

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION PUBLIC DISCLOSURE

Security Bank of Arlington

Name of Institution

Arlington

City

Texas

State

Diane van Gelder

Examiner-in-Charge

1521 North Cooper, Suite 100

Street

Tarrant

County

76011

Zip Code

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CRA PERFORMANCE ASSESSMENT

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 Bank of Arlington, Arlington, Texas**, prepared by the **Federal Reserve Bank of Dallas, Dallas, Texas**, the institution's supervisory agency, as of January 6, 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 **Satisfactory**.

The bank's loan-to-deposit ratio is adequate given the institution's size and assessment area credit needs. The institution's record of lending within the assessment area is considered reasonable, as 63% on a number-basis and 72% on a dollar-basis of the loans sampled were originated inside the assessment area. The primary factor in the bank's satisfactory rating was the distribution of loans throughout the assessment area by business revenue and borrower income, which was further strengthened by a willingness of the bank to make small dollar commercial loans. Analysis of the commercial loan sample revealed an outstanding distribution of credit, as 77% were made to businesses with gross revenues of \$1 million or less and 96% were made to businesses for amounts of \$100 thousand or less. Analysis of the motor vehicle loan revealed that 23% were made to low- and moderate-income individuals, which was considered to be reasonable in comparison to the 31% figure of low- and moderate-income families residing in the assessment area. The geographic dispersion within the assessment area of the commercial and consumer loan samples revealed a satisfactory lending pattern, as 48% of the commercial loans and 17% of the motor vehicle loans were made in low- and moderate-income census tracts.

DESCRIPTION OF INSTITUTION

Security Bank of Arlington, Arlington, Texas (SecurityBank) is a locally-owned, independent, retail bank whose main office is located in the northwest portion of the city adjacent to two low-income census tracts at 1521 North Cooper Street, Suite 100. In addition to this office, the bank has operated a full service branch office in the southwest portion of the city in a predominantly upper-income area at 5615 S. W. Green Oaks Boulevard since 1995. The institution offers a full line of loan and deposit products and banking services, including conveniently located ATMs and extended banking hours. At the last CRA examination conducted as of August 28, 1995, Security Bank received a satisfactory rating.

As of September 30, 1996, the bank reported total assets of \$54.4 million. Net loans and leases represented 54.2% of total deposits. As indicated in the following chart, the bank's primary lending

focus continues to be in consumer, commercial and industrial loans since the last CRA examination. Consumer, commercial and industrial-related loans comprised 31.5% and 30.3%, respectively, of the bank's loan portfolio as of September 30, 1996, in comparison to 31.3% and 28.9%, respectively, as of June 30, 1995.

LOAN TYPE	DOLLAR AMOUNT (THOUSANDS)	PERCENT OF TOTAL LOANS
Real Estate:		
Construction	\$ 2,105	7.62
Residential 1-4	2,966	10.73
Multifamily	734	2.66
Commercial	4,722	17.09
Agricultural	12	0.03
Total Real Estate	10,539	38.13
Consumer:		
All other	8,706	31.50
Commercial and Industrial	8,385	30.34
Other	7	0.03
Total	\$ 27,637	100.00%

Overall, the bank's ability to meet community credit needs has not been hampered by its capacity to lend, the capacity of other similarly-situated institutions to lend in the assessment area, demographic or economic factors present in the assessment area, or the lending opportunities available in the institution's assessment area. Economic conditions have been very favorable in the city of Arlington, Texas, since the last examination. In 1996, the city had what many considered to be one of the best economic years ever. Unemployment reached an all-time low of 2.9%, retail sales increased by \$300 million to \$3.5 billion, 1,500 new homes were built, 950 new businesses were added to the tax base, and tourism increased by 7% to over 3.1 million visitors. More of the same is projected in 1997, as a \$264 million retooling of the General Motors truck assembly plant, a multi-million dollar expansion of the National Semiconductor plant, a new \$1.8 million Convention and Visitors Bureau, continued federal funding of the \$1.8 billion Bell Helicopter V-22 Osprey Tilt Rotor program, and Primera Company's new 320 thousand square foot office and warehouse facility should add hundreds of jobs to the economy and fuel the city's continued strong growth pattern. SecurityBank's gross loans have increased by \$2.3 million or 9% during this time period. The majority of this growth was in commercial and consumer loans, which increased by \$1.3 million and \$883 thousand, respectively.

