



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

May 27, 2008

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Kennett National Bank
Charter Number 15155**

**805 First Street
Kennett, Missouri 63857**

Office of the Comptroller of the Currency

**Little Rock (Memphis)
10201 West Markham, Suite 105 Ozark National Life Building
Little Rock, AR 72205**

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.

- ◆ The average loan-to-deposit ratio at 61% is reasonable given the bank's size, financial condition, and assessment area credit needs.
- ◆ A majority of loans (83%) are in the bank's assessment area.
- ◆ The distribution of loans reflects reasonable penetration among individuals of different income levels and businesses of different sizes.
- ◆ The geographic distribution of loans reflects reasonable dispersion throughout the assessment area

SCOPE OF EXAMINATION

The bank was evaluated using Small Bank CRA criteria. The bank is not located in Metropolitan Statistical Areas (MSA), therefore the bank is not a Home Mortgage Disclosure Act reporter. Loan information used for this evaluation included residential, agriculture and business/commercial loans made during 2007.

DESCRIPTION OF INSTITUTION

Kennett National Bank (KNB) is located in Kennett (Dunklin County), Missouri (MO) which has a population of 11,260 according to the 2000 census. The bank has only one banking facility and two automated teller machines (ATMs). There is an ATM at the main office, and an ATM in Senath, MO (13 miles south of Kennett). As of March 31, 2008, the bank reported total assets of \$100 million with \$78 million in deposits and \$65 million in loans (65% of total assets).

The bank's primary business focus is residential real estate, agriculture, and business/commercial loans. KNB offers residential real estate, home improvement, consumer, agriculture, commercial real estate, commercial and business loans. The loan portfolio composition as of March 31, 2008, is as follows:

Table 1 - Loan Portfolio Composition as of March 31, 2008		
Loan Type	Dollar Amount (000's)	Percent of Total Loans
Construction and Land Development	2,263	3.46%
Secured by Farmland	11,270	17.25%
One-to-Four Family Residential	23,386	35.80%
Commercial Real Estate	7,962	12.19%
Total Real Estate Loans	44,881	68.71%
Agricultural	5,164	7.91%
Commercial and Industrial	6,739	10.31%
Consumer	6,354	9.73%
Other	2,186	3.35%
Total Loans	65,324	100%

Source: *Report of Condition*

KNB offers convenient banking hours and a variety of loan and deposit products to meet the needs of the assessment area. There are no financial impediments that would limit the bank's ability to help meet the credit needs in its assessment area.

The bank is 100% owned by Kennett Bancshares Inc, a one-bank holding company located in Kennett, MO. The bank's last CRA examination was performed as of July 7, 2003 and was rated **Satisfactory**.

DESCRIPTION OF ASSESSMENT AREA(S)

KNB's assessment area (AA) is Dunklin County. The AA meets the requirements of the regulation and does not arbitrarily exclude low- and moderate-income geographies. There are ten Block Numbering Areas (BNAs)/Census Tracts (CTs) in the AA, five of which are moderate-income and five are middle-income. These BNAs/CTs are 9601 through 9610. The Median Family Income (MFI) for non-Metropolitan Statistical Areas (MSA) in Missouri was \$36,175 in 2000. This income figure is used to determine the income level of individual BNAs. BNAs 9601, 9604, 9606, 9608 and 9610 are moderate-income tracts. The 2007 Housing and Urban Development (HUD) estimated MFI for non-MSA in Missouri was \$42,800. HUD estimated MFI is updated annually and is used to determine the income level of individual applicants. The income ranges for the four income levels are as follow: Low-Income = under \$21,400; Moderate-Income = \$21,400 - \$34,239; Middle-Income = \$34,240 - \$51,359; and, Upper-Income = above \$51,360.

Kennett is located in the southeastern part of the state commonly known at the "Missouri bootheel". According to 2000 Census Data, the population of Dunklin County was 33,155. The economy of the county is considered to be in a slow growth mode.

The largest employers in Dunklin County are: Southeast Missouri (SEMO) Association of Public Health (medical) with about 650 employees; Federal Mogul Corporation (mufflers) with 400 employees, and the Kennett Public School system with 300 employees. Unemployment as of March 2008 was 8.3% for Dunklin County. The unemployment rate is above the Missouri average of 5.7% and the U.S. average of 5.2% as of March 2008.

