



## **PUBLIC DISCLOSURE**

May 9, 2005

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**COMMUNITY BANK & TRUST  
RSSD # 957757**

**100 SOUTH WOOD STREET, P.O. BOX 400  
NEOSHO, MISSOURI 64850-1819**

**Federal Reserve Bank of Kansas City  
925 Grand Boulevard  
Kansas City, Missouri 64198**

**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.

**TABLE OF CONTENTS**

General Information .....	2
Institution's CRA Rating .....	3
Overall Institution	
Description of Institution and Assessment Areas .....	4
Scope of Examination .....	5
Conclusions With Respect to Performance Tests .....	6
State of Missouri	
State Rating .....	12
Scope of Examination .....	13
Metropolitan Area – Joplin, Missouri MSA # 27900 Assessment Area (Full Review)	
Description of Operations and Assessment Area .....	14
Conclusions with Respect to Performance Tests .....	17
Nonmetropolitan Area – McDonald County Assessment Area (Limited Review) .....	24
State of Kansas	
State Rating .....	25
Scope of Examination .....	25
Nonmetropolitan Area – Cherokee County Assessment Area (Full Review)	
Description of Operations and Assessment Area .....	26
Conclusions with Respect to Performance Tests .....	29
Appendices	
CRA Appendix A: Scope of Examination and List of Assessment Areas .....	35
CRA Appendix B: Glossary of Common CRA Terms.....	37

## **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 (LMI) neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of each examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community. The agency rates the CRA performance of the institution consistent with the provisions set forth in 12 CFR Part 228, Appendix A.

This document is an evaluation of the CRA performance of Community Bank & Trust, Neosho, Missouri as of May 9, 2005, prepared by the Federal Reserve Bank of Kansas City (Reserve Bank), the institution's supervisory agency.

Definitions for many of the terms used in this performance evaluation can be found in Section 228.12 of Regulation BB. For additional convenience, a glossary of common CRA terms is attached at the end of this performance evaluation as Appendix B.

**INSTITUTION RATING**

**INSTITUTION'S CRA RATING:** Community Bank & Trust is rated "**Satisfactory**"

The following table indicates the performance level of Community Bank & Trust with respect to the lending, investment, and service tests.

PERFORMANCE LEVELS	PERFORMANCE TESTS		
	Lending Test*	Investment Test	Service Test
Outstanding			
High Satisfactory			X
Low Satisfactory	X	X	
Needs to Improve			
Substantial Noncompliance			

\* The lending test is weighted more heavily than the investment and service tests in determining the overall rating.

Major factors supporting the institution's rating include the following issues:

- Lending levels reflected an adequate responsiveness to assessment area credit needs.
- A substantial majority of the bank's loans were originated within the bank's designated assessment areas.
- There was an adequate geographic distribution of home mortgage, business, and farm loans within the bank's assessment areas.
- There was a good distribution of lending among individuals of different income levels and businesses and farms of different revenue sizes.
- The bank had no qualified community development loans.
- There was a low level of qualified community development investment activity.
- There was a good level of qualified community development services.
- Delivery systems to geographies and individuals of different income levels were reasonably accessible.

## **OVERALL INSTITUTION**

### **DESCRIPTION OF INSTITUTION AND ASSESSMENT AREAS**

Community Bank & Trust is a wholly-owned subsidiary of Community Bancshares, Inc., which is 50 percent owned by the Community Bancshares ESOP and 50 percent owned by Chairman of the Board Rudy Farber. The bank is headquartered in Neosho, Missouri, the county seat of Newton County in southwest Missouri. The bank operates 14 offices in four counties, three in Missouri and one in Kansas. In addition to the bank's main office, two other branch offices are located in Neosho. Other offices in Newton County are located in the towns of Joplin, Seneca, Diamond, Granby, and Saginaw, a southern suburb of Joplin. There are three branches located in Jasper County, Missouri, two in the city of Joplin and one in Carl Junction, a northern suburb of Joplin. One office is located in McDonald County, Missouri, in the town of Anderson; and two branches are located in Cherokee County, Kansas, in Galena and Riverton. In addition to the branch locations, the bank has 13 automated teller machines (ATMs) that provide 24-hour service. Furthermore, in early 2005, the bank opened two loan production offices (LPOs) in Monet and Carthage, Missouri, and is planning to open a third LPO later this year in Pineville, Missouri.

The bank is a full-service bank offering a wide range of credit products within all of its assessment areas. As of December 31, 2004, the bank reported total assets of \$262 million, net loans of \$112 million, and total deposits of \$229 million, for a net loan-to-deposit ratio of 48.9 percent. According to bank management, the bank's primary business focus is residential real estate and commercial lending. As of year-end 2004, real estate and commercial loans represented 50.3 percent and 35.1 percent of the bank's loan portfolio, respectively. The remainder of the loan portfolio was comprised of consumer loans at 11.2 percent, agriculture loans at 2.9 percent, and all other loans represented less than one percent.

Under the CRA, a financial institution's performance is evaluated within the context of each assessment area it has delineated and within each state in which it operates. Each state is assigned a separate rating, and an overall rating is then assigned for the bank. The bank has delineated the following three assessment areas based on 2000 U.S. Census data and Metropolitan Statistical Area (MSA) designations.

#### **STATE OF MISSOURI**

- **Joplin MSA Assessment Area**, consisting of Newton and Jasper Counties, Missouri.
- **McDonald County Assessment Area**, consisting of McDonald County, Missouri. (Beginning in 2004, known as the Fayetteville-Springdale-Rogers, AR-MO MSA AA)

#### **STATE OF KANSAS**

- **Cherokee County Assessment Area**, consisting of Cherokee County, Kansas.

The bank's delineated assessment areas comply with the requirements of the CRA and do not arbitrarily exclude any LMI geographies. The assessment area identified as the McDonald County assessment area was previously a nonmetropolitan area. However, due to new MSA designations in 2004, McDonald County is now included in the Fayetteville-Springdale-Rogers,

Arkansas-Missouri multistate MSA. Aggregate peer data for HMDA and CRA data is not yet available for 2004. Therefore, this analysis includes comparisons with 2003 aggregate data, and the analysis of McDonald County is based primarily on the 2003 nonmetropolitan designation, and not the 2004 multistate MSA designation.

The bank has no financial or legal impediments that prevent it from fulfilling its responsibilities under the CRA. The bank received a satisfactory rating at the previous CRA evaluation conducted by this Reserve Bank as of March 24, 2003.

## **SCOPE OF EXAMINATION**

The bank's CRA performance was reviewed using the Federal Financial Institutions' Examination Council's (FFIEC) *Interagency CRA Procedures for Large Institutions*. Loan products evaluated included all residential real estate loans reported on the Home Mortgage Disclosure Act (HMDA) Loan Application Register (LAR), including home purchase, refinance, and home improvement loans; all small business and small farm loans reported on the CRA LAR; and all other loans meeting the definition of "community development lending" under the CRA and its supplementary guidance.

The lending test evaluation included a review of the bank's 2003 and 2004 CRA and HMDA LAR loan data. The evaluation period for all HMDA loans covered the period since the last examination of March 24, 2003 through November 30, 2004; and all CRA loans from March 24, 2003 to September 30, 2004, were reviewed. The investment and service tests considered all investments, grants, and contributions made, and community service activities conducted, since the prior examination through May 9, 2005. A comparative review of the bank with other commercial banks operating within its assessment areas was performed. More specifically, the review included a comparison of the bank's lending performance to the 2003 aggregate lending performance of all other financial institutions (referred to as aggregate lenders) that report HMDA and CRA loan data within the bank's assessment areas. Bank data for 2004 was analyzed and included in the analysis; however, aggregate data for 2004 was not yet available.

For the evaluation of the geographic distribution of loans, geographies were classified on the basis of 2000 Census Bureau data. The bank's performance was rated based on penetration in low- and moderate-income geographies. For the evaluation of borrower characteristics, borrower income levels were based on 2003 and 2004 estimated median family income (MFI) from the U.S. Department of Housing and Urban Development (HUD). Performance was rated based on penetration to low- and moderate-income individuals.

The bank's performance in the Joplin MSA assessment area received greater weight than the other assessment areas in determining the bank's overall rating based on the concentration of loans, deposits, and branch locations in that area. The state of Missouri contained 91.1 percent of the bank's total deposits and 88.5 percent of the loans reviewed for this evaluation, based on the number of originations.

Interviews with members of the communities within the bank's assessment areas were conducted during the evaluation to ascertain the credit needs of the communities the bank

serves, the community development investment opportunities available in the area, and the local economic environment. Additional community contacts previously conducted in the area by this Reserve Bank or other regulatory agencies were also referenced for this evaluation. Community contacts included representatives from city government, real estate agencies, and economic development agencies.

