

PUBLIC DISCLOSURE

February 3, 2004

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Peoples Exchange Bank
4629**

**1404 28th Street
P.O. Box 160
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**Federal Deposit Insurance Corporation
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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 Peoples Exchange Bank, Belleville, Kansas, prepared by the Federal Deposit Insurance Corporation, the institution's supervisory agency, as of February 3, 2004. 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.

Peoples Exchange Bank's CRA performance depicts a satisfactory record of helping meet the credit needs of its assessment area. The following supports this rating:

- The bank's average net loan-to-deposit ratio of 80 percent demonstrates a reasonable level of effort to make loans considering the area demographics and the level of strong competition among area lending institutions.
- An analysis of agricultural loans, the bank's primary lending focus, indicates a substantial majority of the bank's loans have been extended to farmers located within the assessment area, which reflects the bank's commitment to its assessment area. An analysis of commercial and residential real estate loans reveals that the majority of these types of loans have also been extended to businesses and borrowers located inside of the bank's assessment area.
- The review of agricultural, commercial, and residential real estate loans revealed the bank's lending to farms and businesses of varying sizes and to borrowers of different income levels is reasonable considering the demographic composition of the bank's assessment area.
- The bank's agricultural, commercial, and residential real estate loans are adequately disbursed throughout its assessment area, with no unusual lending gaps identified.
- There have been no CRA-related complaints since the prior evaluation dated May 24, 1999.

DESCRIPTION OF INSTITUTION

Peoples Exchange Bank (PEB) is a full-service community bank with its main office located in Belleville, Kansas, and branch offices in Clyde, Kansas and Concordia, Kansas. Concordia is located approximately 18 miles south of Belleville and Clyde is located approximately 14 miles east of Concordia. Both Belleville and Concordia are the county seats for Republic and Cloud Counties, respectively. According to a community member, Concordia is also considered the regional trade center for north central Kansas. The bank operates four cash dispensing only automated teller machines; one in Belleville, one in Clyde, and two in Concordia.

The bank's September 30, 2003, Report of Condition reflected total assets of \$51,089,000, gross loans of \$30,420,000, and total deposits of \$38,402,000. Gross loans represented approximately 60 percent of the bank's total assets and 79 percent of its total deposits. The bank was rated "Satisfactory" at the previous evaluation dated May 24, 1999. A comparison of financial information from the June 30, 1999, Report of Condition to the September 30, 2003, Report of Condition, reveals the bank has experienced growth in net loans (42 percent), total assets (41 percent) and total deposits (34 percent) since the prior evaluation.

PEB offers standard loan and deposit products. The bank's loan products include agricultural, commercial, residential real estate, and consumer loans. The loan products offered are considered capable of helping to meet the assessment area's credit needs. The bank offers government guaranteed loan products to small farm operations through the Farm Service Agency (FSA) and to small businesses through the Small Business Administration (SBA). The bank's loan portfolio currently includes 27 FSA loans and two SBA loans. The bank also participates in the Beginning Farmer Program (three loans), Ag Link Loan Program (seven loans), and First Time Homebuyers Program (six loans). Table 1 reflects the distribution of PEB's loan portfolio.

Table 1: Distribution of Bank's Loans as of September 30, 2003		
Loan Type	Dollar Volume of Loans (000s)	Percent of Total Loans (rounded)
Construction and land development	\$799	3%
Loans secured by farmland (including farm residential and other improvements)	\$9,538	31%
Closed-end loans secured by 1-4 family residential properties (first liens)	\$4,450	15%
Loans secured by non-farm nonresidential properties	\$2,478	8%
Loans to finance agricultural production and other loans to farmers	\$6,877	22%
Commercial and industrial loans	\$5,140	17%
Other consumer loans – (includes single payment, installment, and all student loans)	\$1,108	4%
Other loans	\$30	0%
GROSS LOANS	\$30,420	100%

Source: September 30, 2003 Report of Condition

According to bank officials, PEB’s lending is focused on agricultural-related loans, as reflected in Table 1. A community member contacted during the evaluation indicated that agricultural loans are very important to this area. No legal or financial impediments exist which would prohibit the bank from helping to meet the credit needs of its assessment area.