The following table shows the demographic and economic characteristics of the assessment area.

Table 2 - Demographic and Economic Characteristics of the Dunklin County							
Demographic Characteristics	# Total	Low % of #	Moderate % of #	Middle % of #	Upper % of #	N/A* % of #	
Geographies (Census Tracts/BNAs)	10	0	50.00%	50.00%	0	0	
Population by Geography	33,155	0	51.94%	48.06%	0	0	
Owner-Occupied Housing by Geography	14,682	0	50.65%	49.35%	0	0	
Businesses by Geography	2,703	0	59.30%	40.70%	0	0	
Farms by Geography	241	0	54.77%	45.23%	0	0	
Family distribution by Income Level	9,234	28.53%	18.66%	20.41%	32.40%	0	
Distribution of Low and Moderate Income Families throughout AA Geographies	4,358	0	52.19%	47.81%	0	0	
Median Family Income, 2000 Census	\$36,175	Median Housing Value (as of 2000)			\$47,672		
HUD Adjusted Median Family Income for 2007	\$42,800	25%	Unemployment Rate March 2008 (Not-seasonally adjusted) USA Missouri Dunklin County			5.2% 6.1% 8.3%	
Households Below Poverty Level							
% Businesses with Revenues < \$1 million	54.50%	% Farms with Revenues < \$1 million		95.44%			
% Businesses with Revenues > \$1 million	3.40%	% Farms with Revenues > \$1 million		3.73%			

Source: 2000 U.S. Census data; 2007 HUD updated income data; Dun and Bradstreet; Bureau of Labor Standards.

* the N/A category consists of geographies that have not been assigned an income classification.

A community contact with the executive director of the Kennett Chamber of Commerce was conducted in conjunction with this CRA examination. This contact revealed that local banks are meeting the primary credit needs in the area.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

KNB's loan-to-deposit ratio is reasonable given the bank's size, financial condition, and assessment area credit needs and is satisfactory. There are two other banks that are headquartered and similarly situated in the AA. These banks are the First National Bank, Malden, MO and Senath State Bank, Senath, MO. There are nine banks with branches in Dunklin County and KNB has 17.61% of the deposit market share based on the June 30, 2007 FDIC Deposit Market Share Report. KNB is ranked second. FNB-Malden is ranked third with 15.75% of the deposit market share and Senath State Bank is

ranked sixth with 8.24% of the deposit market share. The following table shows total assets as of December 31, 2007, and the quarterly average loan-to-deposit ratio from September 30, 2003 through December 31, 2007 (18 quarters) for these three similarly situated banks.

Table 3 - Loan-to-Deposit Ratios		
Institution	Assets (as of 12-31-2007)	Average LTD Ratio
KNB, Kennett, MO	\$101 million	61.21%
First National Bank, Malden, MO	\$118 million	96.55%
Senath State Bank, Senath, MO	\$51 million	96.62%

Source: *Institution Reports of Condition*.

Lending in Assessment Area

A majority of KNB loans are in the bank's assessment area and is satisfactory. A sample of 25 residential real estate loans, 25 agriculture loans and 25 business/commercial loans made during 2007 was reviewed to determine lending within the assessment area. Lending within the assessment area is detailed in the following table.

Loan Type	Number of Loans				Dollars of Loans (000)				Total		
	Inside		Outside		Total	Inside		Outside			
	#	%	#	%		\$	%	\$			
Residential	22	88%	3	12%	25	1,412	81%	334	19%	1,746	
Agriculture	20	80%	5	20%	25	2,072	80%	527	20%	2,599	
Business	20	80%	5	20%	25	1,517	85%	260	15%	1,777	
Totals	62	83%	13	17%	75	5,001	82%	1,121	18%	6,122	

Source: sample of loans used for CRA performance analysis.

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

The distribution of borrowers reflects, given the demographics of the assessment area, reasonable penetration among individuals of different income levels (including low-and moderate-income) and businesses of different sizes and is satisfactory. The same samples for lending within the assessment area were used to determine lending to borrowers of different incomes.

The following table shows the distribution of residential real estate loans within the various income levels.

Table 5 - Borrower Distribution of Residential Real Estate Loans in Dunklin County								
Borrower Income Level	Low		Moderate		Middle		Upper	
% of AA Families	28.53%		18.66%		20.41%		32.40%	
Loan Year 2007	% of Number	% of Amount						
Home Purchase	36.36%	10.67%	36.36%	45.39%	9.09%	8.94%	18.18%	35.00%

Source: Loan sample and U.S. Census data.