DESCRIPTION OF THE CITY OF ARLINGTON, TEXAS

The bank has identified its assessment area as consisting of all census tracts (CTs) lying within the city limits of Arlington, Texas (Arlington). Arlington is located in Tarrant County virtually equidistant by approximately 15-20 miles from the major metropolitan cities of Dallas and Fort Worth, Texas. Arlington is part of the Fort Worth-Arlington, Texas PMSA (FW A-PMSA) consisting of Hood,

Johnson, Parker, and Tarrant Counties. The 1990 United States Census (Census) estimated the total population for the city of Arlington at 297,001. From 1980 to 1990, the Arlington Chamber of Commerce (Chamber) statistics show that the city's population increased by 101,608 or by 6.4% on an annualized-basis.

Analysis of the 1990 Census information indicates that Arlington is a fairly affluent city in relation to the FWA-PMSA and the state as a whole. The 1990 Census median family income (MFI) of Arlington was \$41,815, in comparison to the FWA-PMSA of \$37,571 and the state MFI of \$31,553. Approximately 6% of the families living in Arlington are below the poverty level, while approximately 8% and 14% of the families residing in the FWA-PMSA and the state, respectively, live below the poverty line. Low and moderate-income families represent 14.6% and 16.3%, respectively, of the total families residing in the assessment area. The Department of Housing and Urban Development (HUD) updates MFI on an annual-basis and reports the 1995 FWA-PMSA MFI at \$46,100. For CRA purposes, borrower income information for a metropolitan area such as the city of Arlington are based upon the latter figure.

Of the 65 CTs comprising Arlington, 3.1% are low-income CTs, 20% are moderate-income CTs, 29.2% are middle-income CTs, and 47.7% are upper-income CTs. As anticipated, the percentage of low- and moderate-income individuals living in a particular CT income level category correspondingly declined as the income level increased: 58.5% resided in low-income CTs, 18.4% lived in moderate-income CTs, 11.9% resided in middle-income CTs, and 11.2% lived in upper-income CTs. However, it is interesting to note the wide disparity in income levels between the income levels of the different CT categories, where the low-income CTs in Arlington had an average MFI as a percentage of the FWA-PMSA MFI of approximately 41.2% while the upper-income CTs had a comparable average MFI of 150.3%.

Three community contacts interviewed during the examination indicated that the local economy was strong and provided plenty of opportunities for banks to participate in community development and other credit-related programs. They said the economy appears to be well-diversified and was experiencing strong growth in terms of population, commercial, retail, and residential development. The major industries driving the economy based upon 1996 employment statistics provided by the Chamber were the public and college educational system, tourism, sports and entertainment, city government, transportation, hospitals and medical equipment, semiconductor and electronic, financial services and banking, communication, and retail. The rapid population growth and economic prosperity enjoyed by Arlington since 1980 has increased opportunities for all strata of the population, in particular low- and moderate income individuals.