Additional scoping information is provided in the tables in Appendix A.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS**

The overall conclusions regarding the lending, investment, and service tests are summarized in the following sections. Supporting information for each test is divided into performance characteristics as described in Appendix A of Regulation BB, which implements the CRA. Data utilized for this analysis included the bank's performance data, aggregate lending data, and area demographic information.

### **LENDING TEST**

Loan data reported in accordance with CRA and HMDA data collection requirements was analyzed under the lending test to determine the bank's performance with respect to the concentration of lending within its assessment areas, geographic distribution of lending, and lending to borrowers of different income levels and businesses and farms of different revenue sizes. Other factors taken into consideration included community development lending and the bank's use of innovative loan products to meet the credit needs of LMI individuals.

The bank's record of meeting the credit needs of the assessment areas through its lending activities is rated "low satisfactory," based on the cumulative performance in all of the bank's designated assessment areas. The bank had no qualifying community development lending activities during the evaluation period. Therefore, the lending test rating was based primarily on the review of HMDA and CRA LAR loans, and also on the degree of specialized and flexible lending programs targeted to small businesses, farms, and LMI individuals to further meet the needs of its assessment areas.

**Lending Activity:** Based on a review of the bank's loan products and information garnered from community contacts, the bank's lending activities reflected an adequate responsiveness to retail credit needs in its assessment areas. More specifically, this conclusion was based on a strong lending performance in the state of Kansas and an adequate lending performance in Missouri. In regard to the bank's responsiveness to the credit needs of the most economically disadvantaged individuals, management indicated that the bank has originated over 245 loans in amounts less than \$1,000 over the last two years. These loans typically serve the needs of LMI individuals. A more detailed analysis of the bank's performance in each assessment area is provided in subsequent sections of this evaluation.

As shown in Exhibit 1, the review included 794 loans the bank originated during the evaluation period, totaling approximately \$40 million.

<b>Exhibit 1 Summary of Lending Activity</b>				
<b>Loan Type</b>	<b>#</b>	<b>%</b>	<b>(\$000)</b>	<b>%</b>
HMDA home purchase	201	52	12,300	57
HMDA refinancings	150	39	8,152	38
HMDA home improvement	34	9	998	5
<b>Total HMDA-related</b>	<b>385</b>	<b>48</b>	<b>21,450</b>	<b>53</b>
<b>Total Small Business</b>	<b>228</b>	<b>29</b>	<b>16,329</b>	<b>40</b>
<b>Total Small Farm</b>	<b>181</b>	<b>23</b>	<b>2,715</b>	<b>7</b>
<b>TOTAL LOANS</b>	<b>794</b>	<b>100</b>	<b>40,494</b>	<b>100</b>

**Assessment Area Concentration:** The bank originated a substantial majority of its loans within its combined assessment areas. As detailed in Exhibit 2, approximately 95 percent of the number and 97 percent of the dollar amount of HMDA and CRA reportable loans reviewed during the evaluation period were originated within the bank's assessment areas.

<b>Exhibit 2 Lending Inside and Outside the Assessment Area</b>								
<b>Loan Type</b>	<b>Inside</b>				<b>Outside</b>			
	<b>#</b>	<b>%</b>	<b>(\$000)</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>(\$000)</b>	<b>%</b>
HMDA home purchase	187	93.0	11,676	94.9	14	7.0	624	5.1
HMDA refinancings	144	96.0	7,682	94.2	6	4.0	470	5.8
HMDA home	34	100.0	998	100.0	0	0.0	0	0.0
<b>Total HMDA-related</b>	<b>365</b>	<b>94.8</b>	<b>20,356</b>	<b>94.9</b>	<b>20</b>	<b>5.2</b>	<b>1,094</b>	<b>5.1</b>
<b>Total Small Business</b>	<b>223</b>	<b>97.8</b>	<b>16,320</b>	<b>99.9</b>	<b>5</b>	<b>2.2</b>	<b>9</b>	<b>0.1</b>
<b>Total Small Farm</b>	<b>169</b>	<b>93.4</b>	<b>2,563</b>	<b>94.4</b>	<b>12</b>	<b>6.6</b>	<b>152</b>	<b>5.6</b>
<b>TOTAL LOANS</b>	<b>757</b>	<b>95.3</b>	<b>39,239</b>	<b>96.9</b>	<b>37</b>	<b>4.7</b>	<b>1,255</b>	<b>3.1</b>

**Note:** Only loans made within the bank's assessment areas are considered for the remaining lending distribution tests.

**Geographic and Borrower Distribution:** The overall geographic distribution of residential real estate, small business, and small farm loans reflected an adequate penetration throughout assessment area geographies, including moderate-income geographies, in all rated assessment areas. The lending distribution to moderate-income geographies in the Joplin MSA assessment area was low, the distribution in McDonald County was adequate, and the distribution in Cherokee County was very strong. However, the Joplin MSA assessment area carried the greatest weight for the overall performance based on the volume of lending and the percentage of the bank's total assets located in that area. Geographic distribution is discussed in more detail within each assessment area's analysis.

The overall distribution of lending to borrowers of different income levels and to businesses and farms of different revenue sizes was good, based on relatively consistent performances across all rated assessment areas. As previously noted, the greatest weight for the bank's overall performance focused on lending activity in the Joplin MSA assessment area. A detailed analysis of the borrower income level distribution is provided with the analysis of each assessment area receiving a full review.

**Community Development Lending:** The bank did not report any community development loans during the evaluation period. According to community contacts, there are very limited community development lending opportunities in the bank's assessment areas.

**Innovative and Flexible Lending Practices:** The bank is involved in a number of traditional lending programs designed to meet the needs of small businesses and small farms. Some of the programs offer low down payment requirements, lower than market interest rates, and/or flexible underwriting criteria. In addition, the bank has a significant volume of secondary market residential real estate lending activity in its assessment areas. The following programs were considered in evaluating the bank's innovative and flexible lending practices in addressing the credit needs of its assessment areas:

Small Business Administration (SBA) Lending: Since the previous examination, the bank originated 18 SBA loans totaling \$2.6 million, all of which were originated in the Joplin MSA assessment area.

Secondary Market Lending: The bank originated 158 secondary market loans during 2003 totaling \$4,538,013. During 2004, the bank originated 139 loans totaling \$13,491,539. In addition, the bank has originated 40 secondary market loans year-to-date 2005, totaling \$3,625,816. Secondary market lending may provide up to 100 percent financing for LMI borrowers.

Federal Housing Administration (FHA) and Veteran's Administration (VA) Lending: The bank provides FHA and VA insured loans through a program with the Government National Mortgage Association (Ginnie Mae).

Farm Services Administration (FSA) Lending: The bank originated six FSA loans totaling over \$1 million since the previous examination. Three loans were originated in the Joplin MSA assessment area and one loan was originated in the McDonald County assessment area.

Federal Home Loan Bank (FHLB) Lending: The bank was selected by the FHLB of Des Moines, Iowa, as a recipient of 2004 Rural Homeownership Funds. The bank's branch in Anderson, Missouri, received a \$25,000 grant which allowed the bank to provide financial assistance to qualified borrowers. This program allows the FHLB to help community financial institutions provide down payment, closing cost, or rehabilitation assistance for rural homebuyers. Eligible first-time homebuyers may receive up to \$5,000 in assistance. As of the date of the evaluation, however, no funds had been dispersed, despite the bank's concerted efforts to advertise and market the program.

**INVESTMENT TEST**

The analysis of the investment test focuses on investment and grant activities, responsiveness to credit and community development needs, and initiatives with respect to community development. The investment test evaluates the degree to which the institution makes qualified investments in organizations that assist in affordable housing, assist in community development services targeted to LMI individuals, enhance economic development by financing small businesses or farms, enhance economic development of LMI geographies, or assist in the creation or retention of jobs for LMI individuals.

The bank's overall investment test performance is rated "low satisfactory" in the state of Missouri and "needs to improve" in the state of Kansas. The bank has not made a substantial level of investments in the Missouri assessment areas even though they have demonstrated some initiative in seeking out qualified community development investment opportunities. The bank has minimal investments and contributions to qualified community development organizations in the Joplin MSA assessment area, and no qualified investments in the other two assessment areas. Although the investment level is rated "poor" in the nonmetropolitan Cherokee County, Kansas assessment area and low in the McDonald County, Missouri assessment area, information obtained from bank management and several members of the local communities indicated that qualified community development investment opportunities are limited in the area.

