



## **PUBLIC DISCLOSURE**

NOVEMBER 18, 2013

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

**PEOPLES EXCHANGE BANK  
RSSD# 1012055**

**1404 28TH STREET  
BELLEVILLE, KANSAS 66935**

**Federal Reserve Bank of Kansas City  
1 Memorial Drive  
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

Institution's CRA Rating.....	2
Scope of Examination.....	2
Description of Institution .....	3
Description of Assessment Area.....	3
Conclusions with Respect to Performance Criteria.....	6

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

Peoples Exchange Bank (the bank) has a satisfactory record of meeting the credit needs of its assessment area (AA), including low- and moderate-income (LMI) borrowers and geographies and small farms, consistent with its resources and operating philosophy. Four of the five criteria used to evaluate a small bank's lending performance under the Community Reinvestment Act (CRA) were relevant to this review and are listed as follows:

- Net Loan-to-Deposit (NLTD) Ratio
- Lending Inside the AA
- Geographic Distribution of Loans Among Tracts of Different Income Levels
- Lending to Borrowers of Different Income Levels and Farms of Different Revenue Sizes

The fifth core criterion used to assess a small bank's CRA performance, the bank's responsiveness to CRA-related complaints, was not evaluated as the bank has not received any of these complaints since the prior CRA examination.

**SCOPE OF EXAMINATION**

The bank's CRA performance was evaluated using the Federal Financial Institution Examination Council's Interagency Small Institution Examination Procedures. The examination included an evaluation of the bank's performance with contextual consideration given to the demographic profile of the bank's AA.

Conclusions regarding the four applicable lending test criteria were based on data compiled from the bank's average NLTD ratio since the prior examination and data compiled from a sample of agricultural and consumer installment loans, representing the bank's major product lines by dollar and number volume of originations. The major product lines were determined through discussions with bank management, a review of the bank's September 30, 2013, Report of Condition and Income (Call Report), and a review of the number of loan originations since the bank's prior CRA examination conducted by the Federal Reserve Bank of Kansas City on October 19, 2009. The evaluation included a review of 26 agricultural loans from a universe of 55 loans originated in a 12-month period between January 1, 2012 and December 31, 2012. The consumer installment loan sample included 33 loans from a universe of 53 loans originated in a six-month period between April 1, 2013 and September 30, 2013.

To augment the evaluation, interviews were conducted with members of the local community to obtain perspectives on local economic conditions and to assess lenders' responsiveness to the credit needs of the community. A community contact conducted in connection with a CRA evaluation of another financial institution in the bank's AA, was also referenced. The community contacts included a representative from a local economic development organization and a local small business owner.

**DESCRIPTION OF INSTITUTION**

The bank is a full-service financial institution headquartered in Belleville, Kansas, a rural community located in the north central portion of the state. The bank also operates two full-service branch offices in the neighboring towns of Concordia and Clyde. All of the locations offer drive-up facilities and cash-dispensing only automated teller machines. The bank is wholly owned by American State Bancshares, Inc., a multibank bank holding company headquartered in Great Bend, Kansas.

As of the September 30, 2013, Call Report, the bank's assets totaled \$63.5 million, with gross loans representing \$43.5 million or approximately 68.5 percent. Table 1 illustrates the composition of the bank's loan portfolio by product type.

TABLE 1 BANK'S LOAN PORTFOLIO		
Loan Type	Amount (\$000)	Percent of Total
Agricultural	27,008	62.1
Commercial	10,366	23.8
Residential Real Estate	4,889	11.2
Consumer	1,251	2.9
<b>Total Gross Loans</b>	<b>43,514</b>	<b>100.0</b>

The June 30, 2013, Federal Deposit Insurance Corporation (FDIC) Deposit Market Share Report indicates that the bank, with \$40.5 million in deposits and a relatively low market share of 4.5 percent, ranks 7th out of 19 FDIC-insured institutions operating in its AA of Republic, Cloud, Washington, and Clay Counties, Kansas. However, the bank maintains larger market shares (8.3 percent and 10.7 percent, respectively) in Republic and Cloud Counties, where the bank maintains its headquarters and two branch offices.

