

PUBLIC DISCLOSURE

November 2, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Bank of Parsons
13857**

**1230 Main Street, Box 1089
Parsons, Kansas 67357**

Federal Deposit Insurance Corporation

**2345 Grand Avenue, Suite 1500
Kansas City, Missouri 64108**

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.

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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 **Bank of Parsons, Parsons, Kansas**, prepared by the **Federal Deposit Insurance Corporation**, the institution's supervisory agency, as of **November 2, 1999**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 345.*

INSTITUTION RATING

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

The bank's CRA performance depicts a satisfactory practice of providing for the credit needs of its assessment area. This rating is supported by the following:

- ◆ An analysis of the institution's primary credit offering, residential real estate loans, indicates that a substantial majority of lending is to borrowers within the assessment area.
- ◆ The analysis of residential real estate loans reveals a reasonable lending penetration to borrowers of different incomes.
- ◆ The bank's average net loan-to-deposit ratio demonstrates a satisfactory volume of lending activity.

DESCRIPTION OF INSTITUTION

Bank of Parsons is a full-service bank located in Parsons, Kansas (population 11,924). The city of Parsons is located in north-central Labette County. The institution reported total assets of \$6,468,000 as of September 30, 1999.

Bank of Parsons's facility was formerly a branch of The Stark State Bank, Stark, Kansas. In 1997, The Stark State Bank moved its main office to Parsons, changed its name to Bank of Parsons, and made the Stark facility a branch of Bank of Parsons. The Stark facility has since been acquired by an affiliate institution.

The bank does not have any branch offices. However, it is affiliated with five other banks. The holding company, Southeast Bancshares, Inc., also controls financial institutions in Chanute, Chetopa, Erie, Neodesha, and Thayer, all located in Kansas.

The institution's primary lending focus is on residential real estate. The table below illustrates the loan portfolio composition as of September 30, 1999.

LOAN TYPE	DOLLAR AMOUNT	PERCENT
Residential Real Estate	\$2,103,000	48%
Commercial	985,000	22%
Consumer	781,000	18%
Agricultural	551,000	12%
Total Loans	\$4,420,000	100%

No apparent legal, financial, or other factors were noted which would significantly prohibit the bank from being able to meet the local credit needs of the community.

DESCRIPTION OF THE INSTITUTION'S ASSESSMENT AREA

The Community Reinvestment Act requires financial institutions to identify one or more "assessment areas" within which the appropriate regulatory agency will evaluate the bank's CRA performance. Typically, an institution's assessment area will include the towns, counties, or other political subdivisions in which its offices are located and a substantial portion of its loans are made. Assessment areas must consist of one or more "block numbering areas (BNAs)" or "census tracts," which are statistical subdivisions of a county. Census tracts are the geographies primarily used in metropolitan areas, while BNAs are the geographies used in non-metropolitan locations.

Each geography (BNA or census tract) is designated as low, moderate, middle, or upper income by comparing the 1990 Census Bureau median family income (MFI) of the geography to the appropriate MFI for the area. The income categories are based on the following definitions:

<u>Income Category</u>	<u>Definition</u>
Low Income -	Income of less than 50 percent of the area median family income (MFI)
Moderate Income -	Income of at least 50 percent and less than 80 percent of the area MFI
Middle Income -	Income of at least 80 percent and less than 120 percent of the area MFI
Upper Income -	Income of 120 percent or more of the area MFI

The applicable figure used to determine the income categories for this institution's assessment area is the 1990 Census Bureau median family income (MFI) figure of \$28,067 for the non-metropolitan areas in the state of Kansas. The following table illustrates these income categories:

INCOME LEVEL	PERCENT OF MFI	INCOME RANGE
Low	Less than 50%	Less than \$14,034
Moderate	50% to less than 80%	\$14,034 to less than \$22,454
Middle	80% to less than 120%	\$22,454 to less than \$33,680
Upper	120% and greater	\$33,680 and greater

The bank's assessment area includes the three contiguous Kansas counties of Labette, Neosho, and Cherokee, all of which are considered non-metropolitan. The area consists of 19 BNAs, of which 16 are middle income and 3 are moderate income. The bank is situated in a locality composed entirely of middle-income geographies. The nearest moderate-income geography is approximately 10 miles from the bank.

Recent community contacts in the city of Parsons indicated the economy in the area is good, with increasing sales from local businesses, expanding industries, and several new businesses moving into the area. Of approximately thirteen light manufacturing and medical facilities in the area, the major employers include the state hospital (525 employees), Labette Medical Center (470 employees), and A/O Smith (250 employees).

The credit needs of the assessment area include residential real estate, agricultural real estate and operating loans, consumer-purpose loans, and small business loans.

