



Comptroller of the Currency
Administrator of National Banks

SMALL BANK

Public Disclosure

April 13, 1998

Community Reinvestment Act Performance Evaluation

**Kennett National Bank
Charter No. 15155**

**801 First Street
Kennett, Missouri 63857**

**Office of the Comptroller of the Currency
80 Monroe Avenue, Suite 505
Memphis, Tennessee 38103**

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 CRA performance of **Kennett National Bank (KNB)** prepared by the **Office of the Comptroller of the Currency (OCC)**, the institution's supervisory agency, as of March 31, 1998. 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**.

We concluded that the bank's performance is "Satisfactory" based on the following:

- o KNB's average loan-to-deposit (LTD) ratio of 75.29% is considered good and is above that of similarly situated institutions in KNB's assessment area.
- o A substantial majority of KNB's loans are within the bank's assessment areas.
- o Lending patterns show a good representation of loans made to individuals with various income levels as well as small farms and businesses.
- o The bank is lending throughout its assessment area with satisfactory lending to borrowers in moderate-income areas.

Description of Institution

KNB is a \$94 million financial institution headquartered in Kennett, Missouri. The bank is primarily a residential mortgage and consumer lender. The bank's loan portfolio is composed of 46% residential mortgage loans, 21% consumer installment loans, 24% commercial and commercial real estate loans, and 9% agricultural loans. KNB operates the main office, a drive-in satellite, and a branch inside the Wal-Mart in Kennett. The Wal-Mart branch was opened in March of 1997. There are no supervisory concerns (impediments) that would affect KNB's ability to meet various credit needs based on their financial condition and size. Competition is strong from two regional banks as well as numerous community banks and one savings bank. Similarly situated banks in the assessment area include First State Bank of Bernie, First National Bank of Malden, Bank of Hayti, and First State Bank of Caruthersville.

Description of Assessment Area

The bank's assessment area (AA) consists of Dunklin and Pemiscot Counties and meets regulatory guidelines. The population for the AA is 55,033 and the HUD updated 1997 median family income for the AA is \$19,696. Of the 15,185 families living in the AA, 32% are considered low-income, 18% are considered moderate-income, 19% are considered middle-income, and 31% are considered upper-income. Low income is less than 50%, moderate income is between 50% and 79%, middle income is 80% to 119% and upper income is 120% of the HUD updated 1997 state-wide non-msa medium family income of \$31,900.

There are 16 block numbering areas (BNAs) in the AA with 7 (44%) designated moderate income and 9 (56%) designated middle income. Of the 15,185 families living in the AA, 47% live in the moderate income BNAs and 53% live in the middle income BNAs. Our geographic analysis of loans in the AA will be separated into two areas (the city of Kennett and the remainder of the AA). Kennett consist of 3 BNAs with two designated middle-income and one designated moderate-income. Forty-four percent (44%) of the families in Kennett live in the moderate-income BNA while 56% live in the two middle income BNAs. The remainder of the AA contains 13 BNAs with 6 (46%) designated moderate-income and 7 (54%) designated middle-income. Forty-eight percent (48%) of the families in the remainder of the AA live in the moderate-income BNAs while 52% live in the middle-income BNAs.

The AA's economy is agriculturally based. Unemployment figures for the two counties remain well above the 11/31/97 state wide average of 3.5%. At 11/30/97, Dunklin and Pemiscot Counties had unemployment rates of 5.5% and 6.8%, respectively.

Employment in the AA is relatively mixed with highest percentages employed by the agriculture/service (33%), manufacturing (21%), and retail (33%). Twenty-one percent (21%) of the households in the AA draw public assistance.

The primary needs identified through community contacts are affordable housing, small consumer, small business, and farm loans.

Conclusions with Respect to Performance Criteria

Loan-to-deposit ratio

KNB's average LTD of 75.29% is good. The ratio was averaged over the ten quarters from June 1995 to March 1998. This is the time elapsed since the bank's last CRA review. KNB's LTD ratio has remained steady during this time frame but fluctuates seasonally due to agricultural lending. LTD is the highest in the third quarter (averaging 82%) and lowest in the fourth quarter (averaging 68%). As of March 31, 1998, the bank's LTD was 75.97%. The average LTD over the last 10 quarters for similarly situated banks in the AA range from 60.79% to 75.48%, with the average being 67.16%.

Lending in the Assessment area

A substantial majority of the loans originated by KNB are within the bank's AA. At 12/31/97, the bank had 4,562M loans on their books totaling \$61,700M. Of these loans, 85% of the number and 86% of the dollar amount were made to borrowers within its AA. The bank does not track the percentage of loans originated within its AA.

