

# **PUBLIC DISCLOSURE**

September 16, 2024

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

McGehee Bank  
Certificate Number: 11242

301 North 2nd Street  
McGehee, Arkansas 71654

Federal Deposit Insurance Corporation  
Division of Depositor and Consumer Protection  
Dallas Regional Office

600 North Pearl Street, Suite 700  
Dallas, Texas 75201

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.

## TABLE OF CONTENTS

INSTITUTION RATING .....	1
DESCRIPTION OF INSTITUTION .....	1
DESCRIPTION OF ASSESSMENT AREA .....	2
SCOPE OF EVALUATION .....	4
CONCLUSIONS ON PERFORMANCE CRITERIA.....	5
DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES REVIEW.....	8
APPENDICES .....	9
SMALL BANK PERFORMANCE CRITERIA.....	9
GLOSSARY .....	10

## INSTITUTION RATING

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

An institution in this group has a satisfactory record of helping to meet the credit needs of its assessment area (AA), including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

- The loan-to-deposit (LTD) ratio is reasonable (considering seasonal variations and taking into account lending-related activities), given the institution's size, financial condition, and AA credit needs.
- A majority of loans are in the institution's AA.
- The geographic distribution of loans reflects reasonable dispersion throughout the AA.
- The distribution of borrowers reflects, given the demographics of the AA, poor penetration among farms of different sizes.
- The institution did not receive any CRA-related complaints since the previous evaluation; therefore, this criterion did not affect the rating.

## DESCRIPTION OF INSTITUTION

McGehee Bank maintains its headquarters in McGehee, Arkansas. Southeast Financial Bankstock Corporation, a one-bank holding company, also headquartered in McGehee, Arkansas, wholly owns the bank. McGehee Bank received a Satisfactory rating at its previous Federal Deposit Insurance Corporation (FDIC) Performance Evaluation, dated September 4, 2018, using Small Bank Procedures.

McGehee Bank operates one full-service office and three limited-service locations within one designated AA located in the State of Arkansas. The bank did not open or close any branches or experience any merger or acquisition activity since the prior evaluation. Branch hours and days of service remain consistent with area and industry norms.

McGehee Bank offers a variety of loan products including commercial, home mortgage, agricultural, and consumer loans, primarily focusing on agricultural lending. Deposit products include checking, savings, money market, and certificate of deposit accounts. Alternative delivery systems include internet banking, mobile banking, and three automated teller machines.

As of the June 30, 2024, Reports of Condition and Income, McGehee Bank reported total assets of \$160.9 million, total loans of \$109.3 million, and total deposits of \$126.7 million. Since the prior evaluation, total assets increased by 25.1 percent, total loans increased by 7.1 percent, and total deposits increased by 32.5 percent. As presented in the following table, the mix of outstanding loans as of June 30, 2024, reflects a distribution supportive of the institution's business focus, with agricultural loans representing the largest portion.

<b>Loan Portfolio Distribution as of 06/30/2024</b>		
<b>Loan Category</b>	<b>\$(000s)</b>	<b>%</b>
Construction, Land Development, and Other Land Loans	2,473	2.3
Secured by Farmland	18,656	17.1
Secured by 1-4 Family Residential Properties	4,514	4.1
Secured by Multifamily (5 or more) Residential Properties	221	0.2
Secured by Nonfarm Nonresidential Properties	11,187	10.2
<b>Total Real Estate Loans</b>	<b>37,051</b>	<b>33.9</b>
Commercial and Industrial Loans	12,969	11.9
Agricultural Production and Other Loans to Farmers	56,144	51.4
Consumer Loans	2,447	2.2
Obligations of State and Political Subdivisions in the U.S.	0	0.0
Other Loans	675	0.6
Lease Financing Receivable (net of unearned income)	0	0.0
Less: Unearned Income	0	0.0
<b>Total Loans</b>	<b>109,286</b>	<b>100.0</b>
<i>Source: Reports of Condition and Income Due to rounding, totals may not equal 100.0</i>		

Examiners did not identify any financial, legal, or other impediments that affect the institution's ability to meet its AA credit needs.

## **DESCRIPTION OF ASSESSMENT AREA**

The CRA requires each financial institution to define one or more AAs within which its CRA performance will be evaluated. McGehee Bank designated one AA containing all five census tracts of Desha County located in the Arkansas Non-Metropolitan Statistical Area (MSA). The AA conforms to CRA regulatory requirements. Due to changes resulting from the 2020 U.S. Census Data, the income designations for the five census tracts changed from two low-income and three middle-income geographies at the previous evaluation to three moderate-income and two middle-income tracts at the current evaluation.