During the evaluation period, the bank reported \$30,000 in total qualified community development investments, which included two bonds for the Newton County C-6 school district, and an investment in the Joplin Capital Corporation, a multibank entity organized to facilitate economic development in Joplin's economically underserved

<b>Exhibit 3 Community Development Investments</b>				
<b>Purpose</b>	<b>Debt/Equity Investments</b>		<b>Grants and Donations</b>	
	<b>#</b>	<b>\$</b>	<b>#</b>	<b>\$</b>
Affordable Housing	0	0	1	100
Revitalize and Stabilize	0	0	0	0
Community Services	2	20,000	14	3,013
Economic Development	1	10,000	4	3,000
<b>TOTALS</b>	<b>3</b>	<b>30,000</b>	<b>19</b>	<b>6,113</b>

areas. The bank's overall performance rating for investment activity remained unchanged from the previous evaluation. Exhibit 3 details the bank's qualified investments. Additional information regarding the qualified investments can be found under the Joplin MSA report section.

The bank exhibits adequate responsiveness to community development needs and occasionally uses investments to support community development initiatives. The investments offered by the bank are not complex. While the bank does make a significant level of charitable contributions to various organizations that directly benefit the communities in which it operates, most are not qualified community development investments under the CRA.

However, as previously noted, opportunities to participate in qualifying investment activities in the bank's assessment areas are somewhat limited. During the previous examination, several individuals were contacted in addition to the regular CRA community contacts to ascertain the level of investment opportunities in the bank's assessment areas. Based on the information obtained at that time, and the lack of material changes in the bank's communities in which it serves, it was determined that investment opportunities remain limited in the bank's assessment areas. Given the limited investment opportunities available within the bank's assessment areas, a lower rating was not warranted.

**SERVICE TEST**

The bank's overall service test performance is rated "high satisfactory," including a "high satisfactory" rating for the state of Missouri and a "low satisfactory" rating in the state of Kansas. This test included a review of retail services and community development services. The retail services test included a review of the bank's delivery systems and their accessibility to all portions of the assessment areas; any changes in branch locations and the effects those changes have on accessibility of services; and the reasonableness of any variances in business hours and services to any portions of the assessment areas, particularly LMI areas. The community development services test involved a review of community development services provided by the bank within its assessment areas, including the innovativeness of services performed and leadership roles undertaken.

The bank's offices are generally accessible to essentially all portions of its assessment areas. The bank has 14 offices, two of which are located in moderate-income census tracts. In addition, the bank has 13 ATMs, with two located in moderate-income tracts. Of the 13 ATM locations, ten are at branch locations and three are at off-site locations. The bank also offers alternative 24-hour banking systems for its customers, such as telephone banking and full-service online banking. Business hours and products do not vary throughout the bank's branches in a way that would inconvenience certain portions of the assessment areas, particularly LMI geographies or LMI individuals. In addition, there have been no branch closings since the prior evaluation.

Overall, the bank had an adequate level of community development services. As indicated in Exhibit 4, a majority of the services were targeted to support economic development. A majority of the service activity was reported in the Joplin MSA assessment area, which is where the majority of banking locations and assets are located and where greater weight is placed in the overall performance rating. Services provided by the bank included various bank management and staff members' involvement in area organizations such as the Chamber of Commerce's Economic Development Committee, Community Development Corporations, and Habitat for Humanity. A detailed summary of the performance results for each of the bank's assessment areas is contained in other sections of this evaluation.

<b>Exhibit 4 Community Development Services</b>	
<b>Purpose</b>	<b>#</b>
Affordable Housing	2
Revitalize and Stabilize	1
Community Services	2
Economic Development	6
<b>TOTALS</b>	<b>11</b>

**COMPLIANCE WITH ANTIDISCRIMINATION LAWS**

An evaluation of the bank's fair lending activities was conducted during the examination to determine compliance with the substantive provisions of the antidiscrimination laws and regulations, including the Equal Credit Opportunity Act (ECOA) and the Fair Housing Act. No apparent signs of discrimination were identified and the bank was not engaged in any other illegal credit practices inconsistent with helping to meet community credit needs.

**STATE OF MISSOURI**

<b>CRA RATING FOR MISSOURI:</b>	<b><u>SATISFACTORY</u></b>
<b><i>The lending test is rated:</i></b>	<b><u>Low Satisfactory</u></b>
<b><i>The investment test is rated:</i></b>	<b><u>Low Satisfactory</u></b>
<b><i>The service test is rated:</i></b>	<b><u>High Satisfactory</u></b>

Major factors supporting the institution's rating for the state of Missouri mirror the overall analysis and include the following issues:

- Lending levels reflect an adequate responsiveness to assessment area credit needs.
- The geographic distribution of loans reflects a low penetration of lending in moderate-income tracts in the Joplin MSA assessment area, while the geographic distribution in McDonald County is adequate.
- The distribution of loans by borrower profile reflects a good penetration to individuals of different income levels and to businesses and farms of different revenue sizes in the Joplin MSA. In McDonald County, the penetration of lending to LMI individuals is satisfactory.
- The bank makes adequate use of innovative and flexible lending practices in the Joplin MSA assessment area, particularly guaranteed products offered by the SBA and FSA, and a rural homeownership program through the FHLB. Management indicated that SBA and FSA programs are offered in McDonald County, but very few applicants pursue them. Only one FSA loan was originated in McDonald County, and no SBA loans were originated in that assessment area.
- The level of qualified community development investments is minimal in the Joplin MSA and nonexistent in McDonald County.
- Delivery systems are reasonably accessible to essentially all portions of the bank's assessment areas.
- The bank offers a wide range of retail services and products, which are offered consistently throughout the state's assessment areas.
- The bank provides a satisfactory level of community development services in the Joplin MSA assessment area, and a limited level in McDonald County.

## **SCOPE OF EXAMINATION**

For the state of Missouri rating, a full-scope analysis was conducted in the Joplin MSA assessment area, where the majority of the bank's loans were originated. The nonmetropolitan McDonald County assessment area includes only one branch office in Anderson, Missouri, and a relatively small volume of loans and community development activities. A limited review of the bank's performance in this assessment area was performed. Accordingly, the statewide performance mirrors, and is discussed concurrently with, the bank's performance in the Joplin MSA assessment area.

The scope of the examination for the state of Missouri was consistent with the overall scope of the evaluation for the entire institution, including evaluations under the lending, investment, and service tests. The bank did not report any qualified community development loans under the CRA during the evaluation period in the state of Missouri. In determining the overall state rating, the Joplin MSA assessment area was given greater weight based on the bank's level of lending, deposit activity, and branching in that assessment area.

In conjunction with this examination, two community contact interviews were conducted in the Joplin MSA assessment area. One prior community contact conducted in the McDonald County assessment area within the last year was also referenced.

**JOPLIN, MISSOURI MSA ASSESSMENT AREA  
(Full Review)**

**DESCRIPTION OF OPERATIONS IN THE ASSESSMENT AREA**

The bank's presence in the assessment area consists of 11 offices. The bank's headquarters and two branches are located in Neosho, Missouri. Additional branches are located in Seneca, Granby, and Diamond. There are three branches in Joplin, and one each in the Joplin suburbs of Carl Junction and Saginaw. Two branches are in upper-income tracts and the remaining nine offices are located in middle-income tracts. The assessment area also includes seven full-service ATMs and three cash dispensing ATMs.

This assessment area comprises the majority of the bank's lending and deposit activities, with approximately 83 percent of the bank's deposits and 77 percent of the loans reviewed. In addition, the two-county Joplin MSA assessment area contains approximately 80 percent of the bank's combined assessment areas' population, number of tracts, and bank branches. The bank is one of 15 banks and savings institutions in the Joplin MSA. As of June 30, 2004, the bank's deposit market share in the Joplin MSA equaled 10.6 percent. Its share in the city of Joplin equaled only 3.8 percent. As previously noted, a substantial majority of the bank's lending, investment, and service activity occurred in this assessment area; therefore, the performance in this assessment area will weigh significantly on the overall results of this evaluation.

**DESCRIPTION OF ASSESSMENT AREA**

The primary assessment area in Missouri is the Joplin MSA assessment area, a small metropolitan area in southwestern Missouri. The Joplin MSA is comprised of Jasper and Newton Counties. Outside of the cities of Joplin and Carthage, the two counties are primarily rural. The assessment area contains 32 census tracts, of which 4 are moderate-income, 26 are middle-income, and 2 are upper-income tracts. The majority of the moderate-income tracts are located in or near the downtown area of Joplin.

