



PUBLIC DISCLOSURE

JUNE 20, 2016

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**PATRIOT BANK
RSSD# 2371508**

**9292 SOUTH DELAWARE AVENUE
TULSA, OKLAHOMA 74137**

**Federal Reserve Bank of Kansas City
1 Memorial Drive
Kansas City, Missouri 64198**

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.

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COMMUNITY REINVESTMENT ACT RATING: *This institution is rated **Satisfactory**.*

Patriot Bank (the bank) has a satisfactory record of helping to meet the credit needs of its assessment area (AA), consistent with its resources and operating philosophy.

The bank's average net loan-to-deposit (NLTD) ratio indicated a more than reasonable effort to extend credit, considering the bank's size, financial condition and AA credit needs, and in comparison to other similarly situated financial institutions. In addition, a majority of the bank's lending activity occurred inside its AA. The bank's geographic distribution of small business loans reflected reasonable dispersion throughout its AA, including penetration to low- and moderate-income (LMI) geographies. The bank's distribution of loans to businesses of different revenue sizes was considered reasonable after contextual circumstances were considered.

SCOPE OF EXAMINATION

The bank's Community Reinvestment Act (CRA) performance was evaluated using the Federal Financial Institutions Examination Council's (FFIEC's) Interagency Examination Procedures for Small Institutions. The examination included an evaluation of the bank's lending performance, with consideration given to AA demographic information. Four of the five criteria used to evaluate a small bank's lending performance under the CRA were relevant to this review and are listed as follows:

- NLTD Ratio
- Lending Inside the AA
- Geographic Distribution of Loans
- Lending to Businesses of Different Revenue Sizes

The bank's responsiveness to complaints under the CRA, the fifth criterion used to assess small bank performance, was not evaluated because the bank has not received any CRA-related complaints since the previous examination.

Conclusions regarding the four performance criteria were based on data compiled from a statistically derived sample of commercial loans. Commercial loans represent the bank's major product line by number and dollar volume of originations. The major product line was determined through conversations with bank management, a review of the bank's March 31, 2016 Reports of Condition and Income (Call Report), and a review of the number of outstanding loan originations since the prior CRA examination. A sample of 84 commercial loans was selected from a universe of 142 loans originated between January 1, 2015 and December 31, 2015.

For evaluative purposes, the bank's small business lending was compared to 2015 Dun & Bradstreet (D&B) business data. The geographic distribution analysis was based on the bank's penetration within the different geographies of the AA, particularly LMI geographies. Geographies were classified based on the 2015 FFIEC Census tract designations, which were

derived from the 2010 American Community Survey (ACS) data and the 2013 Office of Management and Budget Metropolitan Statistical Area (MSA) designations. The borrower distribution analysis was based on the bank's penetration to small businesses with gross annual revenues under \$1 million (MM). The evaluation of the bank's performance focused on the number of loans originated for each product as well as the dollar volume of those originations.

To further augment the evaluation, information from a local member of the community was relied upon to ascertain the credit needs of the area, the responsiveness of area banks in meeting those needs, and local economic conditions.

DESCRIPTION OF INSTITUTION

The bank is headquartered in Tulsa, Oklahoma, situated in the northeast portion of the state and part of the Tulsa MSA. The bank is wholly owned by Cache Holdings, Inc., also located in Tulsa, Oklahoma, and operates one full-service location with no branch offices.

The bank is a small institution largely focused on commercial lending, with a smaller portfolio of residential real estate loans that are primarily related to investment property. The bank offers other traditional consumer banking products and services across its AA.

Based on the March 31, 2016 Call Report, the bank reported total assets of \$267.0MM, total loans of \$249.6MM, and total deposits of \$219.3MM. Table 1 details the distribution of loans within the bank's loan portfolio by product type.

Loan Type	Dollar Amount (000)	Percent of Total
Commercial	187,315	75.0
Residential Real Estate	61,699	24.7
Agricultural	413	0.2
Consumer	201	0.1
Gross Loans	249,628	100.0

According to the June 30, 2015 Federal Deposit Insurance Corporation (FDIC) Market Share Report, the bank has a 0.8 percent market share within Tulsa County, ranking 23rd of 45 FDIC-insured depository institutions operating within the AA. Similarly, the bank has a 0.7 percent share in the entire MSA, ranking 27th of 58 institutions. Overall, there are 289 bank locations within the MSA, resulting in a highly competitive banking environment.

