

PUBLIC DISCLOSURE

May 10, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Security State Bank, N. A.
Charter Number 23867**

**220 E. Main
Post Office Box 70
Ore City, Texas 75683-0070**

**Office of the Comptroller of the Currency
Southwestern District
1600 Lincoln Plaza
500 North Akard
Dallas, Texas 75201-3394**

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 **Security State Bank, N.A.** prepared by **Office of the Comptroller of the Currency** the institution's supervisory agency, as of May 10, 1999. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.*

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

- < The bank's average loan-to-deposit ratio of 57.01% is reasonable when compared to the ratios of other area banks.
- < A majority of the bank's loans are extended within its assessment area.
- < Credit activity is reasonably distributed to borrowers of different income levels.
- < Geographic distribution of loans reflects a reasonable penetration throughout the assessment area.

The following table indicates the performance level of Security State Bank, N.A. with respect to each of the five performance criteria.

	<u>Security State Bank, N.A.</u> <u>Ore City, Texas</u> PERFORMANCE LEVELS		
	Exceeds Standards For Satisfactory Performance	Meets Standards For Satisfactory Performance	Does not meet Standards for Satisfactory Performance
Loan to Deposit Ratio		X	
Lending in Assessment Area	X		
Lending to Borrowers of Different Incomes and to businesses of different sizes		X	
Geographic Distribution of Loans		X	
Response to Complaints	No complaints were received since the prior Examination.		

DESCRIPTION OF INSTITUTION:

Security State Bank, N.A. of Ore City is a \$41 million bank. The bank's main office is located at 220 East Main, Ore City, Texas. The bank maintains branch facilities at 1760 U. S. Highway 259 South, Diana, Texas. The bank also has four Automated Teller Machines (ATM's) located at the main office, the branch location, a grocery store across from the main office and at a convenience store next to the branch. The institution is consumer retail oriented and offers full service banking. Loan products offered include agricultural loans, real estate loans, consumer loans, and commercial loans. Outstanding loans on March 31, 1999 totaled \$17.8 million and represented 56% of net deposits. The loan portfolio is distributed as follows: 45% real estate; 39% consumer; 14% commercial; and 2% other. There are no legal impediments or other factors which inhibit the bank's ability to meet the needs of the community. The previous Community Reinvestment Act Examination was conducted in March of 1998 at which time the bank was assigned a satisfactory rating.

DESCRIPTION OF ASSESSMENT AREA:

The Board has designated the bank's assessment area to include areas in the Longview/Marshall Metropolitan Statistical Area (MSA) and three block numbering areas (BNA's) in Marion County. The assessment area designation is based on the location of the main office and the Diana branch. The area includes census tract 101.00 in Gregg County, census tract 202.98 in Harrison County, and census tracts 9501 and 9507.98 in Upshur County all located in the Longview/Marshall MSA. The assessment area further includes the BNA's of 9502, 9503, and 9504 in Marion County. The area contains the communities of Ore City, Diana, Harleton, East Mountain, and Judson. The assessment area contains two moderate income areas, four middle income areas and one upper income area. The population within this area totals 26,586 persons according to the 1990 Census Bureau data. Approximately 25.27% of the families are low income, 17.32% of the families are moderate income, 20.08% are middle income and 37.33% are upper income. The assessment area meets the requirements of the regulation and does not arbitrarily exclude low or moderate income geographies. The U. S. Census 1990 median income for the MSA assessment area is \$37,600 and for the BNA assessment area is \$32,100. The largest employers in the area are Ore City Independent School District, Peebles Lumber, Catfish Village, Great American Foods, and Newsom's Grocery.

Competition within the bank's assessment area is minimal. There are no competing financial institutions in Ore City or Diana. The primary competitors are located immediately adjacent to the assessment area in Avinger and Lone Star, Texas. The secondary competitors are located in Gilmer, Jefferson and Judson, Texas.