*Labor, Employment, and Economic Characteristics*

Services, transportation/public utilities, and manufacturing industries provide for a substantial portion of the MSA economy. Among the area's largest employers are Contract Freighters, Inc. (trucking), St. John's Regional Medical Center, Freeman Hospitals & Health System, Eagle Picher Technologies (battery manufacturer), La-Z-Boy Midwest (furniture manufacturer), Sitton Motor Lines, Inc., Wal-Mart Stores, Inc., and Empire District Electric Company. Although the area contains several other industries, its economy relies heavily on manufacturing. According to Federal Deposit Insurance Corporation (FDIC) Regional Economic Conditions (RECON) data, the manufacturing industry provided for 21.1 percent of total area jobs in 2003.

However, regional and national manufacturing industries declined over the past decade, affecting the MSA economy. Its labor force increased by only 0.4 percent in 2003, after a 1.4 percent decrease in 2002. Statewide, job growth was 1.3 percent in 2003. With the decreasing labor force, MSA unemployment held steady at 5.3 percent in 2002 and 2003. The MSA unemployment rate was 4.2 percent in 2004. Statewide, unemployment was 5.6 percent in 2003 and 5.3 percent in 2004.

According to Dun & Bradstreet business data, the area had a higher concentration of small businesses than the statewide average. In 2003, 87.2 percent of MSA nonfarm businesses had gross revenues of \$1 million or less, compared to 84.3 percent statewide.

### *Income Characteristics*

The assessment area is a middle-income area overall based on 2000 census MFI of \$38,677, which equaled 84 percent of the statewide MFI of \$46,044. The assessment area's concentration of low-, moderate-, middle-, and upper-income families and families below the poverty level mirrored the Missouri statewide averages. As illustrated in Exhibit 5, the area had the following income distribution in 2000: 17.4 percent low-income, 19.3 percent moderate-income, 24.6 percent middle-income, and 38.7 percent upper-income, with 9.7 percent living below the poverty level. These figures were generally similar to the statewide income distributions of 19.1 percent low-income, 18.8 percent moderate-income, 23.2 percent middle-income, and 38.9 percent upper-income, with 11.2 percent living below poverty.

### *Population Trends and Characteristics*

According to 2000 Census data, the MSA population totaled 157,322, comprising 78 percent of the bank's total combined assessment area population. Census population estimates indicated that the MSA population grew to 162,145 in 2003, representing a 3.1 percent increase since 2000.

### *Housing Characteristics*

The area had high concentrations of single-family housing units and mobile homes. Exhibit 5 displays selected demographic data, including the area's general housing characteristics. Area housing stock characteristics indicate a unique housing market, with the potential need for housing rehabilitation and affordable housing development. In 2000, the percentage of single-family residential (SFR) housing units was high, equaling 76.5 percent, vacancy was low at 8.8 percent, and there was a large concentration of mobile homes, equaling 11.6 percent of total housing units. Statewide, 71.5 percent of housing stock was SFR units, 10.1 percent was vacant, and mobile homes comprised 8.2 percent of total housing stock. Despite its higher concentration of mobile homes, the median age of MSA housing stock was the same as statewide, at 30 years. Assessment area housing affordability was greater than statewide. In 2000, the median housing value was \$69,292 compared to a statewide average of \$86,900. The area's housing affordability ratio was 46.8 percent, compared to the statewide housing affordability ratio of 43.7 percent. The affordability ratio is calculated by dividing the median

household income by the median housing value. A higher ratio indicates more affordable housing.

<b>Exhibit 5 Joplin MSA Assessment Area Demographics</b>								
<b>Income Categories</b>	<b>Tract Distribution</b>		<b>Families by Tract Income</b>		<b>Families &lt; Poverty Level as % of Families by Tract</b>		<b>Families by Family Income</b>	
	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>
Low-income	0	0.0	0	0.0	0	0.0	7,457	17.4
Moderate-income	4	12.5	4,269	10.0	748	17.5	8,281	19.3
Middle-income	26	81.3	35,559	82.9	3,225	9.1	10,530	24.6
Upper-income	2	6.3	3,048	7.1	166	5.4	16,608	38.7
<b>Total AA</b>	<b>32</b>	<b>100.0</b>	<b>42,876</b>	<b>100.0</b>	<b>4,139</b>	<b>9.7</b>	<b>42,876</b>	<b>100.0</b>
	<b>Housing Units by Tract</b>	<b>Housing Types by Tract</b>						
		<b>Owner-occupied</b>		<b>Rental</b>		<b>Vacant</b>		
		<b>#</b>	<b>%</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>
Low-income	0	0	0.0	0.0	0	0.0	0	0.0
Moderate-income	9,065	3,498	8.1	38.6	4,201	46.3	1,366	15.1
Middle-income	53,669	36,354	84.2	67.7	13,139	24.5	4,176	7.8
Upper-income	4,734	3,315	7.7	70.0	1,045	22.1	374	7.9
<b>Total AA</b>	<b>67,468</b>	<b>43,167</b>	<b>100.0</b>	<b>64.0</b>	<b>18,385</b>	<b>27.2</b>	<b>5,916</b>	<b>8.8</b>
	<b>Total Businesses by Tract</b>	<b>Businesses by Tract &amp; Revenue Size</b>						
		<b>Less Than or = \$1 Million</b>		<b>Over \$1 Million</b>		<b>Revenue Not Reported</b>		
	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>
Low-income	0	0.0	0	0.0	0	0.0	0	0.0
Moderate-income	1,021	16.3	899	16.2	94	19.3	28	12.9
Middle-income	4,707	75.4	4,182	75.5	356	73.0	169	77.9
Upper-income	517	8.3	459	8.3	38	7.8	20	9.2
Tract not reported	0	0.0	0	0.0	0	0.0	0	0.0
<b>Total AA</b>	<b>6,245</b>	<b>100.0</b>	<b>5,540</b>	<b>100.0</b>	<b>488</b>	<b>100.0</b>	<b>217</b>	<b>100.0</b>
	<b>Percentage of Total Businesses:</b>			<b>88.7</b>		<b>7.8</b>		<b>3.5</b>

Based on 2000 Census data.

Community Contacts

Members of the local community described the economy as recovering and relatively stable. The contacts indicated that the area had a strong dependence on its major employers as well as the manufacturing economy. A community contact in Joplin indicated that the most important credit need in the Joplin area was for small business loans. He also stated that the banking environment in Joplin was very competitive and that loans were not difficult to obtain.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN ASSESSMENT AREA

### LENDING TEST

The bank's overall lending performance in the Joplin, Missouri MSA assessment area was rated "low satisfactory." The bank's lending activity demonstrated an adequate responsiveness to retail credit needs of the assessment area. The bank's geographic distribution of lending based on income level of census tract was considered fair, and the distribution of lending based on borrower income level and business and farm revenues was good. The bank did not originate any community development loans during the evaluation period. In addition, the bank makes adequate use of flexible lending practices to meet the credit needs of its assessment area.

**Lending Activity:** The bank's lending activity in the Joplin MSA assessment area was representative of the overall lending activity and was considered satisfactory. Loans reviewed for the evaluation period included residential real estate, business, and farm loans. The majority of weight for the lending test was placed on home mortgage and business lending, which represented approximately 85 percent of the bank's lending activity in the area. In addition, the bank's use of flexible lending products geared towards serving the needs of LMI individuals and small businesses and farms was highest in this assessment area.

**Geographic Distribution:** The bank's distribution of residential real estate loans reflected a satisfactory penetration of lending in moderate-income geographies when compared to the percentage of owner-occupied housing units in those geographies and aggregate peer data. However, business loans reflected a very low penetration of lending in the moderate-income geographies. An analysis of farm loans was not applicable since the only moderate-income geographies are within the city limits of Joplin.

Performance context issues were considered in the evaluation, including lending opportunities in the area, as reflected in the demographics and in discussions with community contacts. Several factors appear to contribute to the low level of lending in the moderate-income geographies. First, the fact that the moderate-income tracts are located near downtown Joplin, and the bank's primary lending area is Newton County, which has no moderate-income tracts. Management also indicated that there is a very high level of competition in the Joplin market, and the bank's deposit market share represents only 3.8 percent in the city of Joplin.

Given the level of competition and the bank's small market share in the city of Joplin, the distribution of loans in the moderate-income geographies was considered fair. Exhibit 6 represents the bank's level of lending by geography in the Joplin MSA assessment area, compared with area demographics and aggregate lending data.