However, it is apparent that the city's affordable housing supply has not kept pace with this growth as evidenced by the city of Arlington Housing Authority's (Authority) waiting list for affordable housing assistance which represented approximately 4,200 families with an anticipated wait of 3-4 years. Analysis of the 1990 Census data indicates a fairly strong housing market based upon a 10.7% vacancy rate, a median housing value of \$83,341, and gross median monthly rent of \$444, all of which exceed the comparable FWA-PMSA and state figures. Additionally, 42.7% of the homes are rental units and 46.6% are owner-occupied, in comparison to 34.9% and 54.0%, respectively, for the FWA-PMSA. The Authority has attempted to address the affordable housing shortage through a number of venues. In 1995, 31 loans totaling \$200 thousand were made under a First Home Buyer Program, 24 loans were funded under a Home Buyer Assistance Program, \$276 thousand was provided for approximately 30 households under HUD Section 8 rental assistance, and HUD Community Development Block Grant (CDBG) funds along with a donation of land by the city of Arlington was used for 5 home

renovations as well as the construction of 9 new affordable housing units. Security Bank management is aware and actively involved in helping the community meet its affordable housing needs. President and Chief Executive Officer Morrie B. Minschew serves as Director on the Arlington Housing Finance Corporation. This non-profit corporation provides affordable housing in the city of Arlington through direct loans financed by bond issues. It appears that some type of community development corporation is needed to coordinate, prioritize, and direct the public and private funds for affordable housing to the identified areas of need.

While the city's housing stock appeared to be in good condition, maintenance and rehabilitation loans for homes particularly in the older central and eastern portions of the city are needed. According to the 1990 Census data, the median housing stock age was 25 years in comparison to the 21 year median housing age for the FWA-PMSA and 19 year median housing age for the state. The community contacts also indicated that small business loans were needed to meet growing demand. Executive Vice President Michael Tucker sits on the newly formed, city-sponsored Small Business Loan Review Committee which will use CDBG funds to provide loans ranging from \$10 to \$125 thousand to businesses that do not qualify for standard bank financing.

All three community contacts mentioned the increasing minority population in Arlington as the major demographic change since 1980. From 1980 to 1990, the minority population has increased by 40,800 or 36.4% per year in comparison to the overall population growth of 102,000 or 6.4% per year. It is projected that the Arlington Independent School District's minority student population as a percentage of the total population will increase from 14% in 1984 to 36% in 1999. In particular, the Asian and Hispanic population increases have been most noticeable during this time period. According to the 1990 Census, 21.4% of the total city population were minorities. The community contacts indicated that local banks as a whole should make a greater effort to reach out to the growing Asian community, especially to the low- and moderate-income population living in east Arlington. Other recommendations noted for banks in general were lower fee structures to make banking more affordable, savings programs for the youth, and money management and budgeting seminars.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

LOAN TO DEPOSIT RATIO

The bank's quarterly average loan-to-deposit (LTD) ratio is satisfactory in light of its performance context, which includes the institution's capacity to lend, the capacity of other similarly-situated institutions to lend, existing demographic and economic factors, and the lending opportunities available in the institution's assessment area.

Security Bank's quarterly average LTD ratio since the last examination equaled 58.5%. As of September 30, 1996, the bank's net loans represented 54.2% of total deposits, which fell below the national peer level of 68.3%. Security Bank's LTD ratio has declined and remained below-peer since the last examination. According to Executive Vice President C. Michael Tucker (EVP M. Tucker), this can be attributed to the fact that SecurityBank's deposits grew by \$10.3 million or by 26.7% while gross loans grew by \$2.3 million or 9% for the past 12 months ended September 30, 1996. The substantial increase in deposits in comparison to the slower growth in loans can be explained by the fact that attorney-related IOLTA accounts and title company deposit accounts tend to be highest at the end of each month and towards the end of each year. Furthermore, the opening of a new branch in a predominantly upper-income area with large deposits and weak loan demand, as well as several deposit-related promotions, could also explain the tremendous influx of new deposits. Finally, loan

volume is at its lowest cyclical point of the year around the end of third quarter and through most of the fourth quarter, according to EVP M. Tucker.