A CRA community contact was made in 1998 by the Federal Deposit Insurance Corporation. The city secretary of Ore City was interviewed. The elected official for a quasi-governmental agency was not aware of any opportunities or programs of which area financial institutions could assist in providing financing for development purposes. The official also indicated that the banks in the area are meeting the credit needs of the community.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

LOAN TO DEPOSIT RATIO:

Security State Bank's loan-to-deposit ratio is reasonable given the bank's size, financial condition, and assessment area credit needs. The bank's average loan-to-deposit ratio was 57.01% since the prior CRA Examination in March 1998. The average loan-to-deposit ratio for banks in the surrounding area for the same time period was 57.94%. Individual loan-to-deposit ratios for these banks averaged from a low of 46.33% to a high of 68.67%.

LENDING IN ASSESSMENT AREA:

The bank exceeds standards for satisfactory performance of lending activity within its assessment area. We reviewed a sample of 38 residential loans, 24 business loans, and 25 consumer loans, which originated since March 1998 and year-to-date 1999. The sample reflected that approximately 90% of the number and 89% of the dollar amount of loans were extended within the bank's assessment area. The breakdown by loan category is illustrated below:

Residential Mortgages	Number	Percent	Dollar Amt. (000's)	Percent
Inside Assessment Area	36	94.74%	1,223	89.08%
Outside Assessment Area	2	5.26%	150	10.92%

Business Loans	Number	Percent	Dollar Amt. (000's)	Percent
Inside Assessment Area	23	95.83%	1,076	91.42%
Outside Assessment Area	1	4.17%	101	8.58%

Consumer Loans	Number	Percent	Dollar Amt. (000's)	Percent
Inside Assessment Area	19	76.00%	89	66.92%
Outside Assessment Area	6	24.00%	44	33.08%

LENDING TO BORROWERS OF DIFFERENT INCOME AND TO BUSINESSES OF DIFFERENT SIZES:

The distribution of loans within the assessment area reflects a reasonable penetration among individuals of different income levels and business of different sizes. We performed an analysis based on a sample of consumer, residential, and business loans originated within the bank’s assessment area since March 1998. The distribution of loans within each income category generally approximates the income characteristics of the assessment area’s population. The following table details the results of our income analysis:

Lending to Borrowers of Different Income Levels										
	Low Income Families		Moderate Income Families		Middle Income Families		Upper Income Families		Total	
Area Demographic Characteristics	25.27%		17.32%		20.08%		37.33%		100%	
Loan Types:	#	%	#	%	#	%	#	%	#	%
Mortgage	7	19%	10	28%	9	25%	10	28%	36	100%
Consumer	7	37%	6	32%	4	21%	2	10%	19	100%
Revenue Ranges	Less than \$100,000		\$100,000-\$500,000		\$500,000--\$1,000,000		Over \$1,000,000			
Commercial	10	43%	11	48%	0	0%	2	9%	23	100%

The distribution of business and agriculture loans reflects a strong penetration among businesses of different sizes. Based on our sample of business and agriculture loans made within the assessment area, 91% were made to small businesses or small agriculture operations. Small commercial operations are defined as operations with revenues of less than \$1,000,000 and small agriculture operations are defined as operations with less than \$500,000.

Geographic Distribution of Loans:

Our sample of residential, consumer, and business loans reflected the following distribution:

Geographic Distribution of Loans										
	Low Income Tracts		Moderate Income Tracts		Middle Income Tracts		Upper Income Tracts		Total	
Area Demographic Characteristics	0.00%		20.73%		62.99%		16.28%		100%	
Count	0		1,589		4,829		1,248		7,666	
Loan Types:	#	%	#	%	#	%	#	%	#	%
Mortgage	0	0%	9	25%	27	75%	0	0%	36	100%
Consumer	0	0%	8	42%	11	58%	0	0%	19	100%
Commercial	0	0%	1	4%	19	83%	3	13%	23	100%

The geographic distribution of loans reflects a reasonable dispersion throughout the bank's assessment area. The bank's lending activities approximate geographic characteristics within the moderate income tracts. See *Description of the Assessment Area* section of this Evaluation for details.

RESPONSE TO COMPLAINTS:

Management has not received any written complaints related to CRA performance since the prior CRA examination. A Fair Lending Examination was performed in conjunction with this examination. Based on the samples reviewed, no discriminatory practices were noted. Furthermore, we did not identify any violations involving anti-discrimination laws or regulations.