Exhibit 6 Distribution of Lending within the Joplin Assessment Area by Income Level of Census Tract*						
Loan Type	Percentage of Bank's Lending, By Number of Loans					
	Moderate- Income		Middle- Income		Upper- Income	
	2003	2004	2003	2004	2003	2004
<b>Residential Real Estate Loans:</b>						
Residential Purchase	5.0	7.0	90.0	91.2	5.0	1.8
Residential Refinance	0.0	5.4	93.8	94.6	6.3	0.0
Home Improvement	8.3	12.5	91.7	62.5	0.0	25.0
Total HMDA Loans	3.2	6.9	91.7	90.2	5.1	2.9
Percentage of Owner-Occupied Housing Units in AA by Income Level of Tract**	8.1		84.2		7.7	
2003 Aggregate HMDA Lending Data in AA***	6.8		83.1		10.1	
<b>Business Loans:</b>						
Percentage of Business Loans	4.0	4.9	88.9	91.4	7.1	3.7
Percentage of Businesses in AA by Income Level of Tract ****	16.3		75.4		8.3	
2003 Aggregate CRA Lending Data in AA***	16.0		69.5		8.2	
<b>Farm Loans:</b>						
Percentage of Farm Loans	0.0	0.0	100.0	100.0	0.0	0.0
Percentage of Farms in AA by Income Level of Tract ****	0.6		97.8		1.6	
2003 Aggregate CRA Lending Data in AA***	0.3		98.8		0.5	
<p>* Low-income census tracts are those geographies with median family incomes (MFI) less than 50 percent of the Joplin MSA MFI; moderate-income equals 50 percent – 80 percent; middle-income is 80 percent – 120 percent; and upper-income is greater than 120 percent. All MFIs are based on 2000 census data.</p> <p>** The percentage of housing units located in each tract category is based on 2000 census data and 2003 MFI. The difference between income classification percentages for 2003 and 2004 due to changes in the denominator were negligible.</p> <p>*** The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.</p> <p>**** The percentage of businesses and farms located in each tract category is based on 2003 Dun &amp; Bradstreet business and farm data, and tracts are based on 2000 census tract designations.</p>						

HMDA-Related Loans

As Exhibit 6 illustrates, the bank's 2003 geographic distribution reflects a slightly lower penetration in moderate-income tracts than area demographics and aggregate lending data would suggest for residential purchase and refinance loans. However, 2004 data reflects an improved penetration. Home improvement loans for both years reflect a satisfactory performance, exceeding area demographics and aggregate lending data.

Small Business Loans

The geographic distribution of small business loans was poor. For 2003, the bank's penetration of loans in moderate-income geographies was only 4 percent, and 2004 increased only slightly to 4.9 percent. These figures compared poorly with area demographics and 2003 aggregate lending data, which both reflected approximately a 16 percent penetration.

Small Farm Loans

The geographic distribution of small farm loans was considered reasonable. For 2003 and 2004, 100 percent of the bank's small farms loans were originated in middle-income geographies. However, this was comparable to area demographics and aggregate data, which showed minimal penetration of farms and farm loans in the moderate-income tracts.

**Distribution by Borrower Income and Revenue Size of Business or Farm:** The bank's distribution of loans to borrowers of different income levels, including LMI borrowers, and to small businesses and farms, reflected a satisfactory performance. Performance context issues such as the number and percentage of LMI families, cost of housing, size of businesses and farms, and aggregate performance in the assessment area were considered for comparison purposes in this analysis. Exhibit 7 illustrates the bank's performance, aggregate data, and area demographics.

<b>Exhibit 7 Distribution of Lending within the Joplin MSA Assessment Area by Income Level of Borrower*</b>								
<b>Loan Type</b>	<b>Percentage of Bank's Lending, By Number of Loans</b>							
	<b>Low- Income</b>		<b>Moderate- Income</b>		<b>Middle- Income</b>		<b>Upper- Income</b>	
	<b>2003</b>	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>	<b>2004</b>
Residential Purchase	12.5	5.3	23.8	17.5	23.8	22.8	37.5	47.4
Residential Refinance	10.9	18.9	25.0	13.5	34.4	35.1	29.7	32.4
Home Improvement	25.0	12.5	16.7	50.0	25.0	37.5	25.0	0.0
Total HMDA Loans	12.8	10.8	23.7	18.6	28.2	28.4	33.3	38.2
Percentage of Families in AA by Income Level**	17.4		19.3		24.6		38.7	
2003 Aggregate HMDA Lending Data in AA***	8.0		16.3		21.9		34.8	
<p>* Low-income level borrowers are those with annual income less than 50 percent of the area median family income (MFI); moderate-income equals 50 percent – 80 percent; middle-income is 80 percent – 120 percent; and upper-income is greater than 120 percent. The area MFI is based on the annual HUD-adjusted MFI for the Joplin MSA for 2003 and 2004, which equaled \$45,000, and \$47,100, respectively.</p> <p>** The percentage of families living in the assessment area is based on 2000 census data and 2003 MFI. The difference between income classification percentages for 2003 and 2004 due to changes in the denominator were negligible.</p> <p>*** Aggregate of all HMDA filers with loans in the Joplin MSA.</p>								

Home Purchase Loans

The bank's level of home purchase lending to LMI borrowers was considered adequate. The analysis reflected a 12.5 percent level of lending to low-income borrowers in 2003, compared to the aggregate average of 11.3 percent and demographic data that showed 17.4 percent of area families were classified as low-income. Although below area demographics, the bank's performance exceeded the aggregate peer average. During 2004, the bank's lending level to low-income borrowers was much lower at 5.3 percent.

The bank's record of lending to moderate-income borrowers of 23.8 percent exceeded the aggregate performance and area demographics for 2003, while its performance was slightly below the demographic figure in 2004.

Refinance Loans

The distribution of lending by borrower income level for refinance loans was considered good. During 2003, the bank originated 10.9 percent of its refinance loans to low-income borrowers, compared to the aggregate lending level of 6.3 percent and demographic data that showed 17.4 percent of area families were low-income. Lending to low-income borrowers in 2004 was higher at 18.9 percent, and exceeded the demographics figure.

The bank made 25.0 percent of its refinance loans to moderate-income borrowers in 2003, well above the aggregate of 14.4 percent and the demographics figure of 19.3 percent. The 2004 distribution of lending to moderate-income borrowers was lower at 13.5 percent.

#### Home Improvement Loans

The bank's level of 2003 home improvement loans to LMI borrowers was more favorable than its home purchase or refinance lending levels. The analysis indicated that 25.0 percent of the bank's home improvement lending was to low-income borrowers, well above the aggregate of 9.3 percent and the demographics figure of 17.4 percent. During 2004, the bank's level of lending to low-income borrowers was lower at 12.5 percent.

The bank's record of lending to moderate-income borrowers for 2003 equaled 16.7 percent, above the aggregate level of 13.6 percent, but below the demographics figure of 19.3 percent. The bank's performance was the greatest in 2004, as the bank originated 50 percent of its home improvement loans to moderate-income borrowers.

#### Small Business Loans

The overall distribution of loans to businesses of different revenue sizes in 2003 was reasonable. The percentage of loans to businesses with gross annual revenues of \$1 million or less equaled 85.5 percent, compared to the area aggregate average of 44 percent, and demographic data that showed 88.7 percent of area businesses had revenues less than \$1 million. The bank's loans were further stratified by loan size. Approximately, 86 percent of the 2003 loans to small businesses were for amounts of \$100,000 or less, amounts typically needed by smaller businesses. Although aggregate data was not available for 2004, 73.9 percent of the bank's loans were to small businesses, compared to the area demographic figure of 88.7 percent.

#### Small Farm Loans

The bank's loan distribution to small farms in 2003 was strong. Loans to farms with revenues of \$1 million or less equaled 100 percent, compared to the area aggregate average of 89.2 percent and the demographics of 99.7 percent. In addition, 100 percent of the bank's loans were for amounts of \$100,000 or less, which typically meet the needs of smaller farming operations. While no aggregate data was available for 2004, 100 percent of the bank's loans were again originated to small farms.

Furthermore, over 87 percent of the SBA and FSA-guaranteed loans originated by the bank were in the Joplin MSA assessment area. These programs demonstrate the bank's willingness to meet the needs of small businesses and farms in this assessment area.

**Community Development Lending:** The bank did not report any community development loans in the Joplin MSA assessment area. However, according to community contacts, opportunities for community development lending in the assessment area are limited.

## **INVESTMENT TEST**

The investment test for the Joplin MSA assessment area was rated “low satisfactory.” The bank has not made a substantial level of investments; however, all qualified investments made were in the Joplin MSA.

The qualified investments included two Newton County school bonds totaling \$20,000, and a \$10,000 investment in Joplin Capital Corporation. The school district qualifies as serving community development needs of LMI individuals because greater than 50 percent of the district’s students were enrolled in the free or reduced lunch program. The Joplin Capital Corporation is a newly formed multibank community development corporation created to facilitate economic development in Joplin’s underserved moderate-income areas, and to furnish “gap financing” to provide small business loans and/or equity to entrepreneurs who are unable to obtain conventional financing.

