

# **PUBLIC DISCLOSURE**

**May 3, 2004**

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**Exchange Bank  
Certificate Number 08592**

**614 State Street  
P.O. Box 367  
Mound City, Missouri 64470-1147**

**Federal Deposit Insurance Corporation  
2345 Grand Boulevard, Suite 1200  
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 Exchange Bank, Mound City, Missouri, prepared by the Federal Deposit Insurance Corporation, the institution's supervisory agency, as of May 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.

Exchange Bank, Mound City, Missouri, has demonstrated a satisfactory commitment to community reinvestment that is supported by the following conclusions.

- A substantial majority of the farm loans originated by the bank are within the bank's assessment area, reflecting an excellent commitment to meeting the credit needs of the assessment area.
- An analysis of farm loans reveals a reasonable distribution of loans among farms of different sizes.
- The bank's average net loan-to-deposit ratio (ratio) reflects a reasonable willingness to provide credit given the bank's size, financial condition, and community credit needs.

## DESCRIPTION OF INSTITUTION

Exchange Bank's sole office is located at 614 State Street, Mound City, Missouri. The bank has a drive-up window on premise.

As of December 31, 2003, the institution's total assets equaled \$19,987,000 of which total loans represented \$8,825,000. The bank's largest loan products by dollar volume are agricultural loans (agricultural real estate and agricultural production), which represents 75 percent of total loans. Bank management indicated that the bank's primary credit focus continues to be agricultural lending. A distribution of the bank's entire loan portfolio is reflected in Table 1.

<i>Table 1 – Loan Distribution as of December 31, 2003</i>		
<i>Loan Type</i>	<i>Dollar Amount (000s)</i>	<i>Percent of Total Loans (%)</i>
<i>Construction and Land Development</i>	\$ 0	0%
<i>Secured by Farmland</i>	\$ 2,794	32%
<i>1-4 Family Residential Real Estate</i>	\$ 555	6%
<i>Multifamily (5 or more) Residential</i>	\$ 0	0%
<i>Commercial Real Estate</i>	\$ 77	1%
<i>Commercial and Industrial</i>	\$ 1,428	16%
<i>Agriculture</i>	\$ 3,763	43%
<i>Consumer</i>	\$ 208	2%
<i>All Other</i>	\$ 0	0%
<i>Total Loans Net of Unearned Income</i>	\$ 8,825	100%

*Source: December 31, 2003, Report of Condition.*

The bank is wholly owned by The Exchange Bank Holding Company, Mound City, Missouri, a one-bank holding company. The bank neither sells nor purchases loan participations. The institution is not subject to any financial or legal impediments that would impede its ability to help meet the credit needs of its assessment area. The bank was rated Satisfactory at the previous CRA Performance Evaluation dated July 8, 1999.

## DESCRIPTION OF ASSESSMENT AREA

The bank has defined its assessment area as comprising all of Holt County and contains census tracts 9601, 9602 and 9603, hereafter also referred to as tracts or geographies. Holt County is part of the non-metropolitan area of Missouri. Based on the 2000 census, the bank facility is located in census tract 9602, which comprises all of Mound City. The assessment area is rural with an agricultural-based economy and encompasses many small towns widely dispersed across the county, including Big Lake, Craig, Forest City, Maitland and Oregon.

Farming is the primary industry within the bank’s assessment area and the industry continues to undergo consolidation with fewer and larger farms remaining. According to the 1997 Census of Agriculture, the total number of farms in Holt County declined from 518 farms to 465 farms during the period 1992 to 1997. During this same time frame, the average farm increased in land size from 449 acres to 497 acres and increased in gross revenue size from \$89,721 to \$114,557.

Using 2000 Census data, the bank’s assessment area has no low- or moderate-income tracts. All three of the assessment area census tracts are classified as middle-income geographies. This classification is based on the 2000 U.S. Census median family income (MFI) for non-metropolitan Missouri, which is \$36,864. Unless otherwise stated, all demographic information presented is from the 2000 U.S. Census. A breakdown of income levels for the census tracts within the non-metropolitan area of Missouri are presented in Table 2.

