



PUBLIC DISCLOSURE

JANUARY 14, 2008

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**BANK OF HOLDEN
RSSD# 12058**

**123 WEST 2ND STREET
HOLDEN, MISSOURI 64040**

**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.

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

Bank of Holden (the bank) has a satisfactory record of helping to meet the credit needs of its assessment area (AA), including low- and moderate-income (LMI) individuals, in a manner consistent with its resources, operating philosophy, and credit needs of the community. Three of the five criteria used in evaluating small bank lending performance were relevant to the review and are as follows:

- Net Loan-to-Deposit (NLTD) Ratio
- Lending Inside the AA
- Lending to Borrowers of Different Income Levels and Businesses of Different Revenue Sizes

The analysis of the bank's distribution of loans by geography was not evaluated as the bank's AA consists of middle- and upper-income census tracts. The bank's responsiveness to complaints under the Community Reinvestment Act (CRA), the fifth core criterion used to assess small bank performance, was not evaluated since the bank has not received any such complaints.

The bank's average NLTD ratio indicated a reasonable effort to extend credit in the AA. In addition, a substantial majority of the bank's lending activity occurred inside its AA. The geographic distribution of loans reflected a reasonable dispersion throughout its AA. Finally, the bank's distribution of loans to borrowers of different income levels and businesses of different revenue sizes also reflected reasonable penetration based on AA demographics.

SCOPE OF EXAMINATION

The bank's CRA performance was evaluated using the Federal Financial Institutions Examination Council (FFIEC) Interagency Small Bank Examination Procedures. Conclusions for each performance criteria were based on data compiled from a sample of loan files for each major product line. The bank's major product lines were determined through discussions with management, a review of the bank's September 30, 2007 Report of Condition and Income (Call Report), and a review of the number of loan originations since the last CRA examination on November 17, 2003. Loan products evaluated included statistical samples of 34 commercial loans from of a universe of 101 loans and 26 residential loans from a universe of 55 loans, all originated in the six-month period from May 4 through November 3, 2007. A total sample size of 60 loans was reviewed.

To augment the evaluation, interviews were conducted from members of the local community to ascertain the specific credit needs, opportunities, and local market conditions within the AA the bank serves and to evaluate the bank's responsiveness in helping to meet such needs.

DESCRIPTION OF INSTITUTION

The bank is headquartered in Holden, Missouri, a small rural community located in Johnson County. According to 2000 Census data, Holden is a community of 2,510 residents located approximately 55 miles southeast of Kansas City, Missouri. In addition to the main office in downtown Holden, the bank operates two limited-service branches in Holden and a full-service and a limited-service branch in Warrensburg, Missouri. The bank also offers automated teller machines (ATMs) at each branch location, along with an ATM at a convenience store located one-half block from the main office in Holden. The bank is a wholly-owned subsidiary of Holden Bankshares, Inc., a one-bank holding company headquartered in Holden, Missouri.

The June 30, 2007 Federal Deposit Insurance Corporation (FDIC) Market Share Report indicated the bank had \$86.7 million in deposits and a market share of only 0.6 percent, ranking it 25th out of the 62 FDIC-insured banks operating in its AA. Although the bank's presence in its AA was very small, based on its market share of FDIC-insured deposits, its presence was much greater in Johnson County where its banking offices are located. The bank's Johnson County market share was 17.5 percent and it ranked 2nd out of the 10 FDIC-insured banks with offices in Johnson County.

The analysis of the bank's CRA performance considers the bank's financial capacity, local economic conditions, and demographics, including the competitive environment in which the bank operates. Based on its financial condition, size, resources, and credit product offerings, the bank has the ability to meet the credit needs of its AA. As of the September 30, 2007 Call Report, the bank's assets totaled \$102.3 million, of which total loans represented \$71.7 million or 70.1 percent. The bank is primarily a commercial lender, but also offers other traditional credit products to meet the needs of the AA. Table 1 illustrates the composition of the bank's loan portfolio by product type.