According to the Kansas Department of Human Resources, the September 1999 preliminary unemployment rates for the three counties in the assessment area range from 3.3 to 3.9 percent, as compared to 3.1 percent for the state of Kansas.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank's performance regarding each of the following criteria was reviewed to determine the overall CRA rating. The evaluation of the bank's performance under some of the criteria is based on a sampling of residential real estate loans, the bank's major loan category. The sample was taken from a universe of 29 loans originated in the last year. To achieve at least a 90 percent confidence level (i.e., a 90 percent certainty that the sample is representative of the bank's loan portfolio), the sample consisted of 16 loans totaling \$658,676.

Loan-to-Deposit Ratio

The bank's level of loans to deposits is reasonable. The bank's average net loan-to-deposit ratio for the eleven quarter period between March 31, 1997, and September 30, 1999, equals 63 percent. The following table illustrates other nearby competing institutions' loan-to-deposit ratio performance for the same period of time. The banks included in the table are located within a thirty-mile radius of the institution and are considered similarly-situated due, in part, to asset size and product mix.

NET LOAN-TO-DEPOSIT RATIOS (11 Quarter Average) FOR BANKS WITH ASSETS UNDER \$25M AND SIMILAR LOAN PORTFOLIO COMPOSITION		
Bank Name and Location	Total Assets (000) as of 9-30-99	Average Net Loan-to-Deposit Ratio
Chetopa State Bank & Trust Co., Chetopa, Kansas	\$18,464	78%
Home State Bank, Erie, Kansas	19,794	56%
Bank of Parsons, Parsons, Kansas	6,468	63%
First State Bank, Thayer, Kansas	9,956	50%
Farmers National Bank of Kansas, Walnut, Kansas	17,318	76%
The Citizens Bank of Weir, Weir, Kansas	6,635	49%

Lending Inside Assessment Area

The substantial majority of the bank's lending is within the assessment area. Of the 16 sampled residential loans, 94 percent of the number and 95 percent of the dollar volume are not only within the assessment area, but are within approximately 10 miles of the bank's office.

Lending to Borrowers of Different Incomes

The bank's lending activity reflects a reasonable record of lending to borrowers of different incomes.

For this analysis, the sampled residential loans were segregated into different borrower income categories (low, moderate, middle, and upper income) as defined on page 3. Each loan was designated into the appropriate income category by comparing the borrower's annual gross income to the 1999 non-metropolitan median family income of \$38,700 for the state of Kansas. The following table reflects the results of this analysis.

RESIDENTIAL REAL ESTATE LOANS DISTRIBUTION BY INCOME CATEGORY OF FAMILIES WITHIN THE ASSESSMENT AREA					
<i>Income Status</i>	<i>Income Levels of Families in the Assessment Area</i>	<i>Number of Loans</i>	<i>%</i>	<i>Dollars of Loans</i>	<i>%</i>
Low Income	22%	1	7%	15,516	2%
Moderate Income	20%	4	27%	80,455	13%
Middle Income	24%	3	20%	177,552	29%
Upper Income	34%	7	46%	349,153	56%
Total	100%	15	100%	622,676	100%

Note: One loan to a borrower outside the bank's assessment area was excluded from the table.

As the above table shows, the bank is lending to individuals of all different income levels. Of particular note, however, is that the percent of loans originated in the low-income segment is disproportionately lower than the percent of low-income families in the assessment area. However, census information indicates 58 percent of the low-income families in the assessment area are below poverty level, suggesting these individuals may have difficulty in qualifying for a home loan or supporting a monthly payment on the area's median value home, which is \$27,510. Therefore, the bank's level of lending in the low-income category is considered reasonable.

Overall, the number of loans originated in each income category is considered satisfactory. While the dollar volume of loans originated is considerably larger in the higher-income segments, this relationship is considered reasonable assuming higher financing needs of the upper-income individuals.

Geographic Distribution of Loans

The distribution of the bank's lending to geographies of different income levels throughout the assessment area is reasonable.

As previously mentioned, the bank's assessment area consists of 19 BNAs, of which 16 are middle income and 3 are moderate income. The bank is in a locality composed entirely of middle-income geographies, and the nearest moderate-income geography is a large sparsely populated agricultural region located approximately 10 miles east of the bank's office.

All of the sampled residential loans in the assessment area are located in middle-income geographies. Further review on the specific locations of these loans revealed that all were within an approximate 10-mile radius of the bank's office. Since this area is virtually encompassed by middle-income geographies, the distribution is considered reasonable.

Response to CRA-Related Complaints

The institution has not received any complaints regarding the Community Reinvestment Act. Therefore, the bank's record of responding to complaints is not applicable in this evaluation.

Compliance with Anti-discrimination Laws and Regulations

The institution's record of complying with anti-discrimination laws was also considered in the overall rating. No violations of the substantive provisions of the anti-discrimination laws and regulations were noted.