DESCRIPTION OF ASSESSMENT AREA

The Community Reinvestment Act (CRA) requires financial institutions to identify one or more “assessment area(s)” within which the appropriate regulatory agency will evaluate the bank’s CRA performance. Typically, an institution’s assessment area will include the towns, cities, 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 “census tracts (CTs)”, which are statistical subdivisions of a county. The assessment area may not reflect illegal discrimination or arbitrarily exclude low- or moderate-income geographies.

Each CT is also designated as low, moderate, middle, or upper income based on the following definitions in relation to the 2000 Census Bureau non-metropolitan median family income figure of \$42,116 for the State of Kansas.

<u>Designation</u>	<u>Percent of the Area Median Family Income</u>	<u>Income Range</u>
<i>Low-income</i>	<i>Less than 50 percent</i>	<i><\$21,058</i>
<i>Moderate-income</i>	<i>At least 50 percent but less than 80 percent</i>	<i>\$21,058 to <\$33,693</i>
<i>Middle-income</i>	<i>At least 80 percent and less than 120 percent</i>	<i>\$33,693 to <\$50,539</i>
<i>Upper-income</i>	<i>120 percent or more</i>	<i>\$50,539 or more</i>

The bank’s assessment area, which includes all of Cloud, Republic, and Washington Counties and the majority of Clay County with the exception of the area surrounding the city of Clay Center, remains unchanged since the previous evaluation, and complies with regulatory requirements. The assessment area is located in north central Kansas, and continues to be divided into 10 CTs. Prior to the 2000 Census, rural geographies were referred to as block numbering areas rather than CTs. Table 2 on the following page provides more information on the CTs in the assessment area.

CT	Area Covered	Income Classification	Population	Median Family Income	Median Housing Value
9581	All of Clay County (except Clay Center and surrounding area)	Middle	3,980	\$39,173	\$57,700
9771	Eastern half of Cloud County	Middle	2,555	\$38,790	\$42,800
9772	Eastern portion of Concordia and surrounding area	Middle	2,481	\$36,853	\$42,600
9773	Western portion of Concordia and surrounding area	Middle	3,599	\$43,466	\$55,400
9774	Western half of Cloud County	Middle	1,633	\$37,292	\$33,100
9781	Eastern half of Republic County	Middle	1,383	\$38,464	\$25,800
9782	Western half of Republic County	Middle	2,025	\$41,761	\$41,500
9783	Belleville and surrounding area	Middle	2,427	\$37,439	\$45,100
9786	Northern half of Washington County	Middle	3,627	\$37,857	\$40,300
9787	Southern half of Washington County	Middle	2,856	\$36,452	\$34,800

Source: U.S. Census for 2000.

The bank's main office in Belleville, Kansas, is located in CT 9783. The bank's branch offices in Clyde and Concordia, Kansas, are located in CTs 9771 and 9773, respectively. Data from the 2000 Census shows the total population for the bank's assessment area at 26,566 representing a decrease of 7.9 percent since the 1990 Census, compared to an 8.5 percent increase for Kansas overall. Current Census information also reveals that while only 13 percent of the population in the State of Kansas is 65 years old or older, 23 percent of the population in the assessment area is in this age group. Additionally, approximately 23 percent of the population of the assessment area is under the age of 18. These findings indicate that 46 percent of the population in the assessment area either cannot borrow or may not have the need to borrow.

The assessment area is predominately rural with agriculture considered the driving force in the community. The major grain products are wheat, milo, corn, and soy beans. The major livestock operations are cow/calf. According to one community member, the general economy in the area is hard to gage. Bank officials believe that overall there has been a slight improvement in the local economy due to an influx of farm disaster aid, higher cattle prices, an outstanding 2003 wheat crop, and some recent rains and snow which helps to alleviate drought conditions. However, a declining and aging population, some recent business closures in Belleville, and continuing drought conditions are noted areas of concern for the assessment area. Bank officials described the current real estate market as soft. Although more houses on the market have been moving lately, Belleville continues to have an oversupply of homes for sale.

