



PUBLIC DISCLOSURE

JULY 08, 2019

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**CHETOPA STATE BANK & TRUST COMPANY
RSSD# 925859**

**409 MAPLE STREET
CHETOPA, KANSAS 67336**

**Federal Reserve Bank of Kansas City
1 Memorial Drive
Kansas City, Missouri 64198**

NOTE: This document is an evaluation of this bank'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 bank. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this bank. The rating assigned to this bank does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial bank.

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INSTITUTION'S COMMUNITY REINVESTMENT ACT RATING

Chetopa State Bank & Trust Company (the bank) is rated Satisfactory. This rating is based on the following conclusions with respect to the performance criteria:

- The bank's net loan-to-deposit (NLTD) ratio is reasonable given the bank's size, financial condition, and assessment area (AA) credit needs.
- A majority of the bank's loans are originated inside the AA.
- An excellent dispersion of loans occurs throughout the bank's AA.
- Lending reflects a reasonable penetration among individuals of different income levels, including low- and moderate-income (LMI), and farms of different sizes.
- Neither the bank nor the Federal Reserve Bank of Kansas City (Reserve Bank) received any Community Reinvestment Act (CRA)-related complaints since the previous evaluation.

SCOPE OF EXAMINATION

The Federal Financial Institutions Examination Council's (FFIEC's) *Interagency Examination Procedures for Small Institutions* were utilized to evaluate the bank's CRA performance. The evaluation considered CRA performance context, including the bank's asset size, financial condition, business strategy and market competition, as well as AA demographic and economic characteristics, and credit needs. Lending performance was assessed within the bank's Southeastern Kansas AA. The following data was reviewed:

- The bank's 16-quarter average NLTD ratio.
- Statistical samples of the bank's motor vehicle secured and small farm loans originated from January 1, 2018 through December 31, 2018. The motor vehicle secured loan sample consisted of 55 loans from a universe of 75 loans, and the small farm loan sample consisted of 93 loans from a universe of 171 loans. Agricultural loans were given greater weight in the evaluation due to the bank's focus on agricultural lending.

DESCRIPTION OF INSTITUTION

The bank is a community bank headquartered in Chetopa, Kansas. The bank's characteristics include:

- The bank is a wholly owned subsidiary of Southeast Bancshares, Inc., Chanute, Kansas.
- Southeast Bancshares, Inc., owns two additional subsidiary banks: Bank of Commerce, Chanute, Kansas, and First Neodesha Bank, Neodesha, Kansas.
- The bank has total assets of \$37.0 million (MM) as of December 31, 2018.

- The bank has one full-service location in Chetopa, Kansas, with a cash-dispensing only automated teller machine on-site.
- The bank’s primary business focus is agricultural lending.

TABLE 1
COMPOSITION OF LOAN PORTFOLIO AS OF DECEMBER 31, 2018

Loan Type	\$(000)	%
Agricultural	14,986	53.4
Residential Real Estate	6,910	24.6
Commercial	4,306	15.3
Consumer	1,669	5.9
Other	210	0.8
Gross Loans	28,081	100.0

Note: Percentages may not total 100.0 percent due to rounding.

The bank was rated Satisfactory under the CRA at its previous April 13, 2015 performance evaluation. There were no known legal, financial, or other factors impeding the bank’s ability to help meet the credit needs in its communities.

DESCRIPTION OF ASSESSMENT AREA

The bank’s Southeastern Kansas AA is comprised of three census tracts in Labette County, Kansas, one census tract in Cherokee County, Kansas, one census tract in Craig County, Oklahoma, and two census tracts in Ottawa County, Oklahoma (see Appendix A for an AA map).