Based on the bank's asset size, product offerings, and financial condition, it has the ability to meet the credit needs of its AA. No financial or legal impediments exist that would negatively impact the bank's ability to meet the credit needs of its AA. The bank received a Satisfactory rating at its previous CRA evaluation performed by the Federal Reserve Bank of Kansas City

(Reserve Bank) on June 4, 2012.

DESCRIPTION OF THE BANK'S ASSESSMENT AREA

The bank's AA includes all of Tulsa County, Oklahoma, which is comprised of 19 low-, 52 moderate-, 49 middle-, and 55 upper-income census tracts. Tulsa County is one of seven counties that comprise the Tulsa, Oklahoma MSA. The county is primarily metropolitan in nature, with a diversified economy based around small business. The city of Tulsa serves as a financial, cultural, educational, and business hub for the regional area.

Census Tract Income Levels/Characteristics

The majority of LMI geographies in Tulsa County are in the central portion of the county, in three general geographic groups. The first grouping is an area in north Tulsa, located north and northeast of downtown, north of Interstate 244 (equating approximately to 1st Street). This area includes Tulsa International Airport and Mohawk Park. The second grouping is in an area to the east of downtown and south of the Interstate 244 corridor, extending as far south as 61st Street. Finally, the third grouping is in an area west of the Arkansas River and southwest of downtown, extending down to approximately 71st Street. This area is highly industrial and sparsely populated and contains HollyFrontier Corporation refineries, Cherokee rail yard, and numerous railways.

As shown in Table 3, the low-income geographies within the bank's AA contain a very small concentration of owner-occupied housing units (5.4 percent) and businesses (6.8 percent), and 38.7 percent of families are living below the poverty level. The moderate-income tracts contained much higher concentrations of owner-occupied housing units (20.6 percent), businesses (23.1 percent), and the family poverty rate is 19.2 percent in these tracts.

The middle- and upper-income census tracts within the AA contain 31.6 percent and 42.5 percent of owner-occupied housing units, respectively, and 28.3 percent and 41.8 percent of businesses, respectively. The bank's sole location is located at approximately 93rd Street and abuts one middle-income tract and several upper-income tracts.

Population and Income Characteristics and Trends

The 2010 population for Tulsa County was 603,403, an increase of 7.1 percent since the 2000 Census. The county population was estimated to grow 5.9 percent through July 1, 2015, according to the U.S. Census Bureau Quick Facts estimates. Tulsa County is the second largest populated county in Oklahoma, and its 2010 population accounted for 64.4 percent of the entire Tulsa MSA. The breakdown of the AA population by age was very similar to the overall MSA and the overall state of Oklahoma.

The figures for low-, moderate-, middle-, and upper-income families; households that were families; and families below the poverty level were similar to the overall MSA demographics

and the overall state of Oklahoma figures. The 2015 estimated median family income of the overall MSA was \$61,400; above the statewide rural figure of \$52,700. The number of families below the poverty level equaled 11.2 percent as of the 2010 Census data.

These demographics are not likely to alter AA lending patterns, relative to the overall MSA or the state.

Economic Conditions

After recovering from the recession in 2013 and 2014, the Tulsa economy in 2015 was in a slight downturn due to lower energy prices; yet still fared better than other communities in Oklahoma that were more dependent on the energy sector. Tulsa’s main drivers are manufacturing, transportation, and business services. Almost all of the slowing in the economy was related to manufacturing, which was hurt by less investment in drilling equipment. Manufacturing also faced pressure from a strong dollar, weak exports, and sluggish domestic demand. Payrolls were down 9.0 percent in 2015, the third largest decrease among metropolitan areas in the nation, with total income less insulated than those in more diverse areas with high paying jobs. On the other hand, transportation and warehousing industries benefitted from lower energy prices. (*Moody’s Analytics July 2015*)

The Tulsa MSA benefits from a robust aerospace industry, including manufacturing and aviation. Low fuel costs and greater travel demand have spurred stronger demand for the aerospace industry. Overall, unemployment rates have remained low and are well below the national rate. The area benefits from a well-educated workforce and high per capita income relative to area living costs. (*Moody’s Analytics July 2015, Source: Bureau of Labor Statistics [BLS]*)

TABLE 2 UNEMPLOYMENT RATES (Source: BLS; Not Seasonally Adjusted)			
Area	2013	2014	2015
Tulsa County	5.1	4.3	4.0
Tulsa MSA	5.3	4.5	4.2
Oklahoma	5.3	4.5	4.2
U.S.	7.4	6.2	5.3

The Tulsa MSA economy is fairly diversified between several industries, with education and health services leading the way, followed by professional and business services, government, manufacturing, and retail trade. In addition to government employment, the MSA’s largest employer is American Airlines, with 6,850 employees. A few of the other large employers include AT&T, Bank of Oklahoma, DirecTV, Hillcrest Healthcare System, Nordam Group, Oklahoma State University Medical Center, Saint Francis Health System, Reasor’s Foods, Spirit Aerosystems, Saint John’s Medical Center, and State Farm Insurance (*Moody’s Analytics July 2015*).