### **Economic and Demographic Data**

Based on 2020 U.S. Census Data, the Arkansas Non-MSA AA contains three moderate- and two middle-income census tracts. The following table provides additional demographic and economic data for the AA.

Demographic Information of the Assessment Area						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	5	0.0	60.0	40.0	0.0	0.0
Population by Geography	11,395	0.0	39.4	60.6	0.0	0.0
Housing Units by Geography	6,292	0.0	42.7	57.3	0.0	0.0
Owner-Occupied Units by Geography	3,137	0.0	38.6	61.4	0.0	0.0
Occupied Rental Units by Geography	1,922	0.0	43.0	57.0	0.0	0.0
Vacant Units by Geography	1,233	0.0	52.6	47.4	0.0	0.0
Businesses by Geography	893	0.0	31.9	68.1	0.0	0.0
Farms by Geography	234	0.0	41.5	58.5	0.0	0.0
Family Distribution by Income Level	3,286	29.7	19.4	19.0	31.8	0.0
Household Distribution by Income Level	5,059	29.9	21.6	14.6	33.9	0.0
Median Family Income – AR Non-MSA		\$53,702	Median Housing Value Median Gross Rent Families Below Poverty Level			\$78,044 \$566 19.1%
<i>Source: 2020 U.S. Census; 2023 D&amp;B Data</i>						
<i>Due to rounding, totals may not equal 100.0</i>						
<i>(*) The NA category consists of geographies that have not been assigned an income classification</i>						

According to the Arkansas Economic Development Commission, major employers in the AA include Clearwater Paper Corporation, McGehee Hospital, and Diamond Pet Foods. The following table shows the annual unemployment rate for the AA, State of Arkansas, and nation. The data reflects an increase in 2020 due to the nationwide COVID-19 pandemic and a decreasing trend since the pandemic.

Unemployment Rates						
Area	2018	2019	2020	2021	2022	2023
	%	%	%	%	%	%
Desha County	4.5	4.4	7.2	6.0	5.2	4.6
State of Arkansas	3.7	3.5	6.2	4.0	3.2	3.3
National Average	3.9	3.7	8.1	5.3	3.6	3.6
<i>Source: Bureau of Labor Statistics</i>						

## **Competition**

The AA reflects a high level of competition for financial services, based on its population. According to the FDIC Deposit Market Share data as of June 30, 2024, Desha County contained 5 financial institutions operating 10 offices in the AA. Of these institutions, McGehee Bank ranked 2<sup>nd</sup> with a 30.7 percent deposit market share.

## **Community Contact**

As part of the evaluation process, examiners contact third parties active in the AA to assist in identifying the credit and community needs. This information helps determine local financial institutions' responsiveness to these needs and shows available credit and community development opportunities.

Examiners conducted a community contact with a member from an economic development organization serving the AA. The contact indicated the local economy in the area remains relatively stable, but the population is declining with people moving out of rural areas. The contact stated agriculture-related industries serve as the main source of income for individuals and families within the community. Loans focusing on agricultural requests help serve the immediate needs of the community by allowing people to continue to live and work in the rural areas, according to the contact. In addition, the contact stated that local banks remain involved in the community and appropriately serve the credit needs.

## **Credit Needs**

Considering information from bank management, the community contact, as well as demographic and economic data, examiners determined that small farm lending represents the primary credit need for the AA.

# **SCOPE OF EVALUATION**

## **General Information**

This evaluation covers the period from the prior evaluation dated September 4, 2018, to the current evaluation dated September 16, 2024. To evaluate performance, examiners applied the CRA Small Bank Procedures, which include the Lending Test. The appendix lists the test's criteria.

## **Activities Reviewed**

CRA Small Bank Procedures require examiners to determine the bank's major product lines for review. Examiners may select from among the same loan categories used for Large Bank CRA evaluations, including home mortgage, small business, small farm, and consumer loans. The following table details McGehee Bank's originations and purchases over the most recent completed calendar year by loan type.