- The AA’s delineation has not changed since the April 2015 performance evaluation. The AA is comprised of seven census tracts, which include two moderate- and five middle-income census tracts.
- The bank is located in a moderate-income census tract in Labette County, Kansas. The AA’s second moderate-income census tract is located in Ottawa County, Oklahoma, approximately 20 miles from the bank’s head office.
- According to the June 30, 2018 Federal Deposit Insurance Corporation (FDIC) Deposit Market Share Report, the bank ranked 14th out of 25 FDIC-insured institutions in the AA with a deposit market share of 1.8 percent.
- Two community contacts were conducted by the Reserve Bank to augment the CRA performance evaluation, as well as to ascertain the credit needs of the communities, the responsiveness of area banks in meeting those credit needs, and the local economic conditions. One community representative was a member of a local organization, which targets small businesses, and the other was from an organization dedicated to supporting local agricultural activities.

TABLE 2 POPULATION CHANGE			
Area	2010 Population	2015 Population	Percent Change
Labette County, Kansas	21,607	21,048	(2.6)
Cherokee County, Kansas	21,603	20,952	(3.0)
Craig County, Oklahoma	15,029	14,744	(1.9)
Ottawa County, Oklahoma	31,848	32,085	0.7
State of Kansas	2,853,118	2,892,987	1.4

*Source: 2010 U.S. Census Bureau Decennial Census
2011-2015 U.S. Census Bureau: ACS*

- The bank's AA has experienced a steady population decline in recent years, with Cherokee County experiencing the largest decrease at 3.0 percent. The population growth of the individual counties within the AA lagged behind the state of Kansas' population growth of 1.4 percent.

TABLE 3 MEDIAN FAMILY INCOME CHANGE			
Area	2010 Median Family Income	2015 Median Family Income	Percent Change
Labette County, Kansas	48,924	51,597	5.5
Cherokee County, Kansas	48,319	51,579	6.7
Craig County, Oklahoma	47,500	47,574	0.2
Ottawa County, Oklahoma	42,616	44,906	5.4
State of Kansas	62,424	66,389	6.4

*Source: 2010 Census Bureau Decennial Census
2011-2015 U.S. Census Bureau: ACS*

- Approximately 15.7 percent of families in the AA live below the poverty line, which is significantly higher than the state of Kansas total of 9.1 percent. Notable outliers are Cherokee and Labette Counties, in which 11.8 percent and 11.7 percent of families, respectively, live below the poverty line.
- According to a community representative, family farming is the area's primary source of employment. Residents must commute to nearby Miami, Oklahoma, or Coffeyville, Kansas, to seek higher paying manufacturing jobs.

TABLE 4
HOUSING COSTS CHANGE

Area	Median Housing Value		Percent Change	Median Gross Rent		Percent Change
	2010	2015		2010	2015	
Labette County, Kansas	64,600	70,200	8.7	499	559	12.0
Cherokee County, Kansas	69,100	72,500	4.9	520	657	26.3
Craig County, Oklahoma	87,000	90,600	4.1	551	621	12.7
Ottawa County, Oklahoma	78,700	82,600	5.0	520	627	20.6
State of Kansas	122,600	132,000	7.7	671	757	12.8

Source: 2006-2010 U.S. Census Bureau: ACS
 2011-2015 U.S. Census Bureau: ACS

- Overall, the AA's affordability ratio¹ was 53.4 percent, which was significantly higher than the state of Kansas, at 39.6 percent. Labette County, where the bank is located, was the most affordable of the counties within the AA, with an affordability ratio of 59.0 percent.
- A community representative noted the local housing market is relatively stable with a number of affordable housing options. However, rising maintenance costs and a lack of suitable tenants has caused the number of available affordable rental units in the area to steadily decline.