Security Bank's quarterly average LTD ratio was compared with other banks operating within the assessment area. Two banks were considered to be similarly-situated institutions. This determination was based upon the fact that these two banks were considered to be major competitors of Security Bank by EVP M. Tucker, in addition to their similar asset sizes, loan portfolio mixes, and other factors. These two banks asset sizes were \$44.5 and \$56.9 million, their concentrations in consumer loans were 47.9% and 45.2%, and their concentrations in commercial loans were 26.7% and 33.7%, respectively. The two similarly-situated banks quarterly average LTD ratios equaled 78.4% and 70.9%, respectively. EVP M. Tucker indicated Security Bank's lower LTD ratio in comparison to the two similarly-situated banks could be explained by the fact that one of the two competitor banks had a more aggressive lending philosophy and the other bank opened a branch sooner in a faster-growing area with more loan demand than Security Bank. Additionally, the two similarly-situated banks appeared to have more balanced loan and deposit growth in the past 12 months. Security Bank's deposit growth exceeded loan growth by a ratio of 4.5 to 1, while the other two similarly-situated banks had comparable ratios of 1.1 to 1 and 1 to 1, respectively. Overall, the bank's quarterly average LTD ratio is considered reasonable and met the standards for satisfactory performance.

LENDING IN ASSESSMENT AREA

The institution met the standards for satisfactory performance, as a majority of the 134 commercial and motor vehicle loans sampled were made inside the bank's assessment area. Overall, 63% on a number-basis and 72% on a dollar-basis of the sampled loans were made inside the bank's assessment area.

A summary analysis by each specific loan product category on both a number and dollar-basis are summarized on the following two tables:

LENDING IN ASSESSMENT AREA ANALYSIS BY NUMBER PERCENTAGE OF LOANS IN/OUT OF ASSESSMENT AREA		
LOAN TYPE	% OF LOANS IN	% OF LOANS OUT
MOTOR VEHICLE	61%	39%
COMMERCIAL	67%	33%
TOTALS	63%	37%

LENDING IN ASSESSMENT AREA ANALYSIS BY DOLLAR PERCENTAGE OF LOANS IN/OUT OF ASSESSMENT AREA		
LOAN TYPE	% OF LOANS IN	% OF LOANS OUT
MOTOR VEHICLE	60%	40%
COMMERCIAL	78%	22%
TOTALS	72%	28%

LENDING TO BORROWERS OF DIFFERENT INCOMES AND TO BUSINESSES OF DIFFERENT SIZES

The bank's distribution of loans in its assessment area by gross revenue, borrower income, and dollar amount of loans were considered reasonable and met the standards for satisfactory performance. Examiner analysis included a review of 49 commercial loans and 85 motor vehicle loans extended during the six-month period from May 1, 1996, through October 31, 1996.

As the following chart demonstrates, the bank's distribution of commercial loans by business revenue exceeded the standards for satisfactory performance and was considered outstanding. After excluding 16 commercial loans made outside the bank's assessment area and three commercial loans missing business revenue information, it was determined that 77% of the commercial loans were made to businesses with gross revenues of \$1 million or less.

Further analysis revealed that an exceptional 96% of the commercial loans sampled were made for amounts of \$100 thousand or less, clearly demonstrating the bank's willingness and outstanding efforts to meet the community's credit needs, in particular for small business loans.

COMMERCIAL LOAN SAMPLE IN ASSESSMENT AREA ANALYSIS BY INCOME LEVEL				
NUMBER OF LOANS		GROSS REVENUES (GR)	DOLLAR AMOUNT	
NUMBER OF LOANS BY INCOME OF APPLICANT	PERCENT OF TOTAL LOANS		NUMBER OF LOANS BY INCOME OF APPLICANT (THOUSANDS)	PERCENT OF TOTAL LOANS
2	7	GR under \$100M	\$ 16	1
7	23	GR of \$100M to \$250M	240	13
3	10	GR of \$251M to \$500M	64	4
11	37	GR of \$501M to \$1MM	891	49
7	23	GR > \$1MM	593	33
30	100	Totals	\$ 1,804	100%