<b>Loans Originated or Purchased</b>				
<b>Loan Category</b>	<b>\$(000s)</b>	<b>%</b>	<b>#</b>	<b>%</b>
Construction and Land Development	3,600	2.6	2	0.4
Secured by Farmland	22,221	16.2	9	1.8
Secured by 1-4 Family Residential Properties	2,436	1.8	10	2.0
Multi-Family (5 or more) Residential Properties	3,000	2.2	1	0.2
Commercial Real Estate Loans	1,377	1.0	5	1.0
Commercial and Industrial Loans	4,978	3.6	53	10.5
Agricultural Loans	96,979	70.8	155	30.7
Consumer Loans	2,180	1.6	251	49.8
Other Loans	268	0.2	18	3.6
<b>Total Loans</b>	<b>137,039</b>	<b>100.0</b>	<b>504</b>	<b>100.0</b>
<i>Source: 2023 Bank Data</i>				
<i>Due to rounding, totals may not equal 100.0</i>				

Considering the dollar volume and number of loans originated or purchased during 2023, as well as management’s stated business strategy, examiners determined the bank’s major product line consists of agricultural loans. Since the other categories typically reviewed for CRA do not represent major product lines, they would not materially affect any conclusions or the rating. Therefore, this evaluation does not include a review of home mortgage, small business, or consumer loans. Bank records indicate the lending focus and product mix remained generally consistent throughout the evaluation period.

For the Lending Test, this evaluation includes a review of all 110 small farm loans totaling \$18.6 million originated or purchased in 2023, which represents the most recent completed calendar year of available data. Since this evaluation only discusses small farm loans, this loan category received all of the weighting when arriving at overall conclusions. D&B data for 2023 provided a standard comparison for the small farm loans reviewed.

While the evaluation presents both the number and dollar volume of loans, examiners emphasized performance by number of loans when arriving at conclusions for the individual performance factors because the number of loans better indicates the number of farms served.

## **CONCLUSIONS ON PERFORMANCE CRITERIA**

### **LENDING TEST**

McGehee Bank demonstrated satisfactory performance under the Lending Test. A reasonable LTD ratio, a reasonable record regarding geographic distribution, and a majority of loans originated inside the AA outweighed a poor borrower profile record to support this conclusion.

## Loan-to-Deposit Ratio

The LTD ratio is reasonable (considering seasonal variations and taking into account lending-related activities) given the institution’s size, financial condition, and AA credit needs. The LTD ratio, calculated from Reports of Condition and Income data, averaged 79.6 percent over the past 24 quarters, from September 30, 2018, to June 30, 2024. The ratio ranged from a high of 117.7 percent on September 30, 2018, to a low of 57.4 percent as of March 31, 2022. Due to the seasonal nature of agricultural lending, the ratio fluctuates throughout each year but remained generally stable with some noted improvement during the evaluation period.

Examiners compared McGehee Bank’s LTD ratio to three comparable institutions operating in or near the AA with similar asset bases and product lines. As seen in the following table, McGehee Bank reported the second highest listed ratio, and its ratio landed 9.7 percentage points below and 14.0 percentage points above the highest and lowest listed ratios, respectively.

LTD Ratio Comparison		
Bank	Total Assets as of 06/30/2024 (\$000s)	Average Net LTD Ratio (%)
McGehee Bank, McGehee, AR	160,874	79.6
Merchants and Farmers Bank, Dumas, AR	248,807	89.3
Bank of Lake Village, Lake Village, AR	84,202	65.6
First Natural State Bank, McGehee, AR	95,199	77.3

*Source: Reports of Condition and Income 09/30/2018 - 06/30/2024*

## Assessment Area Concentration

A majority of loans are in the institution’s AA. The following table shows McGehee Bank originated a majority of small farm loans, by both number and dollar volume, inside the AA.

Lending Inside and Outside of the Assessment Area										
Loan Category	Number of Loans				Total #	Dollars Amount of Loans \$(000s)				Total \$(000s)
	Inside		Outside			Inside		Outside		
	#	%	#	%		\$	%	\$	%	
Small Farm	81	73.6	29	26.4	110	13,656	73.4	4,947	26.6	18,603

*Source: 2023 Bank Data*

## Geographic Distribution

The geographic distribution of loans reflects reasonable dispersion throughout the AA. Reasonable performance regarding small farm loans supports this conclusion. Examiners focused of the bank’s percentage by number of loans granted in moderate-income census tracts relative to 2023 D&B data when arriving at this conclusion.



