

PUBLIC DISCLOSURE

February 3, 1997

**COMMUNITY REINVESTMENT ACT
PERFORMANCE EVALUATION**

THE EXCHANGE BANK OF MISSOURI
10-29-3730

101 SOUTH CHURCH
FAYETTE, MISSOURI 65248

Federal Reserve Bank of Kansas City

925 Grand Blvd.
Kansas City, Missouri 64198

NOTE: 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.

GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the 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. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the Community Reinvestment Act (CRA) performance of the Exchange Bank of Missouri, Fayette, Missouri, prepared by the Federal Reserve Bank of Kansas City, the institution's supervisory agency, as of February 3, 1997. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 228.

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

The bank has an outstanding record of helping to meet the credit needs of its assessment area. The loan-to-deposit ratio exceeds standards for satisfactory performance given the institution's size, financial condition, and assessment area credit needs. In addition, a substantial majority of loans are within the bank's assessment area. Furthermore, the distribution of loans among borrowers of different incomes reflects reasonable dispersion in the bank's assessment area.

The following table indicates the performance level of The Exchange Bank of Missouri with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	The Exchange Bank of Missouri PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does not meet Standards for Satisfactory

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			Performance
Loan-to-Deposit Ratio	X		
Lending in Assessment Area	X		
Lending to Borrowers of Different Incomes		X	
Geographic Distribution of Loans	No meaningful analysis possible.		
Response to Complaints	No complaints were received since the prior examination.		

DESCRIPTION OF INSTITUTION

The Exchange Bank of Missouri is located in central Missouri, approximately midway between Kansas City and St. Louis on Interstate 70. The bank's main office is located in Fayette, Missouri, the county seat of Howard County. The town is located approximately 30 miles northwest of Columbia, Missouri, and has a population of 2,900. The bank has a branch located in New Franklin, Missouri, a town with a population of 1,100, located approximately 15 miles south of Fayette on the southern edge of Howard County. Cooper County is located directly south of and contiguous to Howard County. The bank has substantial business in Boonville, the county seat of Cooper County, which is just five miles from New Franklin. The bank and its branch are accessible to the entire community. The Exchange Bank of Missouri is a new member of the Federal Reserve System, and this is the bank's first consumer compliance examination as a state member bank. The bank's prior CRA evaluation was performed by the Federal Deposit Insurance Corporation as of January 5, 1995, and its CRA performance was considered satisfactory at that time.

The bank has the ability to meet the credit needs of its defined assessment area based on its financial condition, size, and product offerings. According to the bank's September 30, 1996 Consolidated Reports of Condition and Income (Call Report), the bank's assets totaled \$25,660M, of which loans totaled \$18,687M or 72.8 percent. As shown in the loan distribution table, the bank is primarily a residential real estate lender; however, the bank offers a variety of loan products in order to meet community credit needs. General loan products include residential mortgage and rehabilitation, agricultural, and commercial loans. The

bank is also involved in various governmentally sponsored or guaranteed loan programs, such as: Rural Economic Community Development (RECD) Guaranteed 100% First Time Home Buyer Loans, Small Business Administration (SBA), Community Betterment Program, Veterans Administration (VA), Farmers Home Administration (FmHA), and MO-Bucks. The bank's September 30, 1996 Call Report reflected the following loan distribution:

THE BANK'S LOAN PORTFOLIO		
Loan Type	Amount (\$000)	Percent of Total
1- to 4-family real estate	11,010	58.9
Other Real Estate	2,895	15.5
Construction	469	2.5
Total Real Estate	14,374	76.9
Consumer	2,160	11.6
Agricultural	998	5.3
Other	6	-
Commercial	1,149	6.2
TOTAL	18,687	100.0

DESCRIPTION OF THE EXCHANGE BANK OF MISSOURI'S ASSESSMENT AREA

The bank's assessment area is defined as all of Howard and Cooper Counties and is comprised of three upper-income and five middle-income BNAs. Fayette is located in one of the upper-income BNAs, and Boonville straddles the other two upper-income BNAs. The bank's branch in New Franklin is in a middle-income BNA.

According to 1990 Census data, the total population of the assessment area is

24,466, with upper-income and middle-income families comprising 68.5 percent of all families. Upper-income and middle-income households also comprise 64.4 percent of households. The assessment area median family income of \$27,414 is significantly higher than that of \$24,325 for statewide nonmetropolitan areas.

