

PUBLIC DISCLOSURE

May 5, 2008

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Bank of Birch Tree
FDIC Certificate Number: 8278**

**100 Highway FF
Birch Tree, Missouri 65438**

**Federal Deposit Insurance Corporation
2345 Grand Boulevard, Suite 1200
Kansas City, Missouri 64108**

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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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 Birch Tree, Birch Tree, Missouri**, prepared by the **Federal Deposit Insurance Corporation**, the institution's supervisory agency, as of **May 5, 2008**. The agency evaluates performance in assessment area(s), as they are delineated by the institution, rather than individual branches. This assessment area evaluation may include the visits to some, but not necessarily all, of the institution's branches. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 345.*

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

The bank's overall performance is reasonable in relation to the performance criteria discussed below.

- The bank's average net loan-to-deposit (LTD) ratio, a key measure of the bank's overall level of lending, is reasonable given the institution's asset size and the credit needs of the assessment area. The bank's net LTD ratio has averaged 76 percent since the prior CRA Performance Evaluation dated March 31, 2003.
- A substantial majority of the loans sampled were made within the assessment area, illustrating a commitment to meeting the credit needs of the local community. Examiners reviewed commercial and residential real estate loans since they represent a majority of the bank's outstanding loan portfolio and are the bank's primary lending focus. During the review period selected for these two loan categories, 92 percent of the number and 77 percent of the dollar volume of loans in the sample were originated within the assessment area.
- The bank's overall geographic distribution of lending reflects a reasonable dispersion throughout the assessment area. The loan distribution appears reasonable when considering the bank's office locations and the demographic composition of the assessment area.
- Given the demographics of the assessment area, the bank's overall borrower profile performance is considered reasonable. Loan samples reveal a reasonable lending performance regarding businesses of different sizes (including small businesses) and a more than reasonable lending penetration among individuals of different income levels (including low- and moderate-income individuals).

In addition to the factors discussed above, there have been no complaints regarding the bank's CRA performance since its prior CRA evaluation. Furthermore, examiners identified no substantive fair lending concerns during this evaluation.

SCOPE OF EVALUATION

This CRA evaluation was conducted using Small Bank Evaluation Procedures. The evaluation covers the bank's CRA performance since their previous CRA evaluation dated March 31, 2003, through May 5, 2008, the date of this evaluation. Particular emphasis was placed on the bank's commercial and residential real estate loan products as these product types represent a majority of the bank's outstanding loan portfolio and are the bank's primary lending focus. Agricultural and consumer loans were not reviewed as these products represent a smaller portion of the total loan mix and are not a primary focus of the bank's lending strategy.

DESCRIPTION OF INSTITUTION

Bank of Birch Tree is a financial institution with \$24,567,000 in total assets as of December 31, 2007. The bank operates from its sole facility in Birch Tree, Missouri, located in census tract (CT) 9702 in Shannon County.

Bank of Birch Tree extends commercial, residential real estate, consumer, and agricultural loans. As of December 31, 2007, the bank had net loans of \$18,971,000 and total deposits of \$20,646,000, resulting in a net loan-to-deposit ratio of 92 percent. On the following page, Table 1 depicts the bank's loan mix and shows a strong commercial lending focus. Commercial and commercial real estate loans represent 44 percent of the dollar volume of the outstanding portfolio, while one- to four-family residential real estate loans account for 28 percent. In addition, consumer loans represent 18 percent of the remainder of the portfolio, with agricultural loans representing 9 percent. Since commercial and residential real estate loans are the bank's most prevalent categories, examiners focused on these product lines for evaluation purposes.

Table 1 - Loan Distribution		
Loan Type	Dollar Amount (000s)	Percent of Total Loans (%)
Construction and Land Development	\$221	1%
Secured by Farmland	\$832	4%
1-4 Family Residential	\$5,396	28%
Multi-Family (5 or more) Residential	\$0	0%
Commercial	\$941	5%
Total Real Estate Loans	\$7,390	38%
Commercial and Industrial	\$7,482	39%
Agricultural	\$866	5%
Consumer	\$3,448	18%
Other	\$65	*
Total Loans	\$19,251	100%

Source: Report of Condition date 12/31/2007; - *less than 1 percent.