<p align="center">TABLE 1 BANK OF HOLDEN'S LOAN PORTFOLIO AS OF SEPTEMBER 30, 2007</p>		
Loan Type	Amount (\$000)	Percent of Total
Commercial	33,478	46.7
Real Estate	18,991	26.5
Agricultural	14,671	20.5
Consumer	4,123	5.8
Other	412	0.5
Total Gross Loans	71,675	100.0

The bank has no financial or legal impediments that prevent it from fulfilling its responsibilities under the CRA. In addition, the bank received a satisfactory rating at the previous CRA evaluation conducted by the Federal Reserve Bank of Kansas City (Reserve Bank) as of November 17, 2003.

DESCRIPTION OF THE BANK'S ASSESSMENT AREA

The bank has designated one AA, which is comprised of 12 middle- and 5 upper-income census tracts (tracts) located in Johnson, southeastern Jackson, and northeastern Cass Counties, all in Missouri. The eight tracts in Cass and Jackson Counties are located within the Kansas City, Missouri-Kansas multistate Metropolitan Statistical Area (KC-MSA); however, the bank did not have any branches in the KC-MSA. The whole AA was largely rural in nature and did not substantially extend into the MSA. Since Cass and Jackson Counties are within the KC-MSA, those counties are compared to KC-MSA averages, while Johnson County comparisons are based on statewide nonmetropolitan area averages.

The population of the bank's entire AA, according to 2000 Census data, was 83,537. The populations in 2000 for the bank's AA in Cass, Jackson, and Johnson Counties were 28,570, 6,709, and 48,258, respectively. The age of the AA population was slightly higher when compared to the statewide nonmetropolitan areas and the KC-MSA, with 63.5 percent aged 18 years to 64 years compared to 58.1 percent and 61.9 percent, respectively. The AA contained a higher concentration of families when compared to the statewide nonmetropolitan areas and the KC-MSA as a whole. In 2000, 71.7 percent of households in the AA were families compared to 69.7 percent and 67.7 percent for the statewide nonmetropolitan areas and the KC-MSA, respectively.

However, the AA had lower concentrations of LMI families when compared to the statewide nonmetropolitan areas and the KC-MSA. The area's LMI families totaled 30.4 percent compared to 37.6 percent in the statewide nonmetropolitan areas and 37.1 percent in the KC-MSA. The AA's family poverty rate of 6.6 percent was slightly higher than that of the KC-MSA at 6.2 percent, but was substantially below the 11.5 percent for the statewide nonmetropolitan areas. The AA unemployment rate of 4.4 percent was only slightly higher than that of the entire KC-MSA at 4.3 percent, but was lower than the statewide nonmetropolitan areas at 5.6 percent.

A significant volume of housing in the AA is owner-occupied. In 2000, 65.1 percent of the AA housing was owner-occupied compared to 60.1 percent in statewide nonmetropolitan areas and 63.8 percent in the KC-MSA. In addition, area-housing stock was slightly younger with a median age of 25 years compared to the statewide rural median age of 28 years and the KC-MSA median age of 30 years. In 2000, the median housing value for the AA was \$99,504 compared to \$66,246 for statewide nonmetropolitan areas and \$102,876 for the KC-MSA. The result is housing that is less affordable than in the KC-MSA, with a housing affordability ratio² of 41.0 percent, compared to 44.0 percent in the KC-MSA and 45.0 percent in the statewide nonmetropolitan areas as a whole.

Community members indicated the large employers in the area included the University of Central Missouri, Stahl Specialty Company, Master Marble Inc., Heiman's Grain Inc. and the local school districts. The community contacts indicated that the local economy was stable,

² Affordability rates are calculated using median household income and median housing values, with lower rates indicating less affordable housing.

with moderate growth, although the demand for real estate had been slowing. They also indicated that local financial institutions were meeting the credit needs of the community.

Table 2 summarizes the characteristics of the bank's AA based on 2000 Census data and 2007 Dun & Bradstreet (D&B) data.