The analysis of the bank's CRA performance considered its financial capacity, local demographic and economic conditions, and the competitive environment in which it operates. Based on the bank's asset size, product offerings, and financial condition, the institution has the ability and capacity to meet the credit needs of its AA.

**DESCRIPTION OF THE BANK'S ASSESSMENT AREA**

The bank's AA comprises one moderate-income and ten middle-income census tracts located in Cloud, Clay, Republic, and Washington Counties. For purposes of this evaluation, the bank's AA is defined as all four of these counties. Both Washington and Republic Counties have been deemed "underserved", indicating that the population in the counties is sparse, with most residents living far from population centers, making it difficult for the community to meet its essential needs. Additionally, both counties are designated as "distressed" due to a loss of population.

### *Population Trends and Characteristics*

From 2000 to 2010, rural communities in Kansas experienced a population decrease of 3.3 percent. Comparatively, the AA experienced a decrease in population of 8.2 percent. Moreover, the decrease was more pronounced in Republic and Washington Counties, with population losses of 14.6 percent and 10.5 percent, respectively. One community member suggested the outward migration to communities with greater economic diversity is due to the lack of economic opportunities in these counties.

Approximately 28,847 residents live in the four counties comprising the AA; however, 62.6 percent of the population lives in Cloud and Clay Counties. Concordia is the largest city in Cloud County, with a population of 5,400. The towns in Republic County are smaller and have a combined population of 4,980 residents. Belleville, the largest city in Republic County with a population of 1,991, serves as the county seat.

Demographic information indicates the area has a relatively large senior citizen population. Based on data from the 2010 Census, 22.1 percent of the county population was age 65 years and older. In addition, 22.4 percent of the population were 17 years of age and younger. Combined, these two age groups potentially have a significant dampening effect on credit demand.

### *Income Characteristics*

The majority of households in the AA are categorized at either end of the income range. Upper-income households account for 36.3 percent of the AA and low-income households account for 24.5 percent. Nonetheless, the AA had a slightly higher concentration of LMI households at 42.7 percent compared to 39.7 percent throughout rural Kansas. Moreover, the AA as a whole is slightly less affluent than other rural areas in the state. Based on 2010 Census data, the AA's median household income (MHI) was \$38,650 compared to the rural statewide MHI of \$42,014. From 2000 to 2010, income expanded at a pace of 23.4 percent primarily due to economic growth in the agricultural industry and employment opportunities supporting higher wages.

### *Economic and Employment Characteristics*

The AA and the surrounding counties are in an area dominated by farm and ranchland operations. The AA's farming operations are primarily concentrated in soybeans, wheat, corn, and various livestock. According to one community member, elevated commodity prices have improved conditions for farmers over the past several years; however, instead of decreasing demand for lending, this community member has seen farmers take this opportunity to expand their operations.

According to a community member working in the economic development field, a concerted effort has been made to attract commercial enterprise other than agricultural operations to the area. Additional efforts have been made to attract skilled workers through the state of Kansas' Rural Opportunity Zone program, which provides state income tax waivers and funds toward tuition reimbursement for those individuals moving into designated rural communities.

The AA's economy has performed above average despite the national recession beginning in late 2008. Employment growth has also remained ahead of the national average in 2012, and the area had a significant lower unemployment rate of 4.1 percent, compared to the national average of 8.1 percent.

Significant employers in the area include Alstom Power, Cloud County Health Center, the public school system, local and county government, Wal-Mart, and long-term health care services provided by Sunset Home and Mt. Joseph Senior Center.

Table 2 summarizes the demographic and economic characteristics of the bank's AA based on 2010 American Community Survey (ACS) data and 2012 Dun & Bradstreet (D&B) data.