The residential real estate sample consists of home purchase loans. There were an insufficient number of home improvement and refinancing loans to have a valid loan sample for these products. The above table shows that residential real estate loans were made to low-income and moderate-income borrowers. Residential real estate loans, by number, made to low-and moderate-income borrowers exceed the percentage of low- and moderate-income families in the assessment area and are considered to be outstanding. In addition, loans to moderate-income borrowers by dollar amount exceed the percentage of moderate-income families in the assessment area.

A sample of 25 farm loans and 25 business/commercial loans made during 2007 was reviewed. The following tables show lending to small farms and small businesses.

Table 5B – Borrower Distribution of Loans to Farms in Dunklin County			
Business Revenues(or Sales)	$\leq \$1,000,000$	$> \$1,000,000$	Revenues not known
% of AA Farms	95.44%	3.73%	0.83%
% of Bank Loans in AA by #	70.00%	20.00%	10.00%
% of Bank Loans in AA by \$	88.64%	10.45%	0.92%

Source: Loan sample and Dun and Bradstreet data

The above table shows that small farm loans to small farm borrowers with revenues under \$1,000,000, by number of loans, are below the numbers of farms with revenues under \$1,000,000 in the assessment area and are considered satisfactory. Farm loans to borrowers with revenues under \$1,000,000, by dollar volume of loans, are slightly below the numbers of farms with revenues under \$1,000,000 in the assessment area and are considered to be good.

Table 5C – Borrower Distribution of Loans to Businesses in Dunklin County			
Business Revenues(or Sales)	$\leq \$1,000,000$	$> \$1,000,000$	Revenues not known
% of AA Businesses	54.50%	3.40%	42.10%
% of Bank Loans in AA by #	70.00%	15.00%	15.00%
% of Bank Loans in AA by \$	89.19%	9.87%	0.93%

Source: Loan sample and Dun and Bradstreet data

The above table shows that small business loans to borrowers with revenues under \$1,000,000, by number and dollar volume of loans, exceed the numbers of small businesses with revenues under \$1,000,000 in the assessment area and are considered to be outstanding.

Geographic Distribution of Loans

The geographic distribution of loans reflects reasonable dispersion throughout the assessment area and is satisfactory. The same samples for lending within the assessment area were used to determine lending to borrowers of various income areas. The following tables show the distribution of residential real estate, farm, and business/commercial loans within the various BNA income levels.

Table 6 - Geographic Distribution of Residential Real Estate Loans in Dunklin County								
Census Tract Income Level	Low		Moderate		Middle		Upper	
% of AA Owner Occupied Housing	0		50.65%		49.35%		0	
Loan Year 2007	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Home Purchase	0	0	54.55%	38.07%	45.45%	61.93%	0	0

Source: *Loan sample and U.S. Census data.*

Table 6B - Geographic Distribution of Loans to Farms in Dunklin County								
Census Tract Income Level	Low		Moderate		Middle		Upper	
% of AA Farms	0		54.77%		45.23%		0	
Loan Year	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
2007	0	0	75.00%	59.86%	25.00%	40.14%	0	0

Source: *Loan sample and U.S. Census data.*

Table 6C - Geographic Distribution of Loans to Businesses in Dunklin County								
Census Tract Income Level	Low		Moderate		Middle		Upper	
% of AA Businesses	0		59.30%		40.70%		0	
Loan Year	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
2007	0	0	55.00%	55.34%	45.00%	44.60%	0	0

Source: *Loan sample and U.S. Census data.*

The above tables show that the bank is making residential real estate, agriculture and business/commercial loans to borrowers located in the moderate-income BNAs. The sample of residential real estate loans, by number of loans, made to borrowers residing in moderate-income tracts exceeds the percentage of owner-occupied houses in moderate-income tracts and is considered to be outstanding. In addition, farm loans, by number and dollar volume of loans, made to borrowers in moderate-income tracts also exceed the percentage of farms in moderate-income tracts. The percentage for business/commercial loans in the sample is below the percentage of businesses located in the moderate-income BNAs and is considered satisfactory.

Responses to Complaints

Kennett National Bank has not received a formal CRA complaint since the previous examination.

Fair Lending or Other Illegal Credit Practices Review

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