



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

July 07, 2008

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Security State Bank, National Association
Charter Number 23867

220 E. Main Street
Ore City, TX 75683

Office of the Comptroller of the Currency

Longview Field Office
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Longview, TX 75604-2516

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.

Security State Bank, N.A., Ore City, Texas has a satisfactory record of meeting community credit needs. This rating is based on the following:

- ◆ A substantial majority of the bank's loans are extended within their assessment area.
- ◆ The geographic distribution of loans reflects a reasonable dispersion within the assessment area.
- ◆ The bank's loan-to-deposit ratio is reasonable based on the bank's performance context and lending opportunities within its assessment area.
- ◆ The distribution of loans demonstrates a reasonable penetration among borrowers of different income levels and businesses of different sizes.

SCOPE OF EXAMINATION

This Performance Evaluation (PE) is an assessment of Security State Bank, N.A. ability to meet the credit needs of the communities in which it operates. The bank was evaluated under the Small Bank performance criteria. Conclusions regarding the bank's lending performance are based on consumer, residential real estate, and commercial loans originated from December 22, 2003 to July 7, 2008.

DESCRIPTION OF INSTITUTION

Security State Bank, N.A. (SSB) is a \$46 million bank which serves Upshur County and portions of Marion, Harrison and Gregg Counties. SSB has a branch in Ore City, TX and one in Diana, TX. SSB is wholly owned by First Gilmer Bancshares. The bank offers a full range of loan and deposit products. The following chart reflects the distribution of the bank's loan portfolio as of June 30, 2008.

Loan Category	\$ (000)	%
Commercial Loans	5,535	24.94
Commercial Real Estate	5,308	23.91
Consumer Loans	4,819	21.71
Residential Real Estate Loans	6,358	28.64
Agricultural Loans	177	0.80
Total	22,197	100.00

There are no legal impediments or other factors that inhibit the bank's ability to meet the credit needs of the community. The bank was rated satisfactory during the prior CRA Examination dated December 22, 2003.

DESCRIPTION OF ASSESSMENT AREAS

The Board has designated census tract 101 in Gregg county and the following census tracts in Upshur county: 9501, 9502, and 9507, census tract 202 in Harrison county, and the following census tracts in Marion county: 9502, 9503, and 9504 as their assessment area. All of these census tracts are contiguous; however, Gregg County and Upshur Counties are part of the Longview Metropolitan Statistical Area (MSA) and were reviewed separately. The non-MSA portion of the assessment including the census tracts in Marion and Harrison counties were reviewed together. SSB's assessment area meets the requirements of the Community Reinvestment Act and no low or moderate income geographies are arbitrarily excluded.

Gregg and Upshur County

The assessment area portion of these counties contains 3 middle income and 1 upper income tracts. This portion of the assessment area has a total population of 19,997. Competition is moderate with a few banks and one credit union located in these tracts. The local economy is stable with an unemployment rate of 2.46%. Major employers in Upshur County include Rob Roy Industries and Strategic Fulfillment. Good Shepherd Medical Center, Texas Eastman Company, and LeTourneau, Inc. are major employers in Gregg County. Contact with a local government official revealed area banks are community minded and adequately satisfy community credit needs.

The following table provides a description of the assessment area based on census data and 2007 Department of Housing and Urban Development (HUD) information.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA	
<i>Population</i>	
Number of Families	5,874
Number of Households	7,478
<i>Geographies</i>	
Number of Census Tracts	4
% Low-Income Census Tracts	0.00%
% Moderate-Income Census Tracts	0.00%
% Middle-Income Census Tracts	75.00%
% Upper-Income Census Tracts	25.00%
<i>Median Family Income (MFI)</i>	
2000 MFI for AA	\$43,251
2007 HUD-Adjusted MFI	\$47,500
<i>Economic Indicators</i>	
Unemployment Rate	2.46%
2007 Median Housing Value	\$63,701
% of Households Below Poverty Level	13.23%

Marion and Harrison County

The non-MSA portion of the bank's assessment area include census tracts in Marion and Harrison Counties, which have a population of 14,655 and includes one moderate income tract and three middle income tracts. Area competition is moderate. The local economy is stable with unemployment of 2.80%; however, 19% of households in these tracts are below the poverty level. Major employers are Jefferson ISD and Norboard. Contact with a local government official revealed local institutions are meeting the banking and credit needs of the community.