***Small Farm Loans***

The geographic distribution of small farm loans reflects reasonable dispersion throughout the AA. The following table shows that in moderate-income census tracts, the bank’s performance falls 5.7 percentage points below demographic data, reflective of reasonable performance.

<b>Geographic Distribution of Small Farm Loans</b>					
<b>Tract Income Level</b>	<b>% of Farms</b>	<b>#</b>	<b>%</b>	<b>\$(000s)</b>	<b>%</b>
Low	0.0	0	0.0	0	0.0
Moderate	41.5	29	35.8	4,412	32.3
Middle	58.5	52	64.2	9,244	67.7
Upper	0.0	0	0.0	0	0.0
<b>Total</b>	<b>100.0</b>	<b>81</b>	<b>100.0</b>	<b>13,656</b>	<b>100.0</b>
<i>Source: 2023 D&amp;B Data; 2023 Bank Data Due to rounding totals may not equal 100.0</i>					

**Borrower Profile**

The distribution of borrowers reflects, given the demographics of the AA, poor penetration among farms of different sizes. Poor performance regarding small farm loans supports this conclusion. Examiners focused on the percentage by number of loans to farms in the AA with gross annual revenues of \$1 million or less when arriving at conclusions for this performance factor.

***Small Farm Loans***

The distribution of borrowers reflects poor penetration among farms of different sizes in the AA. As shown in the following table, McGehee Bank originated 3 of every 10 of the small farm loans reviewed to farms with gross annual revenues of \$1 million or less, reflecting poor performance. The bank’s record falls 64.9 percentage points below the demographic data; however, the disparity between the bank data and D&B data in the Revenue Not Available category makes any comparison between the two less meaningful.

<b>Distribution of Small Farm Loans by Gross Annual Revenue Category</b>					
<b>Gross Revenue Level</b>	<b>% of Farms</b>	<b>#</b>	<b>%</b>	<b>\$(000s)</b>	<b>%</b>
< \$100,000	44.4	3	3.7	442	3.2
\$100,000 - \$249,999	31.6	9	11.1	1,147	8.4
\$250,000 - \$499,999	15.0	6	7.4	597	4.4
\$500,000 - \$1,000,000	6.0	8	9.9	2,047	15.0
<b>Subtotal ≤ \$1,000,000</b>	<b>97.0</b>	<b>26</b>	<b>32.1</b>	<b>4,233</b>	<b>31.0</b>
> \$1,000,000	2.1	41	50.6	6,921	50.7
Revenue Not Available	0.9	14	17.3	2,502	18.3
<b>Total</b>	<b>100.0</b>	<b>81</b>	<b>100.0</b>	<b>13,656</b>	<b>100.0</b>
<i>Source: 2023 D&amp;B Data; 2023 Bank Data Due to rounding totals may not equal 100.0</i>					

### **Response to Complaints**

The institution did not receive any CRA-related complaints since the previous evaluation; therefore, this criterion did not affect the rating.

### **DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES REVIEW**

The bank's compliance with the laws relating to discrimination and other illegal credit practices was reviewed, including the Fair Housing Act and the Equal Credit Opportunity Act. Examiners did not identify any discriminatory or other illegal credit practices.

## APPENDICES

### SMALL BANK PERFORMANCE CRITERIA

#### **Lending Test**

The Lending Test evaluates the bank's record of helping to meet the credit needs of its assessment area(s) by considering the following criteria:

- 1) The bank's loan-to-deposit ratio, adjusted for seasonal variation, and, as appropriate, other lending-related activities, such as loan originations for sale to the secondary markets, community development loans, or qualified investments;
- 2) The percentage of loans, and as appropriate, other lending-related activities located in the bank's assessment area(s);
- 3) The geographic distribution of the bank's loans;
- 4) The bank's record of lending to and, as appropriate, engaging in other lending-related activities for borrowers of different income levels and businesses and farms of different sizes; and
- 5) The bank's record of taking action, if warranted, in response to written complaints about its performance in helping to meet credit needs in its assessment area(s).

## 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.

**American Community Survey (ACS):** A nationwide United States Census survey that produces demographic, social, housing, and economic estimates in the form of five year estimates based on population thresholds.

**Area Median Income:** The median family income for the MSA, if a person or geography is located in an MSA; or the statewide nonmetropolitan median family income, if a person or geography is located outside an MSA.