TABLE 2 BANK'S AA DEMOGRAPHICS (TRACTS INCLUDED IN CLOUD, CLAY, REPUBLIC AND WASHINGTON COUNTIES)								
Income Categories	Tract Distribution		Households By Tract Income		Households < Poverty Level as a % of Households by Tract		Households By Household Income	
	#	%	#	%	#	%	#	%
Low-Income	0	0.0	0	0.0	0	0.0	3,033	24.5
Moderate-Income	1	9.1	1,311	10.6	220	15.3	2,258	18.2
Middle-Income	10	90.9	11,093	89.4	1,216	84.7	2,613	21.1
Upper-Income	0	0.0	0	0.0	0	0.0	4,500	36.3
<b>Total AA</b>	<b>11</b>	<b>100.0</b>	<b>12,404</b>	<b>100.00</b>	<b>1,436</b>	<b>100.00</b>	<b>12,404</b>	<b>100.0</b>
	Housing Units By Tract	Housing Type By Tract						
		Owner-Occupied			Rental		Vacant	
		#	% By Tract	% By Unit	#	% By Unit	#	% By Unit
Moderate-Income	1,516	956	10.0	63.1	355	23.4	205	13.5
Middle-Income	13,208	8,648	90.0	65.5	2,445	18.5	2,115	16.0
<b>Total AA</b>	<b>14,724</b>	<b>9,604</b>	<b>100.0</b>	<b>65.2</b>	<b>2,800</b>	<b>19.0</b>	<b>2,320</b>	<b>15.8</b>
	Total Farms By Tract		Farms By Tract & Revenue Size					
			Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported	
			#	%	#	%	#	%
Moderate-Income	16	1.7	16	1.8	0	0.0	0	0.0
Middle-Income	900	98.3	891	98.2	9	100.0	0	0.0
<b>Total AA</b>	<b>916</b>	<b>100.0</b>	<b>907</b>	<b>100.0</b>	<b>9</b>	<b>100.0</b>	<b>0</b>	<b>0.0</b>
<b>Percent of Total Farms:</b>				<b>99.0</b>	<b>1.0</b>	<b>0.0</b>		

**CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

The bank's performance under the CRA is considered satisfactory based on an assessment of its 16-quarter average NLTD ratio, level of lending within its AA, and level of lending to LMI borrowers and geographies, as well as farms of different revenue sizes. Data utilized for this analysis included the bank's performance data and area demographic information, and input from members of the local community.

**Net Loan-to-Deposit Ratio:**

The bank's NLTD ratio reflected a reasonable effort to extend credit based on its size, financial condition, and the credit needs of its AA. The bank's NLTD ratio was averaged over a 16-quarter period since the previous CRA examination and compared with the NLTD ratios of five similarly-situated institutions and that of the Kansas statewide rural, state of Kansas, and national peer groups over the same period. The bank's NLTD ratio of 105.6 percent exceeded that of the five local competitors, ranging between 50.6 percent and 74.8 percent. Further, the bank's NLTD ratio also exceeded the statewide rural, statewide, and national peer averages of 63.7 percent, 67.0 percent, and 72.0 percent, respectively.

**Assessment Area Concentration:**

This performance criterion evaluates the bank's lending inside its AA. As illustrated in Table 3, a majority of the bank's consumer installment and agricultural loans were originated within the bank's AA. The analysis focused on the number of originations within the AA rather than the dollar volume, as originations are a better representation of the number of applicants served. Of the total number of loans sampled, 88.1 percent were originated within the AA, indicating a satisfactory effort to serve the credit needs of the community in which the bank operates.

TABLE 3 LENDING INSIDE AND OUTSIDE THE BANK'S AAs								
Bank Loans	Inside AA				Outside AA			
	#	\$(000)	#%	\$%	#	\$(000)	#%	\$%
Consumer Installment	31	246	93.9	96.2	2	10	6.1	3.8
Agricultural	21	2,449	80.8	76.2	5	765	19.2	23.8
<b>Total</b>	<b>52</b>	<b>2,695</b>	<b>88.1</b>	<b>77.7</b>	<b>7</b>	<b>775</b>	<b>11.9</b>	<b>22.3</b>

**Distribution by Income Level of Geographies:**

This performance criterion evaluates the bank's distribution of loans among geographies of different income levels. The bank's consumer installment lending activity was compared to the percentage of households residing in each census tract income level. The bank's agricultural lending activity was compared to the percentage of all farms located in each census tract income level. This evaluation placed more weight on the bank's level of lending to LMI tracts, which is summarized below. Overall, the bank's level of lending by income level of geography is considered reasonable.