TABLE 2 BANK OF HOLDEN'S 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							3,069	14.0
Moderate-income							3,582	16.4
Middle-income	12	70.6	13,343	60.9	1,007	7.5	5,287	24.1
Upper-income	5	29.4	8,565	39.1	437	5.1	9,970	45.5
Total AA	17	100.0	21,908	100.0	1,444	6.6	21,908	100.0
	HOUSING TYPES BY TRACT							
	Housing Units by Tract	Owner-occupied			Rental		Vacant	
		#	% By Tract	% By Unit	#	%	#	%
Middle-income	20,608	12,289	57.7	59.6	6,835	33.2	1,484	7.2
Upper-income	12,109	9,003	42.3	74.3	2,380	19.7	726	6.0
Total AA	32,717	21,292	100.0	65.1	9,215	28.2	2,210	6.7
	BUSINESSES BY TRACT & REVENUE SIZE							
	Total Businesses by Tract		Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported	
	#	%	#	%	#	%	#	%
Middle-income	1,891	63.5	1,709	63.2	128	65.0	54	73.0
Upper-income	1,085	36.5	996	36.8	69	35.0	20	27.0
Total AA	2,976	100.0	2,705	100.0	197	100.0	74	100.0
Percentage of Total Businesses:			90.9		6.6		2.5	
Based on 2000 Census data, 2004 MSA designations, and 2007 D&B data								

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank's record of meeting the credit needs of its AA was considered satisfactory, based on its performance in the bank's designated AA. Data utilized for this analysis included the bank's performance data, area demographic information, and input obtained from members of the local community.

Loan-To-Deposit Ratio

The bank's average NLTD ratio is considered reasonable based on the institution's size, financial condition, competitive factors, AA credit needs, and the NLTD ratios of competing institutions and its state and national peer groups. During the 16-quarter period since the previous CRA evaluation, the bank's NLTD ratio averaged 77.4 percent. Over the most recent eight quarters, the bank's NLTD ratio averaged 81.2 percent. This figure was higher than the 8-quarter averages of three out of four local peer banks in the bank's AA, whose average NLTD ratios ranged from 65.5 percent to 103.6 percent over the same time period. Also, the bank's NLTD ratio was substantially lower than the nonmetropolitan state peer group average of 92.2 percent but was higher than the national peer group at 72.0 percent.

TABLE 3 BANK OF HOLDEN'S SUMMARY OF LENDING PERFORMANCE								
Lending Within the Assessment Area								
	Inside AA				Outside AA			
	#	%	\$(000)	%	#	%	\$(000)	%
Residential Real Estate	22	84.6	1,588	87.1	4	15.4	236	12.9
Small Business	28	82.4	4,241	85.9	6	17.6	698	14.1
TOTAL LOANS	50	83.3	5,829	86.2	10	16.7	934	13.8
Lending Distribution by Income Level of Geographies								
Loan Type	% of Bank Loans				% of Owner-Occupied Units			
	<i>Income Level</i>	<i>Middle</i>	<i>Upper</i>		<i>Middle</i>	<i>Upper</i>		
Residential Real Estate	59.1	40.9		57.7	42.3			
	% of Bank Loans				% of Small Businesses			
	<i>Income Level</i>	<i>Middle</i>	<i>Upper</i>		<i>Middle</i>	<i>Upper</i>		
Small Business	75.0	25.0		63.2	36.8			
Lending Distribution by Borrower Income Level and Revenue Size of Businesses								
	% of Bank Loans				% of Families			
	<i>Income Level</i>	<i>Low</i>	<i>Moderate</i>	<i>Middle</i>	<i>Upper</i>	<i>Low</i>	<i>Moderate</i>	<i>Middle</i>
Residential Real Estate	36.4	9.1	13.6	40.9	14.0	16.4	24.1	45.5
	% of Bank Loans				% of Small Businesses			
	Small Business	82.1				90.9		

Lending Inside the Assessment Area

Based on the statistical sample of loans reviewed during the examination, the bank originated a majority of its loans within its AA. As shown in Table 3, two loan products were reviewed for the analysis, which included small business loans and residential real estate loans. Of the 60 loans reviewed, 83.3 percent were originated to borrowers within the bank's AA. The bank's performance in this lending test is considered reasonable.

Lending Distribution by Income Level of Geographies

This core performance criterion focuses on the bank's lending among geographies of different income levels, with particular emphasis placed on the bank's lending performance in LMI geographies. As previously mentioned, the AA is comprised of only middle- and upper-income census tracts, rendering the geographic analysis not meaningful.

