



## **PUBLIC DISCLOSURE**

January 26, 2015

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

Kennett National Bank  
Charter Number 15155

805 First Street  
Kennett, MO 63857

Office of the Comptroller of the Currency

500 N Broadway  
Suite 1700  
St. Louis, MO 63102

**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.

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

**Missouri Rating: Satisfactory**

**Arkansas Rating: Satisfactory**

The bank's overall rating is a blend of the State of Missouri (MO) and the State of Arkansas (AR) rating. The major factors that support this rating are:

- A substantial majority of the bank's loans were made within the assessment areas (AAs).
- The quarterly average loan-to-deposit ratio is reasonable.
- The geographic distribution of loans is reasonable.
- The borrower distribution of commercial loans is excellent.

## **Scope of Evaluation**

This Performance Evaluation assesses Kennett National Bank's (KNB's) record of meeting the credit needs of the communities it serves in Missouri and Arkansas. We evaluated KNB under Small Bank performance criteria, which consist of several components under the lending test. KNB has two AAs, and both received a full-scope review.

The evaluation period covers May 27, 2008 through January 26, 2015. We reviewed KNB's loan originations since 2012 and determined that consumer loans and business loans are the primary loan products for this bank. In our evaluation, we placed more weight on the analysis of the Missouri AA, because this AA is larger, is well established, and had more loans generated. For each AA, we sampled 25 consumer loans and 25 business loans originated from January 1, 2012 through December 31, 2014, to develop our conclusions.

## **Description of Institution**

KNB is a nationally chartered interstate bank in Kennett, Missouri. KNB is wholly owned by Kennett Bancshares, Inc., headquartered in Kennett. The City of Kennett is situated in the southeast corner or "bootheel" of Missouri. KNB operates two offices, both in Kennett. There are also three withdrawal-only Automated Teller Machines (ATMs) in Kennett: two are located at the offices, and the third was installed in November 2009 inside the Twin Rivers Regional Medical Center. In February 2012, a deposit-taking

ATM was installed in Piggott, Arkansas; with this event, KNB effectively entered the Arkansas market.

As of September 30, 2014, KNB has total assets of \$104.5 million, total deposits of \$83.5 million, and Tier 1 capital of \$12 million. Net loans and leases represent 55% of average assets and consist of real estate loans (50%), commercial loans (36%), consumer loans (7%), and agricultural loans (7%). KNB offers traditional services and loan products normally associated with a community bank. There are no legal, financial or other factors impeding KNB's ability to help meet the credit needs of the AAs it serves.

KNB received a "Satisfactory" rating at its last CRA evaluation dated May 27, 2008.

## Conclusions with Respect to Performance Criteria

KNB's does a reasonable job of meeting the credit needs in its AAs, given the demographics, economic factors, and economic pressures faced by the bank.

### Loan-to-Deposit Ratio

KNB's loan-to-deposit (LTD) ratio is reasonable given the institution's size, current competition, financial condition, and the credit needs of the AAs.

As of September 30, 2014, KNB's LTD ratio is 77.50%. The quarterly average of KNB's LTD ratios over the 27 quarters since the last CRA evaluation is 77.15%. This ratio is higher than that of two similarly situated institutions and lower than one. The quarterly average for these comparable institutions ranged from 41.23% to 89.33%.

### Lending in Assessment Area

KNB originated a substantial majority of loans inside its AAs. Based on 20 consumer and 20 commercial loans, 85% of the loans were extended in the AAs.

Lending in the AAs										
Loan Type	Number of Loans					Dollars of Loans (000)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Consumer	18	90%	2	10%	20	\$145	46%	\$169	54%	\$314
Commercial	16	80%	4	20%	20	\$2,221	79%	\$577	21%	\$2,798
Totals	34	85%	6	15%	40	\$2,366	76%	\$746	24%	\$3,112

Source: Loan sample

## **Fair Lending or Other Illegal Credit Practices Review**

Pursuant to 12 C.F.R. 195.28(c), in determining a national bank's (bank) or Federal savings association's (FSA) CRA rating, respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or FSA, or in any assessment area by an affiliate whose loans have been considered as part of the bank's or FSA's lending performance.

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.