TABLE 5
UNEMPLOYMENT RATES

Region	2014	2015	2016	2017	2018
Labette County, Kansas	5.9	5.8	5.7	4.5	4.0
Cherokee County, Kansas	5.0	4.5	4.6	3.9	3.8
Craig County, Oklahoma	5.6	4.8	4.9	4.3	3.5
Ottawa County, Oklahoma	6.6	5.1	5.1	4.3	3.5
State of Kansas	4.5	4.2	4.2	3.7	3.4

Source: Bureau of Labor Statistics: Local Area Unemployment Statistics

- A community representative noted the AA does not offer a diverse job market, and one of the area's largest employers, a charcoal plant, closed after the bank's prior performance evaluation.
- However, the unemployment rates for all four counties in the AA are improved and have remained relatively consistent with the rate for state of Kansas.
- A community representative noted that Chetopa's agricultural economy has been adversely impacted by rising input costs and decreasing commodity prices, but there has been a slight influx of new businesses in the area. The representative further stated the main industries in the AA include agriculture, government, and education.

¹ The housing affordability ratio is calculated by dividing the median household income by the median housing value. A lower ratio indicates that housing is generally less affordable.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Net Loan-to-Deposit Ratio

This performance criterion evaluates the bank’s average NLTD ratio to determine the reasonableness of lending in light of performance context, such as the bank’s capacity to lend, the availability of lending opportunities, the demographic and economic factors present in the AA, and in comparison to similarly situated FDIC-insured institutions. The similarly situated institutions were selected based on asset size, product offerings, and market share operating within the AA. The bank’s NLTD ratio is considered reasonable.

Institution	Location	Asset Size (\$000s)	NLTD Ratio (%)
			16 – Quarter Average
Chetopa State Bank & Trust Company	Chetopa, Kansas	36,994	76.2
Exchange State Bank	Saint Paul, Kansas	71,152	60.9
First National Bank & Trust Company	Miami, Oklahoma	131,251	66.4
Peoples State Bank	Cherryvale, Kansas	16,919	121.1

Assessment Area Concentration

This performance criterion evaluates the percentage of lending extended inside and outside the AA. A majority of the bank’s loans, by number and dollar, are originated inside the AA.

Loan Type	Inside				Outside			
	#	\$(000)	#%	\$%	#	\$(000)	#%	\$%
Motor Vehicle Loans	47	424	85.5	78.8	8	114	14.5	21.2
Small Farm Loans	73	3,194	78.5	78.1	20	897	21.5	21.9
Total Loans	120	3,618	81.1	78.2	28	1,011	18.9	21.8

Note: Percentages may not add to 100.0 percent due to rounding.

Geographic Distribution of Loans

This performance criterion evaluates the bank’s distribution of lending within its AA by income level of census tracts. The bank’s geographic distribution of loans reflects excellent dispersion among the different census tracts within the AA.

Small Farm Lending

The geographic distribution of small farm lending is excellent. The bank's lending in its moderate-income census tracts significantly exceeded the percentage of AA farms in moderate-income census tracts, by number, and also exceeded the demographic figure by dollar. Additionally, when loan dispersion was evaluated, no gaps or lapses in lending were identified within the AA.

TABLE 8
DISTRIBUTION OF 2018 SMALL FARM LENDING
BY INCOME LEVEL OF GEOGRAPHY

Census Tract Income Level	Bank Small Farm Loans				% of Farms
	#	\$(000)	#%	\$%	
Low	0	0	0.0	0.0	0.0
Moderate	17	223	23.3	7.0	3.8
Middle	56	2,972	76.7	93.0	96.2
Upper	0	0	0.0	0.0	0.0

Source: 2018 FFIEC Census Data
 2018 Dun & Bradstreet Data
 2011 – 2015 U.S. Census Bureau: ACS
 NOTE: Percentages may not add up to 100.0 percent due to rounding.

Motor Vehicle Secured Lending

The geographic distribution of motor vehicle secured lending is excellent. The bank's lending in its moderate-income census tracts significantly exceeded the demographic figure by both number and dollar volume.

When loan dispersion was evaluated, there were no motor vehicle secured loans originated in the moderate- and middle-income census tracts in Ottawa County, Oklahoma. However, these census tracts are not located in close proximity to the bank's sole location, and local consumers are more likely served by the financial institutions locally operating within Commerce and Miami, Oklahoma. As such, the bank's lack of motor vehicle secured lending within these census tracts is not considered a significant gap.