The following table provides a description of the assessment area based on census data and 2007 Department of Housing and Urban Development (HUD) information.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA	
<i>Population</i>	
Number of Families	4,167
Number of Households	5,910
<i>Geographies</i>	
Number of Census Tracts	4
% Low-Income Census Tracts	0.00%
% Moderate-Income Census Tracts	25.00%
% Middle-Income Census Tracts	75.00%
% Upper-Income Census Tracts	0.00%
<i>Median Family Income (MFI)</i>	
2000 MFI for AA	\$34,928
2007 HUD-Adjusted MFI	\$41,800
<i>Economic Indicators</i>	
Unemployment Rate	2.80%
2007 Median Housing Value	\$45,320
% of Households Below Poverty Level	19.17%

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Management has demonstrated satisfactory performance in meeting the credit needs of the community. The following sections provide detail of our assessment of each performance criteria.

Loan-to-Deposit Ratio

The loan-to-deposit ratio of Security State Bank, N.A. (SSB) is reasonable given the bank's size, financial condition, and assessment area credit needs. The bank's

quarterly loan-to-deposit ratio has averaged 61.43% since the prior CRA Examination. The average loan-to-deposit ratio of banks within and near the assessment area during the same time period was 66.42%.

Institution	Assets (000s) (as of 3/31/08)	Average LTD Ratio
Security State Bank, N.A. Ore City	\$46,180	61.43%
Texas Heritage National Bank	\$94,495	82.53%
Lone Star State Bank	\$29,821	90.37%
First State Bank (Hallsville)	\$34,279	45.05%
First State Bank (Avinger)	\$15,780	83.51%
The First National Bank of Linden	\$80,747	51.94%
The First National Bank of Gilmer	\$195,770	56.81%
Gilmer National Bank	\$182,314	54.74%

Lending in Assessment Area

A substantial majority of the bank’s lending activity is located within the assessment area. Our review focused on the bank’s primary product lines: consumer, commercial and residential real estate loans. We reviewed a sample of 20 consumer, 20 commercial, and 62 residential real estate loans. This sample revealed approximately 87% of the number of loans and 88% of the dollar amount of loans were extended in the bank’s assessment area. The breakdown by loan category is illustrated below:

Lending in Upshur, Gregg, Marion and Harrison Counties										
Loan Type	Number of Loans					Dollars of Loans (000's)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Consumer	17	85.00	3	15.00	20	99	87.17	15	12.83	113
Commercial	18	90.00	2	10.00	20	769	96.51	28	3.49	797
Residential RE	54	87.10	8	12.90	62	3,428	85.83	566	14.17	3,994
Totals	89	87.25	13	12.75	102	4,296	87.60	609	12.42	4,904

Source: Data reported under HMDA, loan sample.

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

The distribution of loans within the assessment area reflects a reasonable penetration among borrowers of different income levels and businesses of different sizes.

Gregg and Upshur County

The distribution of consumer loans in Gregg and Upshur Counties reflects an excellent penetration. Twenty-one percent of assessment area households are considered low

income while our sample revealed 30% of loans are to low income households. Likewise, the percentage of loans by number to moderate income households exceeds the percentage of these households in the assessment area.

Borrower Distribution of Consumer Loans in Gregg and Upshur Counties								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
	20.73	30.00	14.47	20.00	18.96	25.00	45.84	25.00

Source: Loan Sample; U.S. Census data.