Although the number of farming jobs in the assessment area has decreased since 1990, employment increased between 1990 and 1994 (3.6 percent in Cooper County and 3.2 percent in Howard County) according to Regional Employment and Income Series (REIS) data. This increase is primarily due to an increase in the number of manufacturing, service, and retail jobs. Community contacts indicated that as much as 20 percent of the population of Fayette and Boonville commute to jobs in Columbia. REIS data indicates that, while the population of Cooper County grew slightly between 1990 and 1994 (from 14,800 to 15,700), the population of Howard County remained stable and did not change. Unemployment in the assessment area was low, at 5.3 percent, as compared to 6.8 percent in statewide nonmetropolitan areas. The 1990 Census data indicated that 18.4 percent of the assessment area's population was over the age of 65. Additional assessment area characteristics as of the 1990 Census are summarized in the following table:

BANK ASSESSMENT AREA CHARACTERISTICS	
Tract Summary	
Total Number of Tracts	8
Number of Middle-Income Tracts	5
Number of Upper-Income Tracts	3
Income Summary	
Median Family Income (Assessment Area)	\$27,414
Percent Low-Income Families	14.7
Percent Moderate-Income Families	16.9
Percent Middle-Income Families	21.2

Percent Upper-Income Families	47.2
Unemployment Summary	
Labor Force Population (Assessment Area)	11,371
Percent Unemployment (Assessment Area)	5.3
Percent Unemployment (Nonmetropolitan State)	6.8
Miscellaneous Information	
Total Population (Assessment Area)	24,466
Percentage of Households Below Poverty	9.8
Percentage of Housing Units Vacant	10.9

According to REIS and 1990 Census data, employment is stable within the assessment area. This is apparently due to its diverse economic base. The local economy is largely dependent upon manufacturing, retail, and service industries. The largest employers in Fayette are Central Methodist College and the school district. In the Boonville/New Franklin area, the largest employers are Nordyne Manufacturing (heating and cooling products, with over 450 employees), Kemper Military Academy, and the Boonslick Area Vocational Technical School. This information was obtained from Community Profiles compiled by the Missouri Department of Community Development and from CRA community contacts. A community contact indicated that Nordyne had recently expanded its operations and increased the number of employees. Community contacts also indicated that the communities in the assessment area are increasingly becoming bedroom communities, with many residents commuting to jobs in Columbia.

Both community contacts indicated that, while housing is affordable, there is a shortage of houses in the \$50,000 - \$70,000 range. The average housing age in the assessment area (43 years) is substantially higher than the average housing age for nonmetropolitan areas in the state (33 years). Approximately 44 percent of the housing stock was built pre-1950, as compared to 27.7 percent for other nonmetropolitan areas in the state. The 1990 Census data indicates that housing

affordability for the assessment area is more favorable than the state average and for other rural areas. The median housing value for the assessment area was \$35,677, as compared to \$38,803 for nonmetropolitan areas in the state and \$59,314 for the state as a whole. This could be partially due to the older housing in the assessment area.

The housing vacancy rate of 10.9 percent in the assessment area is substantially lower than the 15.9 percent residential vacancy rate in other nonmetropolitan areas in the state. These figures indicate a tighter housing market exists in the assessment area. Community contacts noted that the historic houses in the assessment area were becoming increasingly popular candidates for rehabilitation by professionals moving away from Columbia into the smaller towns.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Several factors were considered in evaluating the bank's CRA performance. These factors include: a review of the bank's level of lending in relation to its deposits and that of other comparable institutions; penetration of loan originations inside and outside the bank's defined assessment area; and the bank's record of lending to borrowers of different income levels. The bank's community services and investments records were also analyzed. In addition, three community members, who serve as city officials, were contacted to gather additional information about the assessment area's credit needs and to confirm that the products and services offered by the bank meet those needs.

The bank's average loan-to-deposit ratio (calculated using the previous four quarterly Call Reports from December 30, 1995 to September 30, 1996) equaled 81.1 percent. This average is significantly higher than most of the similarly-sized area banks which had average loan-to-deposit ratios ranging from 38.1 percent to 93.5 percent. The average loan-to-deposit ratio for the bank's national peer group for the same period was 67.2 percent. The bank's peer group consists of all insured commercial banks having assets between \$10 million and \$25 million with two or more banking offices, and located in a nonmetropolitan area. The bank's loan-to-deposit ratio is a reflection of the loan demand in the area and the bank's

willingness to meet that demand. In comparison to other similarly-sized banks in the area, the bank's average loan-to-deposit ratio exceeds the standards for satisfactory performance.

A substantial majority of the bank's lending occurs within its assessment area, based upon a review of the bank's location, the assessment area, and residential real estate and motor vehicle loan originations. A review of these loan types revealed that 90 percent of all loans sampled were made to borrowers within the assessment area, and 72 percent of the total dollar amount of the loans sampled went to borrowers within the assessment area. In addition to demonstrating that most of the bank's lending is within its assessment area, these percentages also indicate that smaller dollar amount loans were made in the assessment area. As a general rule, smaller dollar amount loans are made to individuals with lower incomes, thus indicating the bank's willingness to meet the needs of lower-income borrowers in the assessment area. The table below illustrates the bank's record of lending within the assessment area:

DISTRIBUTION OF RESIDENTIAL REAL ESTATE AND MOTOR VEHICLE LOANS IN AND OUT OF ASSESSMENT AREA		
	<i>In</i>	<i>Out</i>
<i>Total Number of Loans</i>	185	21
<i>Percentage of Total Number of Loans</i>	90%	10%
<i>Total Dollar Amount of Loans</i>	\$3,111,482	\$1,227,797
<i>Percentage of Total Loan Amount</i>	72%	28%

The bank's distribution of residential real estate and motor vehicle loans among individuals of different income levels meets the standards for satisfactory performance when compared to the demographics of the assessment area. The table on the following page illustrates the percentage of borrowers within the differing income levels for the two loan types sampled in comparison to the percentage of assessment area families within the income

categories.