<i>Table 2 – 2000 Census Tract Income Levels</i>		
<i>Geography Income Level</i>	<i>Percent of MFI</i>	<i>Non-Metropolitan Missouri MFI</i>
<i>Low</i>	< 50%	< \$18,432
<i>Moderate</i>	50% to < 80%	\$18,432 to < \$29,491
<i>Middle</i>	80% to <120%	\$29,491 to < \$44,237
<i>Upper</i>	120% and over	\$44,237 and over

*Data Source: 2000 U.S. Census.*

The assessment area population is 5,351 and comprises 1,518 families. Of the families in the assessment area, 20 percent (308) are classified as low-income families and 18 percent (273) are classified as moderate-income families. There are 2,931 housing units in the assessment area and all are located in middle-income census tracts. Of the total housing units, 57 percent are owner-occupied, 19 percent are occupied rental units, and 24 percent are vacant units. Mobile homes comprise 11 percent of the housing stock. The median housing value in the assessment area is \$50,234, which is considerably less than the median housing value of \$68,100 for non-metropolitan Missouri. The median housing age within the assessment area is 47 years, which is considerably greater than the median housing age of 28 years for non-metropolitan Missouri. The median gross rent in the assessment area is \$272, which is considerably less than the median gross rent of \$383 for non-metropolitan Missouri.

## **Other Demographic Information**

Based on 2003 D&B business demographic information, which is based on 2000 U.S. Census data, there are 389 businesses in the assessment area. Of these, 61 percent (237) had gross annual revenues of \$1,000,000 or less, 6 percent (24) reported gross annual revenues greater than \$1,000,000, and 33 percent (128) did not report revenue numbers.

The Bureau of Labor Statistics reported that the unemployment rate for Holt County, Missouri, was 3.6 percent for fourth quarter 2003, a decrease from a year earlier when it was 4.2 percent. The fourth quarter 2004 statewide unemployment rate for Missouri was 4.8 percent, down from the Missouri fourth quarter 2003 rate of 5.2 percent. Based on the aforementioned, the bank's assessment area, overall, is experiencing a decrease in unemployment.

According to the 2000 Census, Mound City has the largest concentration of population (1,193) in the assessment area. The county has no employers in the assessment area with more than 100 employees. The largest employers in the assessment area are Exide Technologies in Forest City (86 employees); South Holt School District in Oregon (76 employees); and Big Lake State Park and Reservoir in Craig (32 employees). Numerous smaller employers exist throughout the assessment area, but the assessment area economy is primarily private agriculture.

During the evaluation, examiners contacted a representative from the assessment area (community contact) to obtain a profile of the community, identify community development opportunities and general credit needs, and assess opportunities for participation by local financial institutions. The community contact discussed the general economic conditions in the assessment area and indicated that the general economy is bordering on depression similar to the 1930s due to three years of drought and the fact that, despite heavily subsidized commodity prices, the farmer's costs relative to living and fuel expenses are increasing at a considerably higher rate than what their crops will yield. The contact stated that there are half as many farmers as there were 10 years ago and that it is no longer possible for an 80 acre farm to support a small family. The contact further stated that it takes at least 500 acres for a farm to be viable and that an aging farmer population is selling off their land to other farmers who consolidate the farms, creating fewer and bigger farms. The contact was concerned that the Mound City area has an older population and that there are few jobs for the younger generations, especially a younger, educated population. The contact stated that once a youth leaves town for higher education, they don't return because of the lack of opportunities to utilize that education. The contact felt that the credit needs of large farmer are being met through local banks, but that the small farmers are having trouble. The contact was unaware of any unmet deposit needs, however, the contact indicated local banks were not meeting the credit needs of businesses, and that local businesses find it necessary to look outside the area for their credit needs. The contact was not aware of any discriminatory practices by area financial institutions.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Conclusions with respect to the following performance criteria, *Lending in Assessment Area and Lending among Farms of Different Sizes* are based on review of the institution's loan portfolio. Examiners reviewed agricultural loans (including agricultural real estate and agricultural production loans), comprising 75 percent of the loan portfolio. All loans were analyzed using 2000 U.S. Census data.