Bank officials stated the average price for a home in Clyde is \$30,000, Concordia \$70,000, and Belleville \$45,000.

Demographic data from the 1997 Agricultural Census for the farms in Clay, Cloud, Republic, and Washington Counties reveals that a large percentage of farmers have off-farm employment (approximately 34 percent of all farmers in this county stated that farming is not their principal occupation). Additionally, 37 percent of the farmers in the four county area do not borrow to support their agricultural operations. The average sales per farm in the four county area total \$112,565. This information is referenced later in the evaluation in the section discussing the bank's record of lending to different size farm operations.

Demographic information from 2003 D&B Corporation Business Demographic Data indicate that agriculture-related (28 percent) and service-related (23 percent) businesses are the predominate areas of employment in Clay, Cloud, Republic, and Washington Counties. Major employers in the bank's assessment area include: Alstom Power, Inc., Cloud County Health Center, Wal-Mart, F & A Food Sales, Inc., City of Concordia, Cloud County, Republic County Hospital, Scott Specialties, Inc., City of Belleville, Warren Clinic, Washington County Hospital, and various educational, medical, and governmental entities. According to bank officials, the City of Belleville has experienced some recent business closures with approximately 140 jobs lost while the City of Concordia is experiencing some business growth on the south end of town. Some of those jobs lost in Belleville have been absorbed in other areas, while others have not. The 2003 third quarter unemployment rate for Clay, Cloud, Republic, and Washington Counties is 3.2 percent, 2.4 percent, 2.4 percent, and 1.9 percent, respectively. The 2003 third quarter unemployment rate for the State of Kansas was 4.7 percent.

Competition for loans and deposits is relatively strong as thirteen other banks are headquartered in the assessment area, and at least four other banks and several other financial services entities operate offices and extend credit in the assessment area. Bank officials stated some of the strongest competition for loans is currently coming from nontraditional funding sources, such as implement dealers, seed companies, and chemical companies.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The CRA rating for a small bank is based on five performance tests, four of which are related to the bank's lending performance. The fifth criterion is related to the bank's response to CRA-related complaints. A small bank is defined by the CRA regulation as having total assets of less than \$250 million.

1. Loan-to-Deposit Ratio

PEB's average net loan-to-deposit ratio since the previous CRA evaluation is reasonable and indicates the bank is willing to extend loans. Since the previous evaluation, the net loan-to-deposit ratio averaged 80 percent as reflected in the 18 quarterly Reports of Condition for June 30, 1999, through September 30, 2003, up from an average of 60 percent at the previous evaluation.

There are five financial institutions located in the bank's assessment area that can be considered similar¹. Table 3 reflects selected information about these institutions compared to PEB. For the same period (18 quarters, June 30, 1999, through September 30, 2003), the average net loan-to-deposit ratios range between 33 percent and 85 percent for the similarly situated institutions. PEB's average ratio is within this range. Therefore, PEB's average net loan-to-deposit ratio is considered reasonable when compared to the similarly situated financial institutions.

Table 3: Comparison of Similarly Situated Banks				
Bank name and location		County	Total Assets September 30, 2003 (000s)	Average Net Loan to Deposit Ratio (Rounded)
Peoples Exchange Bank				
Belleville, Kansas	9783	Republic Cloud Cloud	\$51,089	80%
Clyde, Kansas	9771			
Concordia, Kansas	9773			
The Elk State Bank Clyde, Kansas	9771	Cloud	\$25,480	72%
Swedish-American State Bank Courtland, Kansas	9782	Republic	\$28,959	85%
The Citizens State Bank Miltonvale, Kansas	9771	Cloud	\$29,097	33%
The First National Bank of Washington Washington, Kansas	9786	Washington	\$50,503	39%

Source: September 30, 2003 Report of Condition

Loan Sampling

According to the loan portfolio composition and bank management, the primary lending focus is agricultural lending with a secondary focus on residential real estate lending and to a lesser degree commercial lending. As indicated by Table 4 on the following page, samples of outstanding agricultural loans (real estate secured and operating), commercial loans (real estate secured and operating), and residential real estate loans originated and renewed during the previous year (December 19, 2002, through December 18, 2003) were reviewed in order to evaluate the bank's lending performance under the next three criteria.