TABLE 9
DISTRIBUTION OF 2018 MOTOR VEHICLE SECURED LENDING
BY INCOME LEVEL OF GEOGRAPHY

Census Tract Income Level	Bank Loans				% of Households
	#	\$(000)	#%	\$%	
Low	0	0	0.0	0.0	0.0
Moderate	30	239	63.8	56.4	24.3
Middle	17	185	36.2	43.6	75.7
Upper	0	0	0.0	0.0	0.0

Source: 2018 FFIEC Census data
 2011 – 2015 U.S. Census Bureau: ACS
 NOTE: Percentages may not add up to 100.0 percent due to rounding.

Lending to Borrowers of Different Income Levels and to Farms of Different Sizes

This performance criterion evaluates the bank’s lending to borrowers of different income levels and farms of different revenue sizes. The bank’s lending has a reasonable penetration among individuals of different income levels and farms of different sizes. While the bank’s lending among individuals of different income levels was excellent, the reasonable penetration among farms of different sizes received greater weight in the overall performance.

Small Farm Lending

The borrower distribution of small farm lending is reasonable. As illustrated in Table 10, the bank’s lending to farms with revenues of \$1MM or less was comparable to the demographic figure.

Additionally, 90.4 percent of small farm loans, by dollar volume, were originated in loan amounts of \$100,000 or less, indicating the bank’s willingness to meet the credit needs of small farms. Typically, smaller farms do not have the need or the capacity to borrow large amounts; as such, smaller loan amounts are used as a proxy to estimate the support of small farms.

TABLE 10
DISTRIBUTION OF 2018 SMALL FARM LENDING
BY REVENUE SIZE OF FARMS

	Bank Loans				Total Farms
	#	\$(000)	#%	\$%	%
By Revenue					
\$1 Million or Less	68	2,836	93.2	88.8	99.1
Over \$1 Million	5	359	6.8	11.2	0.9
Not Known	0	0	0.0	0.0	0.0
Total	73	3,195	100.0	100.0	100.0
By Loan Size					
\$100,000 or less	66	1,749	90.4	54.7	
\$100,001 – \$250,000	5	789	6.8	24.7	
\$250,001 – \$500,000	2	657	2.7	20.6	
Total	73	3,195	100.0	100.0	
By Loan Size and Revenue \$1 Million or Less					
\$100,000 or less	61	1,390	89.7	49.0	
\$100,001 – \$250,000	5	789	7.4	27.8	
\$250,001 – \$500,000	2	657	2.9	23.2	
Total	68	2,836	100.0	100.0	

Source: 2018 FFIEC Census Data
 2018 Dun & Bradstreet Data
 2011 – 2015 U.S. Census Bureau: ACS

NOTE: Percentages may not add up to 100.0 percent due to rounding.

Motor Vehicle Secured Lending

The borrower distribution of motor vehicle secured lending is excellent. The bank's lending to LMI borrowers significantly exceeded the demographic figure, by number, while the dollar volume to moderate-income borrowers also exceeded the demographic figure. In total, 78.7 percent of the bank's motor vehicle secured loans were originated to LMI borrowers.

**TABLE 11
DISTRIBUTION OF 2018 MOTOR VEHICLE SECURED LENDING
BY BORROWER INCOME LEVEL**

Borrower Income Level	Bank Loans				% of Households
	#	\$(000)	#%	\$%	
Low	22	99	46.8	23.3	25.8
Moderate	15	206	31.9	48.5	17.3
Middle	6	59	12.8	13.9	17.9
Upper	4	61	8.5	14.4	39.0

