



PUBLIC DISCLOSURE

JANUARY 26, 2009

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**BANK OF PARSONS
RSSD# 480750**

**1230 EAST MAIN
PARSONS, KANSAS 67357**

**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.

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

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

- Loan-to-Deposit (LTD) Ratio
- Lending Inside the AA
- Lending to Businesses and Farms of Different Revenue Sizes
- Geographic Distribution of Loans

The bank's responsiveness to complaints under the Community Reinvestment Act (CRA), the fifth core criteria used to assess small bank performance, was not evaluated because the bank has not received any such complaints.

Conclusions about the four performance criteria were based on data compiled from a statistically-derived sample of loan files for each major product line. The major product lines were determined through discussions with bank management, a review of the Report of Condition and Income (Call Report), and a review of the number of loan originations since the bank's last CRA examination dated January 18, 2005. The two loan types selected for review were residential real estate and motor vehicle loans.

The bank's LTD ratio indicated a reasonable effort to extend credit and a majority of the bank's lending activity occurred inside its AA. The bank's distribution of loans among borrowers of different income levels was reasonable and the bank's geographic distribution of loans reflected a reasonable dispersion throughout its AA.

SCOPE OF EXAMINATION

The performance of the bank was assessed using the Federal Financial Institutions Examinations Council's (FFIEC) Examination Procedures for Small Institutions. The bank's performance was based on an analysis of residential real estate and motor vehicle loan originations between November 1, 2007 and October 31, 2008. The sample size consisted of a total of 94 loans, of which 48 were residential real estate loans and 46 motor vehicle loans.

DESCRIPTION OF INSTITUTION

The bank is headquartered in Parsons, Kansas, a rural community located in the southeast corner of the state. The bank also operates one branch location in the Parsons Wal-Mart. The branch location opened in early 2006, and is a full-service branch with a cash only automated teller machine (ATM).

The bank is owned by the bank holding company Southeast Bancshares, Incorporated. The holding company has five additional banks within the southeastern region of Kansas.

The analysis of CRA performance identified no legal impediments to the bank's ability to lend. The bank holds 1.10 percent of the market share, which is 17th among the 20 banks in the AA. As of the September 30, 2008 Call Report, the bank reported total assets of \$11,226,000, total loans of \$8,553,000, and total deposits of \$10,500,000. Table 1 indicates the distribution of the bank's loan portfolio by product type.

Loan Type	Amount (\$000)	Percent of Total
Real Estate	5,613	65.6
Consumer	1,065	12.5
Commercial	955	11.2
Agricultural	911	10.6
Other	9	0.1
Total Gross Loans	8,553	100.0

DESCRIPTION OF THE BANK'S ASSESSMENT AREA

Parsons is located in an area of Kansas dominated by farm and ranchland operations. As such, the local economy is dependent upon factors such as annual weather conditions, market prices, and government paid farm subsidies. Strong market prices contributed to a strong local economy in 2004. Although debt levels of local farmers and ranchers are declining, local credit demand remains strong.

The bank's AA is comprised of 18 census tracts located in Neosho, Labette, and Cherokee Counties. Of the 18 tracts, 16 are middle-income and 2 are moderate-income tracts. The median household income for the bank's AA is \$31,055, compared to \$40,624 for the state of Kansas, and \$33,784 for all non-metropolitan statistical area (MSA) tracts within the state.

Within the bank's AA the median housing value is \$46,703. This is below both the median values for all non-MSA tracts within the state at \$59,679. Houses in the AA have a median age of 48 years as compared to 43 years for homes in all other non-MSA tracts in the state. One community contact indicated a lack of available housing, which restricts the bank's potential for real estate lending.

Demographic information indicates that the area has an aging population and a strong need for housing rehabilitation, as well as a need for capital improvement investments in the local towns. Two members of the community were interviewed during the review to gain perspective on local economic conditions and potential credit needs. One contact was a local real estate agent and the other was a city clerk.

Table 2 summarizes the characteristics of the bank's AA based on 2000 Census data.