The bank has also made approximately \$90M in charitable contributions, mostly in the Joplin MSA assessment area. However, most were not to CRA-qualified organizations that serve community development purposes. The total amount of qualified contributions equaled approximately \$6,000. These contributions were made to organizations that support business and industrial development and other philanthropic activities that support community development.

Given the limited opportunities available in the area, a lower rating was not warranted.

## **SERVICE TEST**

Performance under the service test for the Joplin MSA assessment area was good based on the accessibility of delivery systems and the level of qualified community development services.

**Retail Services:** The bank operates 11 offices in the assessment area, including its main office in Neosho. Nine of the offices are located in middle-income tracts, while two offices are located in upper-income tracts. There have been no branch closings since the prior evaluation. Bank offices and ATMs are accessible to all portions of the assessment area, and the wide array of services offered does not vary in a way that inconveniences certain portions of the assessment area, particularly LMI geographies or LMI individuals. Business hours are relatively consistent throughout the assessment area, and allow for adequate accessibility to services.

**Community Development Services:** Overall, the bank provides a good level of community development services in the Joplin MSA assessment area. Bank officers are involved in various organizations that have community development as their primary purpose. Involvement includes providing financial expertise in the operations, fundraising, financial planning, and management of these organizations. Services are provided to area organization's such as the Chamber of Commerce's Economic Development Committee, Community Development Corporations, and Habitat for Humanity.

**NONMETROPOLITAN McDONALD COUNTY, MISSOURI ASSESSMENT AREA**  
*(Limited Review)*

**DESCRIPTION OF OPERATIONS IN ASSESSMENT AREA**

The second assessment area in Missouri is the nonmetropolitan McDonald County assessment area. McDonald County is contiguous to the Joplin MSA, located directly south of Newton County in the extreme southwest corner of the state of Missouri. The bank has one branch office and two cash-dispensing only ATMs located in the town of Anderson. The branch office is located in a moderate-income tract.

This assessment area comprised 8.3 percent of the bank's deposits and 11.5 percent of the total loans reviewed for the CRA analysis period. The bank is one of five banks with a presence in the county, and as of June 30, 2004, its deposit market share equaled 12.2 percent in McDonald County. As of 2004, McDonald County is included in the Fayetteville-Springdale-Rogers, Arkansas-Missouri multistate MSA assessment area. Of the 25 financial institutions in this area, the bank's deposit market share represents less than one-half of one percent.

**CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN ASSESSMENT AREA**

The bank's performance in this assessment area was compared with the overall state rating, which was based on the full-scope review of the performance in the Joplin MSA assessment area. This assessment area's ratings compared to the overall state ratings as detailed in the chart below. The limited review concluded that the bank's performance in this assessment area does not alter the overall state rating.

<b>Assessment Area</b>	<b>Lending Test</b>	<b>Investment Test</b>	<b>Service Test</b>
McDonald County	Consistent with State Rating	Below State Rating	Consistent with State Rating

STATE OF KANSAS

**CRA RATING FOR KANSAS:** **SATISFACTORY**  
**The lending test is rated:** **High Satisfactory**  
**The investment test is rated:** **Needs to Improve**  
**The service test is rated:** **Low Satisfactory**

Major factors supporting the institution's rating for the state of Kansas include the following issues:

- Lending levels reflect an adequate responsiveness to assessment area credit needs.
- The geographic distribution of loans reflects a very strong penetration of lending in moderate-income tracts in the Cherokee County assessment area.
- The distribution of loans by borrower profile in Cherokee County reflects satisfactory penetration to individuals of different income levels and to businesses and farms of different revenue sizes.
- The bank has not originated any community development loans in Cherokee County.
- The bank does not make use of innovative or flexible lending practices in the Cherokee County assessment area. Management indicated that guaranteed products through the SBA and FSA are offered in Cherokee County; however, very few applicants pursue them.

**SCOPE OF EXAMINATION**

The scope of the examination for the state of Kansas was generally consistent with the overall scope of the examination for the institution, including evaluations under the lending, investment, and service tests. The bank did not report any CRA-qualified community development loans during the evaluation period in the state of Kansas, and only originated four farm loans.

Lending activity within the state represented only 11.5 percent of the bank's total lending volume. Therefore, the performance in this state is given significantly less weight in the bank's overall performance rating. However, a full-scope review of each state is required in accordance with regulatory examination guidelines; therefore, a full-scope analysis of the nonmetropolitan Cherokee County assessment area was conducted. This represents the bank's only assessment area in the state of Kansas. An analysis of the statewide performance would be redundant with the analysis of the Cherokee County assessment area. Therefore, the statewide analysis section has been eliminated and the statewide performance is discussed concurrently with the Cherokee County assessment area performance evaluation.

## NONMETROPOLITAN CHEROKEE COUNTY, KANSAS ASSESSMENT AREA

### DESCRIPTION OF OPERATIONS IN ASSESSMENT AREA

Cherokee County is a nonmetropolitan area located in the southeast corner of the state of Kansas, directly west of the Joplin MSA. The bank has two branches located in Galena and Riverton, and one full-service ATM. In 2003, both branches were located in moderate-income tracts. However, as of 2004, the Riverton branch is now located in a middle-income tract. This assessment area comprises 8.9 percent of the bank's deposits and 11.5 percent of loans reviewed. The bank is one of eight banks with a presence in the county, and as of June 30, 2004, its deposit market share equaled 10.1 percent.

The assessment area contains six census tracts. Two were moderate-income and four were middle-income tracts as of 2003. As of 2004, the assessment area now consists of one moderate-income tract and five middle-income tracts. One community contact interview was conducted in Kansas in conjunction with this examination.

### DESCRIPTION OF ASSESSMENT AREA

#### Labor, Employment, and Economic Characteristics

The area economy relies heavily on manufacturing, with 25.5 percent of its civilian labor force in that industry in 2000. Of total area earnings in 2002, 30.3 percent was from the manufacturing sector and 15.6 percent was from the government sector. The area also relies heavily on regional employers, with 45.4 percent of its labor force working outside of the county in 2000. In 2001 and 2002, the area's employment base and labor force shrank and unemployment increased, but there were signs of economic stabilization. Its unemployment rate was high, but the area labor force increased by 5.3 percent and unemployment decreased to 7.5 percent in 2003. In addition, the area employment base increased 6 percent in 2003.

#### Income Characteristics

In 2000, the area was a middle-income area overall with an MFI of \$37,244, which was 88.4 percent of the nonmetropolitan Kansas MFI of \$42,114. Nevertheless, the area had much higher concentrations of low- and moderate-income families and families living in poverty than in statewide nonmetropolitan areas as a whole. As illustrated in Exhibit 8, the bank's family income distribution included 22.8 percent low-income, 21.4 percent moderate-income, 25.1 percent middle-income, and 30.8 percent upper-income families, with 11.4 percent of families living below the poverty level. The statewide nonmetropolitan area average family income distribution equaled 17.1 percent low-income, 19.5 percent moderate-income, 25.1 percent middle-income, and 38.4 percent upper-income, with 8.0 percent living in poverty.

*Population Trends and Characteristics*

In 2000, the assessment area population was 22,605. However, Census Bureau population estimates indicated that the area population had decreased by 3.5 percent from 2000 to 2003, to 21,815. The area population represents 11.2 percent of the bank's combined assessment area population.

*Housing Characteristics*

Area housing stock characteristics reflected a large family population. The area had high concentrations of inexpensive housing units, owner-occupied units, and single family units. It also had a high concentration of mobile homes, equaling 13.8 percent of housing stock. The area's housing affordability ratio was 62.0 percent compared to 56.0 percent for total statewide nonmetropolitan areas. A community contact, however, indicated that the area was in need of affordable housing. More specifically, the contact mentioned that the area had a limited stock of homes on the market at any price.

Refer to Exhibit 8 for additional data regarding assessment area demographics.