Lending to Borrowers of Different Incomes and Businesses of Different Sizes

KNB's loan dispersion reflects good lending levels to borrowers of different incomes as well as small businesses and farms. The bank codes all loans by borrower income as well as business size. While the incomes used to calculate whether a person is low-, moderate-, middle-, or upper-income vary somewhat from the guidelines used by the OCC, its impact on this analysis is slight. In addition, KNB tracks borrower income by only three categories (low, moderate, and middle/upper), not the four normally used (low, moderate, middle, and upper). Most of the numbers used in this report utilize the bank's most recent CRA analysis. This analysis (referred to as ***11/19/97 KNB CRA Analysis***) was completed 11/19/97 and includes all loans in the bank's portfolio at that time as well as any loans paid off during 1997. The bank is unable to generate an analysis of loan originations by year. Table 1 shows the distribution of all consumer loans by borrower income and utilizes information obtained from the 11/19/97 KNB CRA Analysis.

Distribution of all Consumer Loans at 11/19/97 by Borrower Income Level					
Table 1					
Borrower Income Level	Total # of Loans	Total \$ of Loans	Percentage # of Loans	Percentage \$ of Loans	Percentage of Families
Low	2,700	18,173	54%	34%	32%
Moderate	1,965	27,321	39%	52%	18%
Middle/Upper	331	7,302	7%	14%	50%
Total	4,996	52,796			

KNB's volume of loans to small businesses, those with annual revenue less than \$1 million, is good. The bank codes all commercial loans as either small or large business based on the above revenue guidelines. The 11/19/97 KNB CRA Analysis shows that 100% of all commercial and commercial real estate loans were made to businesses meeting the above definition of a small businesses. This report shows KNB had 679 loans totaling \$19,587M to small businesses with the average commercial loan size of \$29M.

KNB also makes a significant number of small farm loans. The 11/19/97 KNB CRA Analysis shows 246 loans totaling \$14,065M to small farms with an average loan size of \$57M. There were no loans to farms considered large in terms of revenue.

Geographic Distribution of Loans

The geographic distribution of loans originated by KNB shows satisfactory penetration throughout all areas of the AA. KNB codes all loans by zip code. A report is prepared at the end of each year that shows the distribution of all loans in the portfolio by zip code. At 12/31/97, KNB had loans in all 20 of the zip codes in their assessment area. Zip codes can be tied to BNAs in all areas of the assessment but Kennett (which will be analyzed separately). At 12/31/97, the bank had 3,849 loans totaling \$53,138M made to borrowers living the bank's assessment area. Approximately 45% of these loans (1,719 loans totaling \$23,128M) were to borrowers in parts of the AA other than Kennett. Table 2 shows the geographic distribution of these loans by BNA income level. Forty-three percentage (43%) of the number and 42% of the dollar amount of these loans were made to borrowers in moderate income BNAs. This compares well to the 48% of the families living in these moderate income BNAs. It also compares well to the 46% of the BNAs that are designated moderate income.

**Distribution of All Loans at 12/31/97 by BNA Income Level
(Assessment Areas excluding Kennett)**

Table 2

Income Level of BNA	Total # of Loans	Total \$ of Loans (000)	Percentage # of Loans	Percentage \$ of Loans (000)	Percentage of Families
Moderate	742	9,764	43%	42%	48%
Middle	977	13,364	57%	58%	52%
Total	1,719	23,128			

KNB also tracks loan originations by a bank assigned CRA location code. These location codes break down the largest cities in the AA into smaller sections and can be tied back to BNAs. The 11/19/97 KNB CRA Analysis analyzes loans by CRA location codes and can be used to analyze the geographic distribution of loans in Kennett. Table 3 shows the distribution of loans from the 11/19/97 KNB CRA Analysis made to borrowers in Kennett by BNA income level. Fifty-one percent (51%) of the loans in Kennett were made to borrowers in the moderate income BNA. This compares well with the 44% of the families that live in that BNA. It also compares well to the 33% of the BNAs that are designated moderate income.

**Distribution of All Loans at 11/19/97 by BNA Income Level
(Kennett Only)**

Table 3

BNA #	Income Level of BNA	Total # of Loans	Total \$ of Loans (000)	Percentage # of Loans	Percentage \$ of Loans (000)	Percentage of Families
9605	Middle	802	7,616	28%	30%	24%
9606	Moderate	2,038	32,011	51%	48%	44%
9607	Middle	145	2,565	21%	22%	32%
Total		2,985	42,192			

Response to Complaints

The bank's public file did not contain any complaints regarding the bank's performance under the CRA. We found no evidence of discrimination or disparate treatment during our examination.