The motor vehicle consumer loan analysis consisted of analyzing borrower income as a percentage of the 1995 FWA-PMSA MFI. A breakdown by income range for each income category is detailed below:

FORT WORTH/ARLINGTON METROPOLITAN STATISTICAL AREA MEDIAN FAMILY INCOME \$46,100		
INCOME CATEGORY	INCOME RANGE AS A PERCENT OF MEDIAN	UPPER LIMIT OF RANGE
LOW-INCOME	0 - 50%	\$23,050
MODERATE-INCOME	0 - 80%	\$36,880
MIDDLE-INCOME	80 - 120%	\$55,320
UPPER-INCOME	120% and over	over \$55,320

Analysis of the motor vehicle loan distribution among the various income levels found a reasonable distribution of loans that met the standards for satisfactory performance, as shown on the following table. After excluding 33 motor vehicle loans which were made outside the bank's assessment area and 10 motor vehicle loans missing borrower income information, analysis of the remaining 42 motor vehicle loans determined that 24% were made to low- and moderate-income individuals.

This pattern of lending to low- and moderate individuals was consistent with the 1990 Census data, which indicates that low- and moderate-income families comprise approximately 30.9% of the bank's assessment area.

MOTOR VEHICLE LOAN SAMPLE IN ASSESSMENT AREA ANALYSIS BY INCOME LEVEL				
NUMBER OF LOANS		INCOME CATEGORY	DOLLAR AMOUNT	
NUMBER OF LOANS BY INCOME OF APPLICANT	PERCENT OF TOTAL LOANS		NUMBER OF LOANS BY INCOME OF APPLICANT (THOUSANDS)	PERCENT OF TOTAL LOANS
3	7%	Low-income	\$18	3%
7	17%	Mod-income	95	17%
7	17%	Mid-income	41	7%
25	59%	Upp-income	413	73%
42	100%	Totals	\$567	100%

GEOGRAPHIC DISTRIBUTION OF LOANS

Overall, the bank's geographical lending distribution was considered reasonable and met the standards for satisfactory performance.

The breakdown of the 65 CTs comprising the bank's assessment area are detailed in the following chart:

INCOME CATEGORY	NUMBER OF CENSUS TRACTS	PERCENT OF TOTAL CENSUS TRACTS
LOW-INCOME	2	3
MODERATE-INCOME	13	20
MIDDLE-INCOME	19	29
UPPER-INCOME	31	48
TOTAL TRACTS	65	100%

Upon excluding the 33 motor vehicle and 16 commercial loans made outside the bank's assessment area, an analysis was performed of the remaining 52 motor vehicle and 33 commercial loans. As detailed in the following table, the bank's pattern of lending shows an outstanding geographic distribution of commercial loans and a satisfactory distribution of motor vehicle loans throughout the assessment area. Specifically, 48% of the commercial loans and 17% of the motor vehicle loans were made in low- and moderate-income census tracts. Further review of the bank's geographic distribution of loans throughout the assessment area did not reveal any apparent gaps in the dispersion of loans throughout the assessment area. Conclusions from a review of the bank's 19 Home Mortgage Disclosure Act originations made in 1995 could not be made based upon the limited sample size.

Loan Sample in Assessment Area by Census Tract Analysis				
	Commercial Loans		Motor Vehicle Loans	
Income Category	Loans in CT Income Category	Percent of Total Loans by Loan Type	Loans in CT Income Category	Percent of Total Loans by Loan Type
LOW-INCOME	3	9	2	4
MOD-INCOME	13	40	7	13
MID-INCOME	7	21	13	25
UPP-INCOME	10	30	30	58
TOTAL *	33	100%	52	100%

RESPONSE TO COMPLAINTS

The institution has not received any written complaints about its CRA performance since the last examination.

COMPLIANCE WITH ANTIDISCRIMINATION LAWS (ECOA, FHA, OR HMDA)

No violations involving illegal discrimination or discouragement were noted during the examination.