¹ A similar financial institution, for these purposes, is located in or near the bank's assessment area, has a similar structure, offers similar products, has a similar loan portfolio composition, serves a similar customer base, and has similar resources (total assets).

Table 4: Universe of Loans Originated (Still Outstanding) During Prior Year and the Statistical Sample From the Universe				
Loan Product	Universe		Statistical Sample	
	Number	Original Amount	Number	Original Amount
Agricultural Loans	150	\$9,393,835	34	\$2,545,120
Commercial Loans	84	\$6,422,200	29	\$1,651,426
Residential Real Estate Loans	41	\$1,495,485	20	\$796,497
Total	275	\$17,311,520	83	\$4,993,043

Source: Bank records

The statistical samples are based on a 90 percent confidence interval with a 15 percent precision level.

2. Lending in the Assessment Area

PEB exhibits a generally high level of lending within the assessment area, reflecting management’s strong commitment to providing credit within the assessment area. The analysis of agricultural, commercial, and residential real estate loans indicates that the bank originates a substantial majority of these types of loans within the assessment area. Of the 34 agricultural loans reviewed, 33 (97 percent) totaling \$2,505,120 (98 percent) were extended to farm operations located within the assessment area. Of the 29 commercial loans reviewed, 24 loans (83 percent) totaling \$734,991 (45 percent) were extended to commercial borrowers located within the bank’s assessment area. One large commercial participation loan represented 61 percent of the dollar volume extended to a commercial borrower outside the assessment area. Of the 20 residential real estate loans reviewed, 19 loans (95 percent) totaling \$784,797 (99 percent) were extended to consumer borrowers within the bank’s assessment area. As a whole, of the loans reviewed, 92 percent of the number and 81 percent of the dollar volume were originated within the assessment area, indicating management’s strong commitment to helping to meet the credit needs of the assessment area.

3. Lending to Farmers and Businesses of Different Sizes and Borrowers of Various Income Levels

Agricultural Lending

PEB’s record of lending to farmers of different sizes is considered reasonable, as reflected in Table 5 on the following page. This conclusion was based on the results derived from the analysis of the agricultural loan sample. For this analysis, the sampled agricultural loans extended within the assessment area were categorized into different size operations according to the annual gross revenue generated by the farming operation. Table 5 summarizes the agricultural loan sample distribution to farmers of different sizes.

Gross Revenues	Number of Loans	Percent of Total Number (rounded)	Dollar Volume of Loans	Percent of Total Dollar Volume (rounded)	Farms in Assessment Area* (rounded)
\$0 to \$49,999	7	21%	\$106,190	4%	58%**
\$50,000 to \$99,999	4	12%	\$124,500	5%	14%
\$100,000 to \$249,999	13	40%	\$925,430	37%	19%
\$250,000 to \$499,999	5	15%	\$325,000	13%	6%
\$500,000 and Greater	4	12%	\$1,024,000***	41%	3%
Totals	33	100%	\$2,505,120	100%	100%

Source: Bank records and *1997 Census of Agriculture for farms located in Clay, Cloud, Republic, and Washington Counties. **This figure is only 40 percent if the non-borrowing farms with less than \$10,000 in annual sales volume are excluded. Also, 28 percent of all farms in the assessment area reported gross revenues of under \$10,000. ***68 percent of this total is attributed to one loan.