Aside from statutory lending limits, Bank of Birch Tree has no legal or financial impediments that would prevent it from meeting the credit needs of its assessment area. Although subject bank is the only financial institution operating in Birch Tree, the local banking environment is considered competitive. Competition arises since a vast majority of Birch Tree residents commute to nearby towns of West Plains, Willow Springs, and Mountain View for employment purposes. Financial institutions located in these three towns actively pursue banking relationships with individuals residing in the greater Shannon County area. Bank of Birch Tree received a CRA rating of “Satisfactory” at its prior CRA Evaluation dated March 31, 2003.

DESCRIPTION OF THE ASSESSMENT AREA

The Community Reinvestment Act of 1977, as amended, requires banks to identify one or more assessment areas (AAs) within which its regulatory agency will evaluate the bank's performance. The area(s) defined by the bank must include its main office, branches, and other deposit-taking remote service facilities, as well as the surrounding geographies in which the bank has originated or purchased a substantial portion of its loans. The assessment area must always consist of one or more whole geographies normally identified as census tracts (CTs). These CTs represent statistical subdivisions of a county.

State of Missouri:

How Median Family Income Is Used Throughout This Analysis: Median Family Income (MFI) figures for metropolitan and non-metropolitan areas of Missouri were adjusted in 2004 when the Office of Management and Budget modified metropolitan statistical area (MSA) boundaries. The revised 2000 Median Family Income (MFI) figure was \$36,175 for the non-metropolitan areas of Missouri which includes Carter, Howell, Reynolds, and Shannon Counties. This income figure is used to determine the income level for each geography located outside the metropolitan areas for this evaluation in conjunction with Criterion 3 (Geographic Distribution Analysis).

Based on 2007 and 2008 estimates by the Department of Housing and Urban Development (HUD), the adjusted MFI figures for the non-metropolitan areas of Missouri were \$42,800 and \$43,800, respectively. These adjusted figures are used to determine the income levels of residential real estate borrowers in conjunction with Criterion 4 (Borrower Profile Analysis).

Definition of Income Groups:

<i>Low income -</i>	Less than 50 percent of the MFI for the non-metropolitan areas of Missouri.
<i>Moderate income -</i>	50 percent to less than 80 percent of the MFI for the non-metropolitan areas of Missouri.
<i>Middle income -</i>	80 percent to less than 120 percent of the MFI for the non-metropolitan areas of Missouri.
<i>Upper income -</i>	120 percent or higher of the MFI for the non-metropolitan areas of Missouri.

Bank of Birch Tree has established an assessment area that includes all of Reynolds (CTs 9801 and 9802) and Shannon Counties (CTs 9701 and 9702); and portions of Howell (CTs 9902 and 9903) and Carter (CT 9602) Counties. Specifically, the assessment area consists of seven CTs, of which, five are classified as middle-income geographies and two are classified as moderate-income geographies (CT 9702 in Shannon County and CT 9902 in Howell County). Portions of the bank's assessment area have also been designated as being "distressed" economically. A middle-income CT is classified (and subsequently re-classified if appropriate) as distressed on an annual basis by the Census Bureau, usually resulting from a tract's poverty level, unemployment rate, or other significant negative economic measure. Regarding this assessment area, in 2005 all of Reynolds County (CTs 9801 and 9802), CT 9602 in Carter County, and CT 9701 in Shannon County were classified as being distressed middle-income tracts. In 2006, CT 9701 was the only tract to receive the distressed designation; while in 2007, CT 9701 and the two Reynolds County CTs, 9801 and 9802 were all again classified as distressed tracts.