Exhibit 8								
Cherokee County, Kansas Assessment Area Demographics								
Income Categories	Tract Distribution		Families by Tract Income		Families < Poverty Level as % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low-income	0	0.0	0	0.0	0	0.0	1,437	22.8
Moderate-income	2	33.3	2,446	38.8	318	13.0	1,346	21.4
Middle-income	4	66.7	3,855	61.2	398	10.3	1,579	25.1
Upper-income	0	0.0	0	0.0	0	0.0	1,939	30.8
<b>Total AA</b>	<b>6</b>	<b>100.0</b>	<b>6,301</b>	<b>100.0</b>	<b>716</b>	<b>11.4</b>	<b>6,301</b>	<b>100.0</b>
	Housing Units by Tract	Housing Types by Tract						
		Owner-occupied		Rental		Vacant		
		#	%	%	#	%	#	%
Low-income	0	0	0.0	0.0	0	0.0	0	0.0
Moderate-income	4,018	2,479	36.6	61.7	1,069	26.6	470	11.7
Middle-income	6,013	4,285	63.4	71.3	1,042	17.3	686	11.4
Upper-income	0	0	0.0	0.0	0	0.0	0	0.0
<b>Total AA</b>	<b>10,031</b>	<b>6,764</b>	<b>100.0</b>	<b>67.4</b>	<b>2,111</b>	<b>21.0</b>	<b>1,156</b>	<b>11.5</b>
	Total Businesses by Tract	Businesses by Tract & Revenue Size						
		Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported		
		#	%	#	%	#	%	#
Low-income	0	0.0	0	0.0	0	0.0	0	0.0
Moderate-income	297	41.6	260	42.2	20	32.8	17	45.9
Middle-income	417	58.4	356	57.8	41	67.2	20	54.1
Upper-income	0	0.0	0	0.0	0	0.0	0	0.0
Tract not reported	0	0.0	0	0.0	0	0.0	0	0.0
<b>Total AA</b>	<b>714</b>	<b>100.0</b>	<b>616</b>	<b>100.0</b>	<b>61</b>	<b>100.0</b>	<b>37</b>	<b>100.0</b>
	Percentage of Total Businesses:			<b>86.3</b>		<b>8.5</b>		<b>5.2</b>

Based on 2000 Census data.

Community Contacts

One community contact was conducted in the assessment area in Baxter Springs, Kansas, located approximately 10 miles to the southwest of Galena. The contact stated that the level of community development opportunities for area banks is limited, there is a need for more affordable housing, and, furthermore, there is generally limited housing availability and available building locations.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN ASSESSMENT AREA

### LENDING TEST

The bank's lending performance in Cherokee County, Kansas, is rated "high satisfactory." The geographic distribution of lending based on income level of census tract is considered strong and the distribution of lending based on borrower income level is satisfactory. The bank has not made any community development loans in Cherokee County and makes little use of its flexible lending practices, but it exhibits adequate responsiveness to meeting the credit needs of the assessment area.

**Lending Activity:** The bank's responsiveness to the retail credit needs in the Cherokee County assessment area was good. During the evaluation period, the bank originated 11 business and 31 residential real estate loans. The bank did not report any farm loan originations in 2003, and only four in 2004. Since loan activity at the branches in this assessment area was very low compared to the Joplin MSA assessment area, the result of this analysis has minimal impact on the bank's overall performance rating.

**Geographic Distribution:** The bank's distribution of reported HMDA and CRA loans reflected a strong penetration in moderate-income geographies when compared to the percentage of owner-occupied housing units and businesses in those geographies and when compared to the aggregate peer data for the county. This strong performance is primarily due to the location of the bank's two branches in this assessment area, which were both located in moderate-income tracts in 2003. Exhibit 9 illustrates the bank's performance of lending by geography in the Cherokee County assessment area, compared with area demographics and aggregate lending data.

<b>Exhibit 9</b>				
<b>Distribution of Lending within the Cherokee County Assessment Area by Income Level of Census Tract*</b>				
<b>Loan Type</b>	<b>Percentage of Bank's Lending, By Number of Loans</b>			
	<b>Moderate-Income</b>		<b>Middle-Income</b>	
	<b>2003</b>	<b>2004</b>	<b>2003</b>	<b>2004</b>
<b>Residential Real Estate Loans:</b>				
Residential Purchase	84.6	33.3	15.4	66.7
Residential Refinance	63.6	62.5	36.4	37.5
Home Improvement	71.4	0.0	28.6	100.0
Total HMDA Loans	74.2	43.3	25.8	56.7
Percentage of Owner-Occupied Housing Units in AA by Income Level of Tract**	36.6	16.6	63.4	83.4
2003 Aggregate HMDA Lending Data in AA***	40.7		57.6	
<b>Business Loans:</b>				
Percentage of Business Loans	81.8	63.6	18.2	36.4
Percentage of Businesses in AA by Income Level of Tract ****	41.6	17.2	58.4	82.8
2003 Aggregate CRA Lending Data in AA***	33.0		60.3	
<b>Farm Loans:</b>				
Percentage of Farm Loans	0.0	50.0	0.0	50.0
Percentage of Farms in AA by Income Level of Tract ****	2.4		97.6	
2003 Aggregate CRA Lending Data in AA***	1.4		98.6	
<p>* Low-income census tracts are those geographies with median family incomes (MFI) less than 50 percent of all nonMSA Kansas counties' MFI; moderate-income equals 50 percent – 80 percent; middle-income is 80 percent – 120 percent; and upper-income is greater than 120 percent. All MFIs are based on 2000 census data.</p> <p>** The percentage of housing units located in each tract category is based on 2000 census data and 2003 MFI.</p> <p>*** The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.</p> <p>**** The percentage of businesses and farms located in each tract category is based on 2003 Dun &amp; Bradstreet business and farm data, and tracts are based on 2000 census tract designations.</p>				

*HMDA-Related Loans*

As illustrated in Exhibit 9, the bank's performance of lending in moderate-income geographies far exceeded area demographics and aggregate lending data. The bank's geographic distribution in 2003 showed that 74.2 percent of the bank's total HMDA loans were in moderate-income tracts, compared to 36.6 percent of assessment area families living in those tracts and a 40.7 percent lending penetration by aggregate lenders.

The bank's 2004 performance was also strong, with 43.3 percent of the bank's total HMDA loans in moderate-income tracts, compared to 16.6 percent of assessment area families living in those tracts.

*Small Business Loans*

The geographic distribution of small business loans was also strong. For 2003, the bank's penetration of loans in moderate-income geographies was 81.8 percent, compared to 41.6 percent of small businesses located in those tracts and aggregate data of 33.0 percent. The bank's penetration in 2004 was 63.6 percent in moderate-income geographies, compared to the area demographics of 17.2 percent of small businesses located in moderate-income tracts.

*Small Farm Loans*

The bank did not originate any small farms loans in the Cherokee County assessment area in 2003, and only four in 2004. Furthermore, the demographics of the area indicated that only 2.4 percent of farms were located in the moderate-income geographies, and the aggregate lending penetration in these geographies equaled only 1.4 percent. Therefore, an analysis of the bank's geographic distribution of small farm loans was not meaningful for this assessment area.

**Distribution by Borrower Income and Business Revenue Size:** The bank's distribution of loans to borrowers of different income levels and to small businesses reflected a strong performance. As previously noted, minimal farm loans were originated in the assessment area during the evaluation period; and therefore, farm loans were not analyzed. Performance context issues such as the number and percentage of LMI families, cost of housing, size of businesses, and aggregate performance in the assessment area were considered in the analysis for comparative purposes. Exhibit 10 illustrates the bank's lending performance by income level of borrower, as well as comparisons with demographic and aggregate lending data.

<b>Exhibit 10 Distribution of Lending within the Cherokee County Assessment Area by Income Level of Borrower*</b>								
<b>Loan Type</b>	<b>Percentage of Bank's Lending, By Number of Loans</b>							
	<b>Low- Income</b>		<b>Moderate- Income</b>		<b>Middle- Income</b>		<b>Upper- Income</b>	
	<b>2003</b>	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>	<b>2004</b>
Residential Purchase	15.4	0.0	30.8	33.3	7.7	22.2	38.5	44.4
Residential Refinance	18.2	18.8	27.3	25.0	27.3	37.5	27.3	18.8
Home Improvement	0.0	40.0	14.3	20.0	14.3	40.0	71.4	0.0
Total HMDA Loans	12.9	16.7	25.8	26.7	16.1	33.3	41.9	23.3
Percentage of Families in AA by Income Level**	22.8		21.4		25.0		30.8	
2003 Aggregate HMDA Lending Data in AA***	7.2		17.1		25.4		35.4	
<p>* Low-income level borrowers are those with annual income less than 50 percent of the area median family income (MFI); moderate-income equals 50 percent – 80 percent; middle-income is 80 percent – 120 percent; and upper-income is greater than 120 percent. The area MFI is based on the annual HUD-adjusted MFI for nonmetropolitan areas of Kansas for 2003 and 2004, which equaled \$44,900, and \$46,800, respectively.</p> <p>** The percentage of families living in the assessment area is based on 2000 census data and 2003 MFI. The difference between income classification percentages for 2003 and 2004 due to changes in the denominator were negligible.</p> <p>*** Aggregate of all HMDA filers with loans in Cherokee County.</p>								

Home Purchase Loans

The bank's level of 2003 home purchase loans to LMI borrowers was considered satisfactory. The analysis reflected that 15.4 percent of the bank's lending was to low-income borrowers, compared to the aggregate of 11.6 percent, and demographic data that shows 22.8 percent of area families are low-income. During 2004, the bank had no home purchase loans to low-income borrowers. The bank's record of lending to moderate-income borrowers equaled 30.8 percent in 2003, compared to the aggregate of 23.3 percent and the demographics of 21.4 percent. The bank's performance in 2004 was also higher than the demographic figure, as the bank originated 33.3 percent of its home purchase loans to moderate-income borrowers.