The distribution of real estate loans reflects a reasonable penetration. The 2000 United States Census Data established that 13.23% of assessment area households live below the poverty line. This represents a significant portion of the low income families in the assessment area and hinders their ability to qualify for a mortgage loan. This limits the bank’s ability to make mortgage loans in this income category. The percentage of loans to moderate income families far exceeds the percentage of these families in the assessment area.

Borrower Distribution of Residential Real Estate Loans in Gregg and Upshur Counties								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
	18.88	13.33	16.94	26.67	23.65	13.33	40.53	46.67

Source: HMDA data; U.S. Census data.

The distribution of loans to businesses reflects a reasonable penetration. Approximately forty-seven percent of businesses do not report their revenues; therefore the percentage of businesses by income level may not accurately reflect a true percentage in each income category. Our sample of business loans inside the assessment area revealed a substantial majority of the bank’s business loans were to businesses with revenues less than \$1 million.

Borrower Distribution of Loans to Businesses in Gregg and Upshur Counties				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	49.88	2.96	47.16	100
% of Bank Loans in AA by #	95.00	5.00	---	100
% of Bank Loans in AA by \$	87.43	12.57	---	100

Source: Loan Sample; Dun & Bradstreet data.

Marion and Harrison County

The distribution of consumer loans in Marion and Harrison counties reflects a reasonable penetration. Seventeen percent of assessment area households are considered moderate income while our sample revealed 30% of loans are to moderate income households. Thirty-one percent of assessment area households are considered low income while our sample shows only 10% of loans are to low income households. However 19% of Marion and Harrison county residents are below the poverty level thus hindering their ability to qualify for a loan.

Borrower Distribution of Consumer Loans in Marion and Harrison Counties								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
	30.61	10.00	17.41	30.00	16.18	15.00	35.80	45.00

Source: Loan Sample; U.S. Census data.

The distribution of real estate loans reflects a reasonable penetration given 19% of Marion and Harrison county residents are below the poverty level thus hindering their ability to qualify for a mortgage loan. Limited housing stock also contributes to low penetration.

Borrower Distribution of Residential Real Estate Loans in Marion and Harrison Counties								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
	23.30	4.17	18.79	16.66	20.45	4.17	37.46	75.00

Source: HMDA data; U.S. Census data.

The distribution of loans to businesses represents an excellent penetration. Revenue information was not reported for approximately 39% of the businesses in the assessment area. As a result, the percentage of businesses by income level may not accurately reflect a true percentage of the businesses in each income category. Regardless, one hundred percent of loans in our sample were to businesses with revenue less than \$1 million.

Borrower Distribution of Loans to Businesses in Marion and Harrison Counties				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	59.13	1.78	39.09	100
% of Bank Loans in AA by #	100.00	0.00	---	100
% of Bank Loans in AA by \$	100.00	0.00	---	100

Source: Loan Sample; Dun & Bradstreet data.

Geographic Distribution of Loans

The geographic distribution of loans reflects a reasonable dispersion within the assessment area.

Marion and Harrison County

Security State Bank, N.A. has a reasonable dispersion of loans within Marion and Harrison Counties. The bank’s assessment area has no low income tracts and only one moderate income tract (Marion County census tract 9503). The distribution of all loan categories sampled either meets or exceeds the characteristics of the moderate census tract.

Geographic Distribution of Residential Real Estate Loans in Marion and Harrison Counties								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
	0.00	0.00	24.02	25.00	75.98	75.00	0.00	0.00

Source: HMDA data; U.S. Census data.

Geographic Distribution of Consumer Loans in Marion and Harrison Counties								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
	0.00	0.00	23.54	30.00	76.46	70.00	0.00	0.00

Source: Loan Sample; U.S. Census data.

Geographic Distribution of Loans to Businesses in Marion and Harrison Counties								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
	0.00	0.00	25.00	25.00	75.00	75.00	0.00	0.00

Source: Loan Sample; Dun & Bradstreet data.

Responses to Complaints

Security State Bank, N.A. has not received any CRA related complaints during the assessment period.

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.