PERCENTAGE OF LOANS REVIEWED MADE TO INDIVIDUALS OF DIFFERENT INCOME LEVELS IN THE ASSESSMENT AREA				
Area Median Family Income \$27,414				
<i>Income Level of Borrower</i>	<i>Percentage of Residential Real Estate Loans Reviewed</i>	<i>Percentage of Motor Vehicle Loans Reviewed</i>	<i>Combined Percentage of Residential and Vehicle Loans Reviewed</i>	<i>Percentage of Families in the Bank's Assessment Area</i>
Low (50% of median)	8	22	17	14.7
Moderate (50% to 80% of median)	16	23	21	16.9
Middle (80% to 120% of median)	32	27	29	21.2
Upper (>120% of median)	44	28	33	47.2
Total	100	100	100	100.0

Data in the above table indicates that the distribution of loans in the different income levels generally corresponds with the income demographics of the area. For example, the bank made 8 percent of its residential real estate loans and 22 percent of its motor vehicle loans to low-income borrowers, with a combined calculation of 17 percent. This compares favorably to the percentage of low-income families in the defined assessment area, which equals 14.7 percent according to the 1990 Census.

As previously noted, of the eight BNAs in the bank's assessment area, five were classified as middle-income and three as upper-income. There are no low-income or moderate-income BNAs within the assessment area. Therefore, an analysis of the bank's distribution of loans in BNAs with different income levels is not meaningful.

The Exchange Bank requested to be considered for an **A** Outstanding rating under the CRA. Consequently, the bank's performance evaluation included an analysis of qualified investments and services. The bank has made no qualified community development investments since it became a state member bank of the Federal Reserve System. Given the relatively small asset size (\$25MM) and resources of the bank, it is limited in its ability to make community development investments that meet the qualification requirements under CRA. This limitation was taken into consideration in evaluating the bank's record.

Although the bank did not have qualified community development investments under CRA, the bank has contributed significantly through the following community development services:

1. Executive Vice President Gina Sanders has been participating in a series of training seminars entitled Self Employment Training (SET), sponsored by the Missouri Small Business Development Center, the city of Fayette, Central Methodist College, the Thomas Hill Enterprise Center, and the U.S. Small Business Administration. The seminars provide technical assistance to those owning or interested in starting a small business. The SET program teaches **A** entrepreneur(s) how to keep good financial records, the secrets of good organization and management and how to deal with the reality of risk. At the most recent seminar, held on February 3, 1996, Ms. Sanders' topic was the application process for small business loans.
2. Executive Vice President Gina Sanders is the treasurer of the Howard County Home Health Board. She offers technical and financial assistance to a nonprofit organization whose purpose is to provide home health care to the indigent. This activity utilizes the financial expertise of Ms. Sanders in a manner that directly benefits low- and moderate-income individuals.
3. Vice President Paul Toler of the New Franklin branch has been

participating, along with other bankers in the community, in the application process to obtain a Missouri Housing Development Commission (MHD) grant for the city of Boonville in December 1996. The grant, part of an MHD pilot program, is for the purpose of providing infrastructure for the development of a large affordable housing project in Boonville. This grant was given to only four communities in the state.

Mr. Toler's contribution to the process included: (1) participation, at the invitation of the city, in round-table sessions and public hearings held to elicit feedback on the feasibility of an affordable housing project; (2) providing information for feasibility studies; and (3) providing financial information and advice during the grant application process. Mr. Toler is now working with developers to finance affordable housing starts. The bank will be able to offer loans to home buyers under the Rural Economic Community Development (RECD) Guaranteed 100% First Time Home Buyer Loans.

4. Vice President Paul Toler is an advisory board member on the recently formed South Howard County Foundation, a nonprofit organization formed as a result of the MHD affordable housing grant. Included in the express purposes of the foundation are: (1) to obtain further grants for economic development and stabilization of declining areas of the county; (2) provision of jobs to low- and moderate-income workers; (3) revitalization of low-to-moderate income areas; and, (4) promotion of business starts in the community.

No substantive violations of the antidiscrimination laws and regulations were reported. Reviews of bank policies, credit applications, and loans revealed no prohibited practices designed to discourage applications. Moreover, bank management has provided training to staff members in order to prevent violations of the antidiscrimination laws and regulations.

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