22%	23%	28%	27%	36%

CONSUMER								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households	35%		16%		16%		33%	
LOANS BY YEAR	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
2002	45%	26%	23%	38%	18%	8%	14%	28%

The above tables show that residential real estate loans were made to low-income and moderate-income borrowers. Although residential real estate loans made to low-income borrowers are below the percentage of low-income people in the assessment area, residential loans to moderate-income borrowers by number and dollar amount were above. In addition, loans to low- and moderate--income borrowers by number were equal to the percentage of low- and moderate--income people in the assessment area.

Consumer loans made to low-income and moderate-income borrowers were also above the percentage of low-income and moderate-income people in the assessment area. Moreover, consumer loans by dollar amount to moderate-income borrowers were significantly above the percentage of moderate-income people in the assessment area.

A sample of 30 business and farm loans made during 2002 was reviewed. Six loans were outside the assessment area and 24 loans were inside the assessment area. Of the 24 loans in the assessment area, all had revenues of less than \$1 million. The following table shows lending to small businesses and small farms.

BORROWER DISTRIBUTION OF SMALL LOANS TO BUSINESSES AND FARMS		
Business Revenues	≤\$1,000,000	>\$1,000,000
% of AA Businesses	94%	6%
% of Bank Loans in AA #	100%	0%
% of Bank Loans in AA \$	100%	0%

### Geographic Distribution of Loans

The geographic distribution of loans reflects reasonable dispersion throughout the assessment area. The same samples for lending within the assessment area were used to determine lending to borrowers of various income areas. The following tables show the distribution of residential real estate, consumer, and business and commercial loans within the various BNA income levels.

RESIDENTIAL REAL ESTATE								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Owner Occupied	0%		44%		56%		0%	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
2002	0%	0%	31%	36%	69%	64%	0%	0%

CONSUMER								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households	0%		44%		56%		0%	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
2002	0%	0%	41%	33%	59%	67%	0%	0%

AGRICULTURE AND BUSINESS LOANS								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Businesses	0%		44%		56%		0%	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
2002	0%	0%	38%	40%	63%	60%	0%	0%

The above tables show that the bank is making residential real estate, consumer, and agriculture and business loans to borrowers located in the moderate-income BNAs. These percentages are only slightly below the percentages of borrowers located in the moderate-income BNAs.

### Responses to Complaints

Kennett National Bank has not received a formal CRA complaint since the previous examination.

### Fair Lending Review

An analysis of 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 that 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 1998. No disparate or discriminatory practices were identified.