Refinance Loans

The distribution of lending by borrower income level for refinance loans was also considered satisfactory. During 2003, the bank originated 18.2 percent of its refinance loans to low-income borrowers, compared to the aggregate of 5.3 percent and the demographics of 22.8 percent. Lending to low-income borrowers in 2004 was slightly higher at 18.8 percent. The bank made 27.3 percent of its refinance loans to moderate-income borrowers in 2003, compared to the aggregate of 13.9 percent and the demographics of 21.4 percent. The 2004

distribution of refinance loans to moderate-income borrowers was slightly lower at 25.0 percent, but still exceeded the demographics.

### Home Improvement Loans

The bank's level of home improvement loans to LMI borrowers was not as favorable as its home purchase or refinance lending levels, although it was considered adequate. The analysis indicated that no home improvement loans were extended to low-income borrowers in 2003, compared to the aggregate of 5.4 percent and the demographics of 22.8 percent. However during 2004, the bank's level of lending to low-income borrowers was very high at 40.0 percent. The bank's record of lending to moderate-income borrowers was 14.3 percent compared to the aggregate of 21.6 percent and the demographics of 21.4 for 2003. This performance was also higher in 2004, as the bank originated 20 percent of its home improvement loans to moderate-income borrowers.

### Small Business Loans

The overall distribution of loans to businesses of different revenue sizes in 2003 was favorable. Loans to businesses with revenues of \$1 million or less equaled 87.5 percent of the assessment area's business loans reviewed, compared to the aggregate of 36.0 percent, and demographic data that showed 86.3 percent of area businesses had gross revenues less than \$1 million. This penetration of loans to small businesses is satisfactory, as it is slightly greater than the assessment area's percentage of small businesses, and greatly exceeds aggregate data. These loans were further stratified by loan size. Approximately, 82 percent of the 2003 loans to small businesses were for amounts of \$100,000 or less, demonstrating the bank's willingness to meet the needs of small businesses in the area. While aggregate data was not available for 2004, 83.3 percent of the bank's loans were to small businesses, slightly below area demographics.

**Community Development Lending:** The bank did not report any qualified community development lending in the Cherokee County assessment area. However, opportunities for community development lending in the assessment area are somewhat limited based on interviews with members of the local community.

## **INVESTMENT TEST**

The bank's performance in the Cherokee County assessment area was rated "needs to improve." The bank had a poor level of qualified investments and grants. There were no reported qualifying debt or equity investments and only a minimal amount in qualified grants and donations. However, interviews with bank management and members of the local community indicated that the bank's opportunities for community development investments are very limited.

## **SERVICE TEST**

The Cherokee County assessment area's rating under the service test was rated "low satisfactory." However, the service test performance was considered adequate based primarily on the accessibility of delivery systems.

**Retail Services:** The bank's delivery systems are accessible to essentially all portions of the assessment area. The bank operates two branch offices in the area, with one office located in a moderate-income tract and one located in a middle-income tract. In addition, the bank operates one on-site, full-service ATM in a moderate-income tract. Services, products, and business hours do not vary among the bank's branches in a way that inconveniences the needs of certain portions of the assessment area, particularly LMI geographies or individuals.

**Community Development Services:** The bank reported only one officer involved in one qualified community development service for the assessment area.

**CRA APPENDIX A**

**SCOPE OF EXAMINATION**

<b>COMMUNITY BANK &amp; TRUST</b>		
<b>TIME PERIOD REVIEWED</b>	<ul style="list-style-type: none"> <li>• March 24, 2003 to May 9, 2005</li> <li>• Analysis and performance context for the state of Missouri, including a full review of the Joplin MSA Assessment Area and a limited review of the McDonald County Assessment Area.</li> <li>• Analysis and performance context for the state of Kansas, including a full review of the nonmetropolitan Cherokee County Assessment Area.</li> </ul>	
<b>FINANCIAL INSTITUTION</b> Community Bank & Trust, Neosho, Missouri  <b>Parent Company:</b> Community Bancshares, Inc. <b>Top Tier Holding Company:</b> Community Bancshares ESOP		<b>PRODUCTS REVIEWED</b> <ul style="list-style-type: none"> <li>• Home Purchase</li> <li>• Refinancings</li> <li>• Home Improvement</li> <li>• Small Business</li> <li>• Small Farm</li> </ul>
<b>AFFILIATE</b>	<b>AFFILIATE RELATIONSHIP</b>	<b>PRODUCTS REVIEWED</b>
None	NA	NA

*(Appendix A continued on next page)*



## CRA APPENDIX B

### GLOSSARY

**Aggregate lending:** The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

**Census tract:** Census tracts usually have between 2,500 and 8,000 persons, and their physical size varies widely depending upon population density; but census tract boundaries do not cross county lines. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

**Community development:** Affordable housing (including multifamily rental housing) for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs (13 CFR 121.301) or have gross annual revenues of \$1 million or less; or activities that revitalize or stabilize low- or moderate-income geographies.

**Consumer loans:** Loans to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

**Family:** Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include nonrelatives living with the family. Families are classified by type as either a married-couple family or other family, which is further classified into "male householder" (a family with a male householder and no wife present) or "female householder" (a family with a female householder and no husband present).

**Full review:** Performance under the lending, investment, and service tests is analyzed considering performance context, quantitative factors (for example, geographic distribution, borrower distribution, and total number and dollar amount of investments), and qualitative factors (for example, innovativeness, complexity, and responsiveness).

**Geography:** A census tract delineated by the U.S. Bureau of the Census in the most recent decennial census.

**Home Mortgage Disclosure Act (HMDA):** The statute that requires certain mortgage lenders that do business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include data such as race, gender and income of applicants; amount of loan request; and disposition of the application (for example, approved, denied, or withdrawn).

**Home mortgage loans:** Includes home purchase and home improvement loans as defined in the HMDA regulation. This definition also includes multifamily (five or more families) dwelling loans, loans for the purchase of manufactured homes, and refinancings of home improvement and home purchase loans.

**Household:** Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

**Limited review:** Performance under the lending, investment, and service tests is analyzed using only quantitative factors (for example, geographic distribution, borrower distribution, total number and dollar amount of investments, and branch distribution).

**Low-income:** Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent, in the case of a geography. Low- and moderate-income families or geographies are sometimes discussed together and abbreviated as **LMI**.

**Market share:** The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

**Metropolitan Statistical Area (MSA):** Any metropolitan statistical area (MSA) as defined by the Office of Management and Budget, with a population of 50,000 or more, and any other area designated as such by the appropriate federal financial supervisory agency.

**Middle-income:** Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 percent and less than 120 percent, in the case of a geography

**Moderate-income:** Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 percent and less than 80 percent, in the case of a geography.

**Multifamily:** Refers to a residential structure that contains five or more units.

**Other products:** Includes any unreported optional category of loans for which the institution collects and maintains data for consideration during a CRA examination. Examples of such activity include consumer loans and other loan data an institution may provide concerning its lending performance.

**Owner-occupied units:** Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

**Qualified investment:** A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

**Rated area:** A rated area is a state or multistate metropolitan area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multistate metropolitan area, the institution will receive a rating for the multistate metropolitan area.

**Small loans to businesses:** Loans included in "loans to small businesses" as defined in the Consolidated Report of Condition and Income (Call Report) and the Thrift Financial Reporting (TFR) instructions. These loans have original amounts of \$1 million or less and typically are either secured by nonfarm or nonresidential real estate or are classified as commercial and industrial loans. However, thrift institutions may also exercise the option to report loans secured by nonfarm residential real estate as "small business loans" if the loans are reported on the TFR as nonmortgage, commercial loans.

**Small loans to farms:** Loans included in "loans to small farms" as defined in the instructions for preparation of the Call Report. These loans have original amounts of \$500,000 or less and are either secured by farmland, or are classified as loans to finance agricultural production and other loans to farmers.

**Upper-income:** Individual income that is more than 120 percent of the area median income, or a median family income that is more than 120 percent, in the case of a geography.