TABLE 2 BANK'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							3,515	20.4
Moderate-income	2	10.5	1,518	8.8	219	14.4	3,696	21.4
Middle-income	17	89.5	15,733	91.2	1,524	9.7	4,428	25.7
Upper-income							5,612	32.5
Total Assessment Area	19	100.0	17,251	100.0	1,743	24.1	17,251	100.0
	Housing Units by Tract	Housing Type by Tract						
		Owner-occupied			Rental		Vacant	
		#	% by tract	% by unit	#	% by unit	#	% by unit
Moderate-income	2,549	1,599	8.6	62.7	637	25.0	313	12.3
Middle-income	25,249	16,925	91.4	67.0	5,647	22.4	2,677	10.6
Total Assessment Area	27,798	18,524	100.0	66.6	6,284	22.6	2,990	10.8

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The bank's net average LTD ratio is considered reasonable in view of the bank's size, financial condition, and AA credit needs. Since the previous CRA examination, the bank's net LTD ratio averaged 75.7 percent. During this 16-quarter period, its net LTD ratios showed an increasing trend. Over the most recent 8 quarters, the bank's LTD was 75.5 percent compared to a range of 65.2 to 96.2 percent among the local peers selected. The bank's 8 quarter average is higher than the 73.0 percent and 70.7 percent average of national and state peer banks, respectively.

**TABLE 3
SUMMARY OF LENDING PERFORMANCE**

Lending within the Assessment Area								
	Inside AA				Outside AA			
	#	%	\$(000)	%	#	%	\$(000)	%
Residential Real Estate	41	85.4	1,490	87.5	7	14.6	213	12.5
Motor Vehicle	38	82.6	305	81.0	8	17.4	72	19.0
TOTAL	79	84.0	1,795	86.3	15	16.0	285	13.7
Distribution by Income Level of Geographies								
	% of Bank Loans				% of Owner-Occupied Units			
	Low	Moderate	Middle	Upper	Low	Moderate	Middle	Upper
Residential Real Estate		0.0	100.0			8.6	91.4	
	% of Bank Loans				% of Households			
	Low	Moderate	Middle	Upper	Low	Moderate	Middle	Upper
Motor Vehicle		0.0	100.0			9.0	91.0	
Distribution by Borrower Income Level								
	% of Bank Loans				% of Families			
	Low	Moderate	Middle	Upper	Low	Moderate	Middle	Upper
Residential Real Estate	22.0	26.8	22.0	29.3	20.4	21.4	25.7	32.5
	% of Bank Loans				% of Households			
	Low	Moderate	Middle	Upper	Low	Moderate	Middle	Upper
Motor Vehicle	26.3	21.1	34.2	18.4	24.9	18.3	20.6	36.2

Lending in the Bank's Assessment Area

As indicated in Table 3, a majority of the bank's residential real estate and motor vehicle loans are originated inside the AA. The bank's performance in this lending test is therefore considered reasonable.

Geographic Distribution of Loans

The bank's geographic distribution of loans is considered reasonable. The distribution of residential real estate loans among geographies of various income levels is compared to the percentage of owner-occupied households in each of these geographies. Similarly, the distribution of motor vehicle loans is compared to the percentage of households located in the geographies of various income levels. As displayed in Table 3, there were no residential real estate and motor vehicle lending in the moderate-income tracts; however, there are mitigating factors to support the low distribution. One moderate income tract in the bank's AA is located approximately 55 miles away from both the main office and branch of the bank and is near the Joplin, Missouri MSA. There are 12 competitor institutions with 37 offices located in the Joplin MSA. The other moderate income tract in the AA is

approximately 30 miles from the bank's main office and branch. A community contact indicated that the bank's affiliate institution, located within this moderate income tract, is the primary provider of banking services for the tract. Additionally, both community contacts indicated that Rural Development and the Fair Housing Act (FHA) provide a majority of real estate lending within the AA. These factors limit the bank's lending opportunity and activity.

Lending to Borrowers of Different Income Levels

The bank's performance of lending to borrowers of different income levels is considered reasonable. As displayed in Table 3, the percentage of residential real estate loans is compared to the number of LMI families in the AA. Of the families in the AA, 41.8 percent are LMI borrowers. The bank made 48.8 percent of its residential real estate loans to LMI borrowers. The number of motor vehicle loans is compared to the number of households in the AA. Of the households in bank's AA, 43.2 percent are LMI borrowers. The bank made 47.7 percent of its motor vehicle loans to LMI borrowers.

Record of Responding to Complaints

The bank has not received any complaints about its performance in meeting AA credit needs. 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, 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 its communities.

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 tellers 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.

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 family income (**MFI**). In nonMSA areas, the level is based on the statewide, nonMSA median family income.

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

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

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

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

LMI – Collectively, low- and moderate-income families or tracts.

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.