## State Rating

### State of Missouri

#### CRA Rating for Missouri: Satisfactory

The major factors that support this rating are:

- The borrower distribution of sampled loans is reasonable.
- The geographic distribution of sampled loans reflects reasonable dispersion in the AA.

#### Description of Assessment Area

Kennett National Bank's Missouri AA is all of Dunklin County in southeast Missouri. The AA consists of five moderate-income census tracts (CTs 3601, 3603, 3606, 3608, and 3610) and five middle-income CTs (CTs 3602, 3604, 3605, 3607, and 3609).

Throughout this evaluation period (2008-2014), the middle-income CTs in Dunklin County have been designated distressed due to high poverty rates and/or high unemployment. In 2009, Dunklin County's annual average unemployment rate peaked at 10.9%, above the Missouri rate of 9.4%. The unemployment rate dropped to near pre-recession levels, but remains high. As of September 2014, it was 6.9% in Dunklin County and 6.0% in Missouri.

Census data from 2010 indicates that 31,953 people live in the AA and make up 12,885 households. The median household income for the AA in 2010 was \$29,888. Based on this income figure, 32% of households are classified as low-income, 19% as moderate-income, 18% as middle-income, and 31% as upper-income. Over 23% of households live below the poverty level. Just over half of the households (51%) live in the moderate-income CTs.

As of 2013, there are 2,010 businesses in Dunklin County. Seventy percent (70%) of the businesses report revenues of \$1 million or less, 4% report revenues over \$1 million, and 26% did not report revenues. About 56% of the businesses are located in the moderate-income CTs. The AA is dependent on services, retail trade and agriculture. Two-thirds (67%) of the businesses employ 1-4 workers; only 1% of businesses in the county have more than 50 employees.

Competition for deposits in the AA is strong, with six additional banks supporting 12 offices in Dunklin County. Four are local community banks (First National Bank; First Community Bank, Missouri; Senath State Bank; and UNICO Bank). The other two are larger regional banks (First State Community Bank, and Southern Bank). As of

June 30, 2014, KNB’s deposit market share ranks third among the seven banks, with a 15% market share.

We contacted a representative from a local community organization to identify credit and other needs within the AA. The contact noted Dunklin County is the second poorest county in the state. The contact indicated most needs are met, but people could benefit from outreach or classes to improve credit.

**Lending to Borrowers of Different Incomes and to Businesses of Different Sizes**

KNB’s distribution of loans to borrowers of different incomes and to businesses of different sizes reflects reasonable penetration.

Consumer Loans

The borrower distribution of consumer loans meets the standard. The percentage of loans to moderate-income borrowers is higher than the percentage of moderate-income households in the AA. The percentage of loans to low-income borrowers is lower than the percentage of low-income households in the AA, but this is somewhat mitigated by the high poverty rate in the county.

<b>Borrower Distribution of Consumer Loans in Dunklin County MO</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	32%	16%	19%	28%	18%	8%	31%	48%

Source: Sample of 25 consumer loans; 2010 U.S. Census data

Commercial Loans

The borrower distribution of commercial loans is excellent. The percentage of loans to businesses with revenues of \$1 million or less exceeds the percentage of businesses with revenues of \$1 million or less.

<b>Borrower Distribution of Loans to Businesses in Dunklin County MO</b>			
Business Revenues	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown
% of AA Businesses	70%	4%	26%
% of Bank Loans in AA by #	96%	4%	0%
% of Bank Loans in AA by \$	92%	8%	0%

Source: Sample of 25 commercial loans; 2013 business geodemographic data

**Geographic Distribution of Loans**

The geographic distribution of loans reflects reasonable dispersion. KNB lends in most geographies within this AA. There are no low-income CTs in the AA.

Consumer Loans

The geographic distribution of consumer loans is reasonable. The percentage of loans in moderate-income geographies exceeds the percentage of AA households in the moderate-income CTs.

Geographic Distribution of Consumer Loans in Dunklin County MO								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	N/A	N/A	51%	64%	49%	36%	N/A	N/A

Source: Sample of 25 consumer loans; 2010 U.S. Census data

Commercial Loans

The geographic distribution of commercial loans is reasonable. The percentage of loans in moderate-income geographies is lower than the percentage of AA businesses in the moderate-income CTs.