### a) Lending in Assessment Area

A substantial majority of the farm loans originated by the bank are within the bank's assessment area, reflecting an excellent commitment to meeting the credit needs of the assessment area.

Examiners reviewed all agricultural loans originated between January 1, 2003 and December 31, 2003. Of the 21 agricultural loans reviewed, 20, or 95 percent, were originated within the assessment area. The 20 loans originated inside the assessment area accounted for 96 percent of the dollar volume of sampled loans.

### b) Lending among Farms of Different Sizes

An analysis of farm loans reveals a reasonable distribution of loans among farms of different sizes. Only loans originated within the assessment area are included in the analysis.

Table 3 shows the distribution of the agricultural loan sample among farms of varying sizes based on gross annual farm revenue levels. Table 3 also shows the percentage of farms, by annual gross farm revenue, located in Holt County based on the 1997 Census of Agriculture data.

<i>Gross Annual Revenue of the Farm</i>	<i>Percentage of Farms in Holt County by Sales Volume</i>	<i>Number of Loans</i>	<i>Percent of Total Number of Loans</i>	<i>Dollar Amount of Loans</i>	<i>Percent of Dollar Amount of Loans</i>
<i>&lt; \$100,000</i>	<i>67%</i>	<i>9</i>	<i>45%</i>	<i>\$ 332,100</i>	<i>22%</i>
<i>\$100,000 to &lt; \$250,000</i>	<i>21%</i>	<i>8</i>	<i>40%</i>	<i>\$ 559,000</i>	<i>37%</i>
<i>\$250,000 to &lt; \$500,000</i>	<i>9%</i>	<i>1</i>	<i>5%</i>	<i>\$ 37,000</i>	<i>3%</i>
<i>≥ \$500,000</i>	<i>3%</i>	<i>2</i>	<i>10%</i>	<i>\$ 575,000</i>	<i>38%</i>
<i>TOTALS</i>	<i>100%</i>	<i>20</i>	<i>100%</i>	<i>\$1,503,100</i>	<i>100%</i>

*Source: 1997 Census of Agriculture and bank data.*

The bank achieved a reasonable loan penetration among farms of different sizes. The bank originated 45 percent of its agricultural loans to farms with gross annual farm revenue of less

than \$100,000, which is less than the percentage of farms in that revenue category. However, the 1997 Census of Agriculture indicates that, in Missouri, 59 percent of farm operations with sales of less than \$100,000 did not report any farm interest expense, indicating limited borrowing needs. The bank originated 40 percent of its agricultural loans, by number, to farms with gross annual revenue between \$100,000 and \$250,000. The bank's percentage of these loans is higher than the percentage of farms in the assessment area within this revenue category. Overall, the bank is meeting the borrowing needs of small farm operations.

#### **c) Loan-to-Deposit Ratio**

The bank's average net loan-to-deposit ratio (ratio) reflects a reasonable willingness to provide credit given the bank's size, financial condition, and community credit needs. The bank's average ratio over the last 18 quarters since the previous evaluation is 57 percent. During that period, the bank's ratio fluctuated from a low of 51 percent as of December 31, 2003, to a high of 64 percent as of September 30, 1999. The bank's ratio typically drops during fourth quarter due to large deposits of local tax revenues and payoff of farm loans. In fourth quarter 2003, however, the ratio dropped more than usual due to the bank's non-renewal of a \$900,000 school district loan that the bank has held for several years. There are no similarly situated institutions within the assessment area.

#### **d) Geographic Distribution**

This performance factor was not analyzed since all three of the tracts representing the bank's assessment area are middle-income geographies, homogenous in nature, and would not be meaningful to this evaluation.

#### **e) Response to CRA-Related Complaints**

Neither the bank, nor the Federal Deposit Insurance Corporation, has received a CRA-related complaint since the last evaluation.

#### **f) Compliance with Anti-Discrimination Laws and Regulations**

No violations of the substantive provisions of the anti-discriminatory laws and regulations were identified during the evaluation.