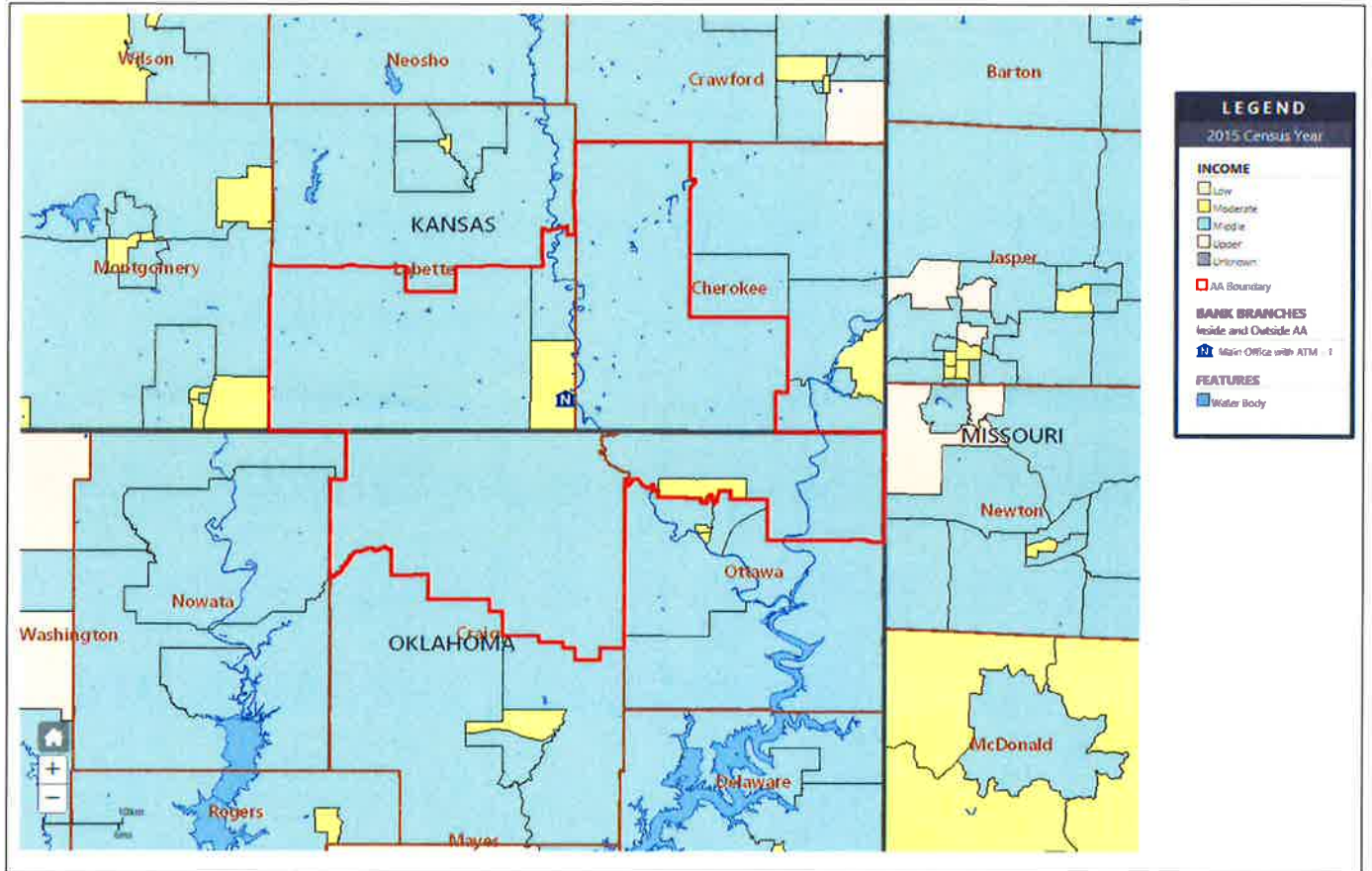
*Source: 2018 FFIEC Census Data
2011 – 2015 U.S. Census Bureau: ACS*

NOTE: Percentages may not add up to 100.0 percent due to rounding.

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 antidiscrimination laws and regulations, including the Equal Credit Opportunity Act and the Fair Housing Act. No evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs was identified.