Geographic Distribution of Loans to Businesses in Dunklin County MO								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Business Loans	N/A	N/A	56%	44%	44%	56%	N/A	N/A

Source: Sample of 25 commercial loans; 2013 business geodemographic data

**Responses to Complaints**

No CRA-related complaints have been received by the bank or the OCC since the prior CRA evaluation.

## State Rating

### State of Arkansas

### CRA Rating for Arkansas: Satisfactory

The major factors that support this rating are:

- The borrower distribution of commercial loans is excellent.
- The borrower distribution of consumer loans is poor, but mitigated.

### Description of Assessment Area

Kennett National Bank designated its Arkansas AA as the eastern third of Clay County, in northeast Arkansas, adjacent to the Missouri “bootheel”. This AA has three middle-income CTs. CT 9506 includes the town of Piggott, where KNB installed an ATM in February 2012. CT 9501 is the rural area surrounding Piggott, and adjacent CT 9505 encompasses the town of Rector.

Throughout this evaluation period (2008-2014), the middle-income CTs in Clay County have been designated distressed due to high poverty rates and/or high unemployment. In 2011, Clay County’s annual average unemployment rate peaked at 13.5%, well above the Arkansas rate of 8%. The unemployment rate dropped to near pre-recession levels, but remains high. As of September 2014, it was 7.7% in Clay County, and 5.7% in Arkansas.

Census data from 2010 indicates that 8,199 people live in the AA and make up 3,559 households. The median household income for the AA in 2010 was \$30,886. Based on this income figure, 28% of households are classified as low-income, 16% as moderate-income, 18% as middle-income, and 38% as upper-income. Over 20% of households live below the poverty level.

As of 2013, there are 557 businesses in this AA; 69% report revenues of \$1 million or less, 3% report revenues over \$1 million, and 28% did not report revenues. The AA is dependent on agriculture, retail trade and services. In this AA, 71% of the businesses have 1 to 4 employees; only 2% of businesses have more than 50 employees.

Competition for deposits in the AA is strong, with three additional banks located in Piggott. Two are local community banks (Piggott State Bank, and First National Bank of Paragould) and the other is a large regional bank (Regions Bank). All three have a physical branch in the town and hold a significant deposit market share in Clay County. Two larger banks (Centennial Bank and Regions Bank) also have a branch office in Rector. KNB customers have a depository ATM in Piggott but travel to Kennett MO for in-person services.

We contacted a representative from a local service agency. The contact noted the economy is stable with minimal growth. Housing is adequate in the area and housing needs are met. Local banks assist with outreach to help establish credit.

**Lending to Borrowers of Different Incomes and to Businesses of Different Sizes**

KNB’s distribution of loans to borrowers of different incomes and to businesses of different sizes reflects reasonable penetration considering the limited presence in this AA.

Consumer Loans

The borrower distribution of consumer loans does not meet the standard. The percentage of loans to moderate-income borrowers is lower than the percentage of moderate-income households in the AA. In our sample, we did not identify loans to low-income borrowers. However, this assessment is mitigated by several factors. The bank recently entered the Eastern Clay County market, where several established banks operate. KNB only has an ATM, not a branch office in this AA. Thus, clients must travel to the office in Kennett for services. The AA also has a high poverty rate, with over 20% of households living below the poverty line.

<b>Borrower Distribution of Consumer Loans in Eastern Clay County AR</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	28%	0%	16%	8%	18%	48%	38%	44%

Source: Sample of 25 consumer loans; 2010 U.S. Census data

Commercial Loans

The borrower distribution of commercial loans is excellent. The percentage of loans to businesses with revenues of \$1 million or less exceeds the percentage of businesses with revenues of \$1 million or less.

<b>Borrower Distribution of Loans to Businesses in Eastern Clay County AR</b>			
Business Revenues	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown
% of AA Businesses	69%	3%	28%
% of Bank Loans in AA by #	96%	4%	0%
% of Bank Loans in AA by \$	99.70%	0.30%	0%

Source: Sample of 25 commercial loans; 2013 Business geodemographic data

### **Geographic Distribution of Loans**

This AA does not have low or moderate-income geographies; therefore, a geographic analysis would not result in a meaningful conclusion.

### **Responses to Complaints**

No CRA-related complaints have been received by the bank or the OCC since the prior CRA evaluation.