Lending to Borrowers of Different Income Levels and Businesses of Different Revenue Sizes

This core performance criterion evaluates the bank's distribution of lending to borrowers of different income levels, particularly LMI individuals, and also focuses on the bank's level of lending to businesses of different revenue sizes, primarily those with gross annual revenues of \$1 million or less. The residential real estate loans were compared to the percentage of families located in the AA by income level, while the bank's commercial loans were compared to the percentage of small businesses in the AA. Based on the demographics and economic conditions of the AA, the bank's distribution of loans represented a reasonable penetration among individuals of different income levels and businesses of different revenue sizes.

Residential Real Estate Loans

The bank's level of lending to borrowers of different income levels is considered reasonable relative to area demographics. As illustrated in Table 3, the percentage of loans to low-income borrowers at 36.4 percent was substantially higher than the percentage of families classified as low-income at 14.0 percent. The bank's percentage of lending to moderate-income borrowers was below the percentage of moderate-income families in the area. However, a total of 45.5 percent of the bank's residential real estate loans were originated to families considered to be LMI compared to 30.4 percent of LMI families in the AA. Overall, this represented good residential lending performance to LMI borrowers.

Small Business Loans

The bank's level of lending to small businesses, which is defined by the CRA as a business with annual gross revenues of \$1 million or less, was considered reasonable. As shown in Table 3, the bank made 82.1 percent of its loans to small businesses compared to 90.9 percent of small businesses in the AA. The bank's commitment to small business lending was further demonstrated by 60.7 percent of its business loans sampled being made in amounts of \$100,000 or less, which are amounts typically needed by smaller businesses.

Record of Responding to Complaints

The bank has not received any complaints pertaining to its CRA performance since the last evaluation; therefore, the bank's performance in responding to complaints was not assessed.

FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

The bank is in compliance with the substantive provisions of the antidiscrimination laws and regulations. A review of bank policies and procedures, credit applications, loans and denials, and staff interviews revealed no prohibited practices designed to discourage loan applicants. Further, the bank has not engaged in other illegal credit practices inconsistent with helping to meet the credit needs of the community.

GLOSSARY OF COMMON CRA TERMS

(For additional information, please see the Definitions section of Regulation BB at 12 CFR 228.12.)

Assessment Area – The geographic area(s) delineated by the bank and used in evaluating the bank's record of helping to meet the credit needs of its community. The assessment area must include the geographies where the main office, branches, and deposit-taking automated teller machines are located. The assessment area must consist only of whole geographies, may not reflect illegal discrimination, and may not arbitrarily exclude low- or moderate-income geographies.

Census Tracts – Census tracts are small, relatively permanent geographic entities within counties delineated by a committee of local data users. Census tracts are designed to be homogenous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons and average about 4,000 inhabitants.

Consumer Loans – Loans to individuals for household, family and other personal expenditures. These loans do not include real estate-secured loans.

Dun & Bradstreet Data – Data collected by Dun & Bradstreet regarding types of businesses and their respective gross annual revenues. The data can be sorted by geographies.

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

Income Level – Both geographies and individuals can be described in terms of their income levels. In MSAs, the level is based on the MSA median income. In nonMSA areas, the level is based on the statewide, nonMSA median income.

Low-Income – Less than 50 percent of the area median income

Moderate-Income – At least 50 percent and less than 80 percent of the area median income

Middle-Income – At least 80 percent and less than 120 percent of the area median income

Upper-Income – At least 120 percent or more of the area median income

Metropolitan Statistical Area (MSA) – The general concept of an MSA is that of a core area containing a large population nucleus, together with adjacent communities having a high degree of economic and social integration with that core. Generally, a single city with at least 50,000 inhabitants or an urbanized area with a total population of at least 100,000 would meet the definition of an MSA.

Small Business – A business with gross annual revenues of \$1 million or less.

Small Business Loan – A loan with an original amount of \$1 million or less that has been reported in the Consolidated Report of Condition and Income in the category “Loans secured by nonfarm nonresidential properties” or “Commercial and industrial loans”.

Small Farm – A farm with gross annual revenues of \$1 million or less.

Small Farm Loan – A loan with an original amount of \$500,000 or less that has been reported in the Consolidated Report of Condition and Income in the category “Loans secured by farmland” or “Loans to finance agricultural production and other loans to farmers”.