**Assessment Area:** A geographic area delineated by the bank under the requirements of the Community Reinvestment Act.

**Census Tract:** A small, relatively permanent statistical subdivision of a county or equivalent entity. The primary purpose of census tracts is to provide a stable set of geographic units for the presentation of statistical data. Census tracts generally have a population size between 1,200 and 8,000 people, with an optimum size of 4,000 people. Census tract boundaries generally follow visible and identifiable features, but they may follow nonvisible legal boundaries in some instances. State and county boundaries always are census tract boundaries.

**Combined Statistical Area (CSA):** A combination of several adjacent metropolitan statistical areas or micropolitan statistical areas or a mix of the two, which are linked by economic ties.

**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.

**Core Based Statistical Area (CBSA):** The county or counties or equivalent entities associated with at least one core (urbanized area or urban cluster) of at least 10,000 population, plus adjacent counties having a high degree of social and economic integration with the core as measured through commuting ties with the counties associated with the core. Metropolitan and Micropolitan Statistical Areas are the two categories of CBSAs.

**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 non-relatives living with the family. Families are classified by type as either a married-couple family or other family. Other family 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).

**FFIEC-Estimated Income Data:** The Federal Financial Institutions Examination Council (FFIEC) issues annual estimates which update median family income from the metropolitan and nonmetropolitan areas. The FFIEC uses American Community Survey data and factors in information from other sources to arrive at an annual estimate that more closely reflects current economic conditions.

**Full-Scope Review:** A full-scope review is accomplished when examiners complete all applicable interagency examination procedures for an assessment area. Performance under applicable tests is analyzed considering performance context, quantitative factors (e.g., geographic distribution, borrower profile, and total number and dollar amount of investments), and qualitative factors (e.g., 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 applicants; the amount of loan requested; and the disposition of the application (approved, denied, and withdrawn).

**Home Mortgage Loans:** Includes closed-end mortgage loans or open-end line of credits as defined in the HMDA regulation that are not an excluded transaction per the HMDA regulation.

**Housing Unit:** Includes a house, an apartment, a mobile home, a group of rooms, or a single room that is occupied as separate living quarters.

**Limited-Scope Review:** A limited scope review is accomplished when examiners do not complete all applicable interagency examination procedures for an assessment area. Performance under applicable tests is often analyzed using only quantitative factors (e.g., geographic distribution, borrower profile, 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.

**Median Income:** The median income divides the income distribution into two equal parts, one having incomes above the median and other having incomes below the median.

**Metropolitan Division (MD):** A county or group of counties within a CBSA that contain(s) an urbanized area with a population of at least 2.5 million. A MD is one or more main/secondary

counties representing an employment center or centers, plus adjacent counties associated with the main/secondary county or counties through commuting ties.

**Metropolitan Statistical Area (MSA):** CBSA associated with at least one urbanized area having a population of at least 50,000. The MSA comprises the central county or counties or equivalent entities containing the core, plus adjacent outlying counties having a high degree of social and economic integration with the central county or counties as measured through commuting.

**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 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 and less than 80 percent in the case of a geography.

**Multi-family:** Refers to a residential structure that contains five or more units.

**Nonmetropolitan Area (also known as non-MSA):** All areas outside of metropolitan areas. The definition of nonmetropolitan area is not consistent with the definition of rural areas. Urban and rural classifications cut across the other hierarchies. For example, there is generally urban and rural territory within metropolitan and nonmetropolitan areas.

**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.

**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.

**Rural Area:** Territories, populations, and housing units that are not classified as urban.

**Small Business Loan:** A loan included in "loans to small businesses" as defined in the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$1 million or less and are either secured by nonfarm nonresidential properties or are classified as commercial and industrial loans.

**Small Farm Loan:** A loan included in "loans to small farms" as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, including farm residential and other improvements, or are classified as loans to finance agricultural production and other loans to farmers.

**Upper-Income:** Individual income that is 120 percent or more of the area median income, or a median family income that is 120 percent or more in the case of a geography.

**Urban Area:** All territories, populations, and housing units in urbanized areas and in places of 2,500 or more persons outside urbanized areas. More specifically, “urban” consists of territory, persons, and housing units in places of 2,500 or more persons incorporated as cities, villages, boroughs (except in Alaska and New York), and towns (except in the New England states, New York, and Wisconsin).

“Urban” excludes the rural portions of “extended cities”; census designated place of 2,500 or more persons; and other territory, incorporated or unincorporated, including in urbanized areas.