Based on 2000 Census data, the total population of the assessment area is 25,559. This population is comprised of 7,371 households that are families, of which 2,084, or 28 percent, are low-income; 1,684, or 23 percent, are moderate-income; 1,736, or 24 percent, are middle-income; and 1,867, or 25 percent, are upper-income. Census data for 2000 also reveals that 17 percent of the assessment area's families have incomes below the poverty level. "Poverty level" is an established dollar threshold rather than a percentage-based calculation of the median family income. Specifically, for a family of four, the 2000 poverty level threshold was \$17,603; therefore, a family earning less than \$17,603 was below the poverty level. The U.S. Department of Health and Human Services lists the poverty level threshold in 2007 for a family of four as \$20,650. This figure is determined on a national basis and is not adjusted regionally.

In an effort to determine community credit needs, examiners reviewed an interview conducted with an individual who is familiar with the bank's assessment area to obtain a profile of the bank's assessment area, identify community development opportunities, and assess opportunities for participation by local financial institutions. The contact, as well as bank management, categorized the area economy as stable and indicated that moderate-income housing is the most prevalent community need. The contact also stated that the area is well banked and the local financial institutions are meeting the banking needs of the community, including both residential and business loan needs. Aside from moderate-income housing, no unmet needs were identified.

Statistics from the Missouri Department of Labor and Industrial Relations indicated the unemployment rate for Missouri was 6.0 percent as of January 2008. As of the same date, the unemployment rate for Carter, Howell, Reynolds, and Shannon Counties was 9.4 percent, 5.2 percent, 8.8 percent, and 8.8 percent, respectively.

According to 2007 D&B data, the assessment area is home to 2,151 businesses (132 farms and 2,019 non-farms). D&B data also reveals only 6 percent of the assessment area's total businesses, who reported revenue data to D&B, have gross revenues of over \$1 million. In addition, only 6 percent of assessment area employers have greater than 20 employees. This information was used to evaluate the bank's lending to businesses under Criterion 4 (Borrower Profile Analysis). The largest employers in the assessment area include Smith Hardwood Flooring, the Mountain View school district, and Mountain View Fabrication.

The 2000 Census data reveals the housing stock in the assessment area totals 12,578 units, with owner-occupied homes comprising 64 percent, occupied rental units comprising 18 percent, and vacant units comprising 18 percent. The median home value in the assessment area in 2000 was \$54,221, and the median age of a home was 26 years. The median gross rent level was \$314 per month. This information was considered in evaluating the bank's CRA performance relative to residential related lending.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

LENDING TEST

Bank of Birch Tree's commercial and residential real estate loans were reviewed for this analysis since these credit types are integral to the bank's business strategy and serve important community development needs. Agricultural and consumer loans were not reviewed as these products represent a smaller portion of the total loan portfolio and are not a major lending focus of the institution.

Criterion 1: Loan to Deposit Ratio

Bank of Birch Tree's average NLTD ratio is reasonable given the bank's asset size, financial condition, and the perceived credit needs of the assessment area. For the 20 quarters from March 31, 2003, through December 31, 2007, the NLTD ratio has averaged 76 percent. The bank's NLTD ratio ranged from a low of 49 percent, as of March 31, 2003, to a high of 92 percent, as of December 31, 2007. For the aforementioned 20 quarters, net loans ranged from a low of \$9,843,000, on March 31, 2003, to a high of \$19,007,000, on June 30, 2007.

When available and relevant, the lending performance of similarly situated lenders serves as an additional method of assessing the adequacy of a bank's average NLTD. Similarly situated lenders are defined as financial institutions that are located in or near the assessment area and are comparable to the subject bank based on asset size and branching structure, market served, product offerings, and/or loan portfolio composition. Security Bank of the Ozarks, Eminence, Missouri (total assets \$51,146,000 as of December 31, 2007) is considered to be a similarly situated institution. As shown in Table 2 below, the average NLTD for Bank of Birch Tree is weighed against the average NLTD of the identified similarly situated lender. The average NLTD for Bank of Birch Tree compares slightly higher than the average NLTD for Security Bank of the Ozarks, and is considered reasonable, especially considering the comments of the aforementioned community contact. The contact could not identify any unmet credit needs in the bank's assessment area.