The bank's lending to farmers in the lowest gross annual sales category (21 percent by number and 4 percent by dollar volume) indicates a willingness to lend to the smallest of farms, when compared to the number of farms in the assessment area in that category (58 percent). This is more evident when hobby farms² are excluded, leaving only 40 percent of the farms in the assessment area in the lowest sales category, further supporting a good record of lending to the smallest of farms. In the second lowest sales category, the bank's lending (12 percent by number and 5 percent by dollar volume) is comparable to the number of farms in the assessment area in that category (14 percent). Information from bank official indicates most of the bank's farm borrowers use a combination of dry land farming and irrigation to raise grain products (wheat, milo, corn, and soy beans) and most of the livestock sold comes from cow/calf operations. Overall, the bank's lending reflects a reasonable willingness to lend to farms of various sizes.

Commercial Lending

PEB's lending pattern demonstrates a reasonable distribution among businesses of various sizes. This conclusion was based on the results derived from the analysis of the commercial loan sample. For this analysis, the sampled commercial loans extended within the assessment area were categorized into different size operations according to the annual gross revenue generated by the business. Approximately 83 percent of the commercial loans in the sample were extended to small business operations with annual gross revenues less than or equal to \$1 million. This is similar to the number of businesses located in the assessment area in that category. According to D&B Corporation, 90 percent of businesses within the assessment area have revenues of less than or equal to \$1 million. The commercial loan sample demonstrates that the bank is reasonably providing loans to various size business operations.

²Hobby farms are defined as non-borrowing farms with less than \$10,000 in annual sales volume.

Residential Real Estate Lending

PEB is reasonably extending credit to borrowers of different income levels in the assessment area when taking into consideration the demographic information. Gross income is used as an indicator of the income level of the borrowers and was obtained from the most recent tax return, loan application, or bank management estimate. The borrowers' income level was then categorized into low-, moderate-, middle-, or upper-income based on HUD's estimated median family income levels for the non-metropolitan portions of Kansas (\$44,900 for year 2003). Those results were then compared to the number of families in each income category according to the 2000 Census. As shown in the following table, the bank has extended 21 percent of its residential mortgage loans to borrowers in the low-income category compared to 2000 Census Data that reveals 17 percent of the assessment area's families are considered low-income. In addition, approximately seven percent of the assessment area's families are living below the poverty level. This means that a good portion of the low-income families would be unable to qualify for a mortgage loan.

Table 6: Bank's Record of Lending to Borrowers of Different Income Levels in the Assessment Area						
Income Level	Number of Loans	Percent of Total Number	Dollar Volume of Loans	Percent of Total Dollars	2000 Census Number & Percent of Families at the Different Income Levels Within the Assessment Area*	
					Number	Percent
Low	4	21%	\$67,000	9%	1,254	17%
Moderate	3	15%	\$35,392	4%	1,712	23%
Middle	6	32%	\$259,800	33%	2,062	28%
Upper	6	32%	\$422,605	54%	2,328	32%
Totals	19	100%	\$784,797	100%	7,356	100%

**Approximately 6.70 percent of the families included in the 2000 Census Data were considered below the poverty level. The poverty level threshold for a family of four was \$12,674 in 1990 and \$17,029 in 2000.*

Overall, the bank's lending to farms and businesses of various sizes and borrowers of different income levels is considered reasonable, as the greatest weight is given to the results of the loan sample of the bank's primary loan product (agricultural loans).

4. Geographic Distribution of Loans

A brief analysis of the geographic distribution of agricultural, commercial, and residential real estate loans was conducted. The bank's assessment area consists of ten census tracts that are classified as middle-income according to the 2000 Census. A geographic distribution analysis of the bank's lending activity within geographies of varying income levels has limited meaning in this evaluation because the entire area is considered homogeneous with regard to income levels. However, examiner review of those loans originated in the assessment area revealed an acceptable distribution of loans throughout the assessment area.

5. Response to Complaints & Compliance with Anti-Discrimination Laws and Regulations

PEB has not received any written CRA-related complaints since the previous evaluation of May 24, 1999. This neither enhances nor detracts from the bank's CRA performance. Additionally, a review of the bank's compliance with the anti-discriminatory rules and regulations revealed no substantive violations involving discrimination on a prohibited basis.