APPENDIX A – Map of the Assessment Area
Southeastern Kansas AA



APPENDIX B – DEMOGRAPHIC INFORMATION

**TABLE B-1
 2018 SOUTHEASTERN KANSAS AA DEMOGRAPHICS**

Income Categories	Tract Distribution		Families by Tract Income		Families < Poverty Level as % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low	0	0.0	0	0.0	0	0.0	1,254	25.3
Moderate	2	28.6	1,086	21.9	244	22.5	1,003	20.2
Middle	5	71.4	3,874	78.1	535	13.8	1,094	22.1
Upper	0	0.0	0	0.0	0	0.0	1,609	32.4
Unknown	0	0.0	0	0.0	0	0.0	0	0.0
Total AA	7	100.0	4,960	100.0	779	15.7	4,960	100.0
	Housing Units by Tract	Housing Type by Tract						
		Owner-occupied			Rental		Vacant	
		#	% by tract	% by unit	#	% by unit	#	% by unit
Low	0	0	0.0	0.0	0	0.0	0	0.0
Moderate	2,092	1,118	21.3	53.4	539	25.8	435	20.8
Middle	6,142	4,134	78.7	67.3	1,015	16.5	993	16.2
Upper	0	0	0.0	0.0	0	0.0	0	0.0
Unknown	0	0	0.0	0.0	0	0.0	0	0.0
Total AA	8,234	5,252	100.0	63.8	1,554	18.9	1,428	17.3
	Total Businesses by Tract		Businesses by Tract & Revenue Size					
			Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported	
			#	%	#	%	#	%
Low	0	0.0	0	0.0	0	0.0	0	0.0
Moderate	94	19.4	82	19.6	9	20.0	3	15.0
Middle	390	80.6	337	80.4	36	80.0	17	85.0
Upper	0	0.0	0	0.0	0	0.0	0	0.0
Unknown	0	0.0	0	0.0	0	0.0	0	0.0
Total AA	484	100.0	419	100.0	45	100.0	20	100.0
Percentage of Total Businesses:				86.6		9.3		4.1
	Total Farms by Tract		Farms by Tract & Revenue Size					
			Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported	
			#	%	#	%	#	%
Low	0	0.0	0	0.0	0	0.0	0	0.0
Moderate	4	3.8	4	3.8	0	0.0	0	0.0
Middle	102	96.2	101	96.2	1	100.0	0	0.0
Upper	0	0.0	0	0.0	0	0.0	0	0.0
Unknown	0	0.0	0	0.0	0	0.0	0	0.0
Total AA	106	100.0	105	100.0	1	100.0	0	0.0
Percentage of Total Farms:				99.1		0.9		0.0

Source: 2018 FFIEC Census Data
 2018 Dun & Bradstreet Data
 2011 – 2015 U.S. Census Bureau: ACS
 NOTE: Percentages may not add up to 100.0 percent due to rounding.

APPENDIX C – 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: A small subdivision of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan statistical areas. Census tracts usually have between 2,500 and 8,000 persons, and their physical size varies widely depending upon population density. 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, designated disaster areas; or designated distressed or underserved nonmetropolitan middle-income geographies.

Consumer loan(s): A loan(s) 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-scope review: Performance 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 United States 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 such data as the race, gender, and the income of applications, the amount of loan requested, and the disposition of the application (for example, approved, denied, and 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-scope review: Performance 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.

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 area (MA): A metropolitan statistical area (MSA) or a metropolitan division (MD) as defined by the Office of Management and Budget. A MSA is a core area containing at least one urbanized area of 50,000 or more inhabitants, together with adjacent communities having a high degree of economic and social integration with that core. A MD is a division of a MSA based on specific criteria including commuting patterns. Only a MSA that has a population of at least 2.5 million may be divided into MDs.

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 loan(s) to business(es): A loan included in 'loans to small businesses' as defined in the Consolidated Reports of Condition and Income (Call Report) 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 loan(s) to farm(s): A loan included in 'loans to small farms' as defined in the instructions for preparation of the Consolidated Reports of Condition and Income (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.