Table 2 - LTD Data for Subject Bank and the Similarly Situated Institution		
Institution	Total Assets (000s)	Average Net LTD Ratio
Bank of Birch Tree Birch Tree, Missouri	\$24,567	76%
Security Bank of the Ozarks Eminence, Missouri	\$51,146	71%

Source: Reports of Condition (3/31/2003 thru 12/31/2007)

Loan Review Procedures for Performance Criteria 2, 3, and 4

The following pages discuss performance Criterion 2 (Assessment Area Concentration), Criterion 3 (Geographic Distribution Analysis), and Criterion 4 (Borrower Profile Analysis). Conclusions are based on a review of a sample of commercial and residential real estate loans originated by the bank during the twelve month time frame preceding March 31, 2008. The analysis focused on these loan products as they represent a majority (72 percent) of the bank's loan portfolio based on dollar volume, and these products reflect the bank's primary lending focus. In addition, an analysis of these loan products will likely provide the most meaningful insight into the bank's CRA performance because of the availability of pertinent demographic data. Examples of this demographic data include the stratification of commercial businesses based on gross annual revenues, the percentage of owner-occupied housing units in the assessment area by geography income level, and the stratification of families in the assessment area based on gross annual income. The analysis of these loans was conducted within the context of the assessment area's economy, credit needs, and competition among financial institutions. Agricultural and consumer loans were not reviewed since they represent a smaller percentage of the portfolio and are not the bank's primary lending focus area.

For Criterion 3 (Geographic Distribution Analysis) and 4 (Borrower Profile Analysis), particular focus was given to lending in moderate-income geographies and to low- and moderate-income borrowers in the assessment area. Also, particular focus was given to lending to small businesses (gross annual revenues of \$1 million or less) in the assessment area. For an explanation of how the income designation of a particular geography and of individual borrowers is determined, refer to the discussions entitled *How Median Family Income is Used Throughout This Analysis* and *Definition of Income Groups* on page 5 of this evaluation.

The commercial loan sample consisted of 30 loans totaling \$2,217,225, from a universe of 88 loans totaling \$5,301,979. The residential real estate loan sample consisted of 21 loans totaling \$1,151,200, from a universe of 29 loans totaling \$1,683,321.

In drawing conclusions for performance Criteria 2, 3 and 4, lending activity based on the number of loans, rather than on the dollar volume is emphasized as this analysis more clearly represents the bank's lending efforts. Generally, loans to smaller businesses and lower income individuals are for smaller dollar amounts than loans to larger businesses and higher income individuals. Therefore, an analysis using the dollar volume of loans may not provide a representative picture of the bank's lending efforts. Additionally, more weight is given to the commercial loan sample since it represents a larger percentage of the loan portfolio (44 percent) than residential real estate loans (28 percent).

Criterion 2: Assessment Area Concentration

Bank of Birch Tree's performance regarding assessment area lending is more than reasonable, considering the location of the bank's sole office and the size of the assessment area. The bank's performance was evaluated through examiner review of the commercial and residential real estate loans previously discussed. Based on the review, 92 percent of the number and 77 percent of the dollar volume of the loans were originated within the bank's assessment area which reflects a commitment to meeting local credit needs. Table 3 on the following page details the bank's record of lending within its assessment area.

Table 3 – Assessment Area Concentration

Loan Category or Type	Number of Loans					Dollar Volume of Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Commercial	27	90%	3	10%	30	\$1,592	72%	\$625	28%	\$2,217
Residential Real Estate	20	95%	1	5%	21	\$1,015	88%	\$136	12%	\$1,151
Total	47	92%	4	8%	51	\$2,607	77%	\$761	23%	\$3,368

Source: Bank records for twelve month time frame preceding March 31, 2008.