Consumer Installment Loans

The bank's record of consumer installment lending in the moderate-income tract is considered reasonable. As shown in Table 4, the bank's level of consumer lending in the moderate-income tract, at 12.9 percent, exceeded the percentage of households in the moderate-income tract, at 10.6 percent.

Agricultural Loans

The bank's level of agricultural lending to different census tracts is considered reasonable relative to area demographics. As shown in Table 4, 1.7 percent of AA farms are located in the moderate-income tract. While no loans in the sample were made in this income tract, the bank's level of lending is considered reasonable given the moderate-income tract has only 16 farms reported in its boundaries.

TABLE 4 DISTRIBUTION BY INCOME LEVEL OF GEOGRAPHY					
Census Tract Income Level	Consumer Installment				% of Households <sup>1</sup>
	#	\$(000)	#%	\$%	
Moderate	4	42	12.9	17.1	10.6
Middle	27	204	87.1	82.9	89.4
Census Tract Income Level	Small Farms				% of Farms <sup>2</sup>
	#	\$(000)	#%	\$%	
Moderate	0	0	0.0	0.0	1.7
Middle	21	2,449	100.0	100.0	98.3

<sup>1</sup> Based on 2010 ACS data  
<sup>2</sup> Based on 2012 D&B data  
 (Note: Total percentages shown may vary by 0.1 percent due to automated rounding differences.)

**Distribution by Borrower Income and Revenue Size of Businesses and Farms:**

This performance criterion evaluates the bank's distribution of lending to borrowers of different income levels, particularly LMI individuals, and lending to farms of different revenue sizes, particularly those with gross annual revenues of \$1 million or less. The bank's consumer installment loans were compared to the percentage of households located in the AA by income level, while the bank's agricultural loans were compared to the percentage of small farms in the AA. Based on the demographic and economic conditions of the AA, the bank's distribution of loans represented a reasonable penetration among individuals of different income levels, as well as farms of different revenue sizes.

Consumer Loans

The bank's level of consumer lending to borrowers of different income levels is excellent. The bank's lending to LMI borrowers is higher than the demographic profile of LMI households in the AA. As



shown in Table 5, the bank generated 54.8 percent of its consumer installment loans to LMI households, while only 42.7 percent of AA households are considered LMI. Moreover, the bank generated 51.6 percent of its lending to low-income households, exceeding the demographic of 24.5 percent.

Agricultural Loans

Lending to small farms, as defined by the CRA, are loans to farms with annual gross revenues of \$1 million or less. The bank's lending performance to small farms is considered reasonable. One hundred percent of the farm loans sampled was originated to small farms, which is similar to the percent of small farms in the AA, at 99.0 percent. The bank's commitment to small farm lending was further demonstrated by 71.4 percent of its agricultural loans sampled being made in amounts of \$100,000 or less, which are amounts typically needed by smaller organizations.

<b>TABLE 5 DISTRIBUTION BY INCOME LEVEL OF BORROWER AND REVENUE SIZE OF FARMS</b>					
<b>Borrower Income Level</b>	<b>Consumer Installment</b>				<b>% of Households<sup>1</sup></b>
	<b>#</b>	<b>\$(000)</b>	<b>#%</b>	<b>\$%</b>	
Low	16	96	51.6	39.0	24.5
Moderate	1	2	3.2	0.8	18.2
Middle	5	37	16.1	15.0	21.1
Upper	8	100	25.8	40.7	36.3
Unknown	1	11	3.2	4.4	0.0
<b>Farm Revenue</b>	<b>Small Farm Loans</b>				<b>% of Farms By Revenue<sup>2</sup></b>
	<b>#</b>	<b>\$(000)</b>	<b>#%</b>	<b>\$%</b>	
\$1MM or less	21	2449	100.0	100.0	99.0
Over \$1MM	0	0	0.0	0.0	1.0

<sup>1</sup> Based on 2010 ACS data  
<sup>2</sup> Based on 2012 D & B data  
(Note: Total percentages shown may vary by 0.1 percent due to automated rounding differences.)

**FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW**

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 and the Fair Housing Act. A review of the bank's policies and procedures, credit applications, loans and denials, and staff interviews revealed no prohibited practices designed to discourage loan applicants. In addition, the bank has not engaged in any illegal credit practices inconsistent with helping to meet the credit needs of its communities.