Criterion 3: Geographic Distribution Analysis

The geographic distribution of Bank of Birch Tree’s lending reflects an overall reasonable dispersion of small business and residential real estate loans throughout the assessment area. As mentioned previously, this analysis was performed by reviewing the geographic distribution of the bank’s commercial and residential real estate loans originated during the twelve month period preceding March 31, 2008.

Commercial Loans

The bank’s commercial lending performance reflects a reasonable dispersion. Table 4 on the following page depicts the geographic distribution of the bank’s commercial lending, by both number and dollar volume, for those loans originated within the assessment area. A vast majority (96 percent) of the bank’s commercial loans have been originated in the assessment area’s two moderate-income CTs. D&B data compiled for 2007 shows 40 percent of the assessment area’s businesses being located in the moderate-income CTs. Although the percentage of commercial loans in moderate-income CTs was significantly higher than the D&B percentage of businesses, the bank’s geographic distribution lending performance is considered reasonable. This conclusion is warranted since Bank of Birch Tree has only one office which is centrally located in moderate-income CT 9702 in Shannon County. In addition, Mountain View, the nearest town of notable size with more lending base opportunities, is situated due west of Birch Tree and encompasses the assessment area’s only other moderate-income tract (CT 9902). Therefore, the high percentage of lending in moderate-income geographies is expected and considered reasonable upon consideration of the bank’s sole office location relative to the moderate-income geographies.

Table 4 – Distribution of Small Business Loans by CT Income Level						
CT Income Level	CTs (% of #)	D&B Business Data (% of #)	Number of Loans		Dollar Volume of Loans (000's)	
			#	%	\$	%
Low	0%	0%	0	0%	\$0	0%
Moderate	29%	40%	26	96%	\$1,568	98%
Middle	71%	60%	1	4%	\$24	2%
Upper	0%	0%	0	0%	\$0	0%
Total	100%	100%	27	100%	\$1,592	100%

Source: D&B (2006) and 2007 and 2008 bank records.

Residential Real Estate Loans

Table 5 below illustrates the bank's geographic distribution of residential real estate lending throughout the assessment area, together with the assessment area's level of owner-occupied units on a geography specific basis. The owner-occupied data is included for comparison purposes; in that, the percentage of owner-occupied units in a particular CT can reflect potential demand for residential real estate loans in that geography. Table 5 illustrates that a vast majority (90 percent) of the residential real estate loan samples have been originated in the assessment area's two moderate-income CTs. As presented in the table, 33 percent of the owner-occupied units are located in the moderate-income CTs. Using the same rationale employed for the commercial loan sample, the geographic distribution performance regarding residential real estate loans is also considered reasonable based upon the bank's sole office location relative to the assessment area's only moderate-income CTs.

Table 5 – Distribution of Residential Real Estate Loans by CT Income Level						
CT Income Level	CTs (% of #)	Owner-Occupied Units (% of #)	Number of Loans		Dollar Volume of Loans (000's)	
			#	%	\$	%
Low	0%	0%	0	0%	\$0	0%
Moderate	29%	33%	18	90%	\$916	90%
Middle	71%	67%	2	10%	\$99	10%
Upper	0%	0%	0	0%	\$0	0%
Total	100%	100%	20	100%	\$1,015	100%

Source: U.S. Census (2000) and 2007 and 2008 bank records.

Criterion 4: Borrower Profile Analysis

Given the bank's lending strategies and the demographics of the assessment area, the overall lending distribution to borrowers reflects reasonable penetration among businesses of different sizes and individuals of different income levels.

Lending to Businesses of Different Revenue Sizes

The bank's commercial lending efforts reflect a reasonable penetration among businesses of different revenue sizes, including small businesses.

As shown in Table 6 below, the analysis revealed 93 percent of the number of commercial loans having been granted to businesses with gross annual revenues of \$1,000,000 or less. This level of lending is reasonable when compared to 2007 D & B data, which reflects 94 percent of the businesses in the assessment area reported having gross revenues of \$1,000,000 or less. In addition, the previously mentioned community contact indicated that the local financial institutions are meeting the needs of the community, including small business credit needs.

In performing the analysis of commercial lending, gross annual revenues reported on borrower tax returns or operating statements were used when available. When these documents were not available, bank personnel familiar with the borrower indicated which range most accurately reflected the borrower's gross annual revenues.

Table 6 – Commercial Lending to Businesses of Different Revenue Sizes					
Gross Annual Revenues (000s)	D & B Business Data (% of #)	Number of Loans		Dollar Volume of Loans (000's)	
		#	%	\$	%
≤ \$1,000	94%	25	93%	\$1,505	95%
>\$1,000	6%	2	7%	\$87	5%
Total	100%	27	100%	\$1,592	100%

Source: D&B data (2007) and bank records for twelve month time frame preceding March 31, 2008.

Lending to Residential Real Estate Borrowers of Different Income Levels

The bank's residential lending reflects a more than reasonable penetration among individuals of different income levels, including low- and moderate-income borrowers.¹

As shown in Table 7 on the following page, the bank's percentage of residential loans to low-income borrowers (45 percent) is far greater to the percentage of low-income families in the assessment area (28 percent) and is considered more than reasonable. It should be noted that lending percentages for low-income families is not even expected to be a one-to-one ratio, as the costs of buying and maintaining a home are generally more prohibitive for low-income borrowers. Therefore, low-income lending performance that exceeds the percentage of low-income residents in the assessment area demonstrates an exceptional penetration for this portion of the local borrowing base. Based on the HUD adjusted median family incomes for 2007, the annual income for a low-income family would be \$21,400 for the non-metropolitan areas of Missouri; this lower income level could make a home purchase more difficult. Furthermore, 17 percent of the families in the assessment area are below the poverty level. For comparison purposes, the poverty level for the state of Missouri is 9 percent. As previously discussed, in 2000, a family earning less than \$17,603 annually is below the poverty level. The U.S. Department of Health and Human Services lists the poverty level threshold in 2007 for a family of four as \$20,650.

The bank's residential lending performance regarding moderate-income borrowers (30 percent) also compares favorably to the percentage of moderate-income families in the assessment area (23 percent); and is considered reasonable. Collectively, the bank's performance relative to low- and moderate-income individuals is considered more than reasonable.

As expected, the percentage of loans to low-income borrowers based on dollar volume is lower than the percentage of loans to low-income borrowers based on number, reflecting that the average loan size to this group is typically smaller than loans to higher income borrowers.

¹ The loan distribution is determined by comparing the borrower's income for a given year to the HUD adjusted median family income (MFI) for the non-metropolitan areas of Missouri for that same year. For 2007 and 2008, the baseline for non-metropolitan areas of Missouri is \$42,800 and \$43,800, respectively. As previously discussed on page 4, percentages of the baseline figure are then used to determine what income levels are low-, moderate-, middle-, and upper-income. For example, in 2007 a non-metropolitan borrower with an income of less than \$21,400 would be considered low-income and a borrower with an income of \$21,400 to less than \$34,240 would be considered moderate-income in this assessment area. The distribution of assessment area families by income level is based on 2000 Census data.

Table 7 – Residential Lending to Borrowers of Different Income Levels					
Borrower Income Level	Families by Income (% of #)	Number of Loans		Dollar Volume of Loans (000s)	
		#	%	\$	%
Low	28%	9	45%	\$224	22%
Moderate	23%	6	30%	\$442	43%
Middle	24%	2	10%	\$89	9%
Upper	25%	3	15%	\$260	26%
Total	100%	20	100%	\$1,015	100%

Source: U.S. Census (2000) and bank records for twelve month time frame preceding March 31, 2008.

Criterion 5: Responses to CRA-Related Complaints

Bank of Birch Tree has not received any CRA-related complaints since the prior CRA Performance Evaluation dated March 31, 2003.

Fair Lending or Other Illegal Credit Practices Review

There was no evidence of discriminatory or other illegal credit practices inconsistent with the bank's performance relative to meeting the credit needs of the assessment area.