**TABLE 3
TULSA COUNTY METROPOLITAN STATISTICAL AREA ASSESSMENT AREA
2015 DEMOGRAPHICS**

Income Categories	Tract Distribution		Families by Tract Income		Families < Poverty Level as % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low	19	10.9	12,018	8.0	4,647	38.7	31,569	21.0
Moderate	52	29.7	34,845	23.1	6,691	19.2	26,433	17.6
Middle	49	28.0	45,570	30.3	3,429	7.5	29,558	19.6
Upper	55	31.4	58,144	38.6	2,102	3.6	63,017	41.9
Total AA	175	100.0	150,577	100.0	16,869	11.2	150,577	100.0
	Housing Units by Tract	Housing Type by Tract						
		Owner-occupied			Rental		Vacant	
		#	% by tract	% by unit	#	% by unit	#	% by unit
Low	25,646	7,934	5.4	30.9	13,062	50.9	4,650	18.1
Moderate	71,270	30,469	20.6	42.8	32,154	45.1	8,647	12.1
Middle	80,364	46,887	31.6	58.3	26,290	32.7	7,187	8.9
Upper	87,284	62,969	42.5	72.1	18,950	21.7	5,365	6.1
Total AA	264,564	148,259	100.0	56.0	90,456	34.2	25,849	9.8
	Total Businesses by Tract	Businesses by Tract & Revenue Size						
		Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported		
	#	%	#	%	#	%	#	%
Low	2,714	6.8	2,285	6.3	425	13.0	4	6.2
Moderate	9,201	23.1	8,016	22.0	1,164	35.6	21	32.3
Middle	11,253	28.3	10,455	28.7	774	23.6	24	36.9
Upper	16,643	41.8	15,716	43.1	911	27.8	16	24.6
Total AA	39,811	100.0	36,472	100.0	3,274	100.0	65	100.0
Percentage of Total Businesses:				91.6			8.2	0.2

Based on 2006-2010 five-year estimated ACS data, 2015 FFIEC Census tract designations, and 2015 D&B data.
(NOTE: Percentages shown may vary by 0.1 percent due to automated rounding differences.)

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank's record of meeting the credit needs of its AA is considered satisfactory. The review included analysis of the bank's average NLTD ratio, the distribution of loans within its AA, lending to businesses of different revenue sizes, and lending to geographies of different income levels. Data utilized for this analysis included the bank's loan performance data, area demographic information, and comparison to aggregate loan data for additional context.

The analysis showed that the bank's NLTD ratio reflected a more than reasonable effort to extend credit, and a majority of the bank's loans were made inside its AA. A reasonable distribution of loans was originated to businesses in geographies of different income levels. The number of loans originated to small businesses was well below the percentage of businesses but was considered reasonable when compared to the aggregate loan data of all

CRA filers within the AA.

Net Loan-to-Deposit Ratio

The bank’s NLTD ratio reflected a more than reasonable effort to extend credit based on its size, financial condition, credit needs of the AA, and the NLTD ratios of competing institutions. The bank’s NLTD ratio averaged 107.4 percent over the 16 quarters since the prior CRA evaluation, which is reflective of the bank’s aggressive lending strategy. The bank’s 16-quarter average was compared to four other similarly situated banks headquartered in the Tulsa County AA, whose ratios ranged from 49.0 percent to 95.2 percent over the same time period. All of the comparison banks had loan portfolios consisting of at least 74.0 percent commercial loans.

Assessment Area Concentration

This core performance criterion evaluates the bank’s lending inside its AA. The evaluation analyzes both the number and dollar volume of originations within the AA, compared to lending activities occurring outside the AA.

As shown in Table 4, a majority of the bank’s commercial loans were originated within its delineated AA, at 77.4 percent by number and 81.3 percent by dollar volume, which indicates a reasonable effort to serve the credit needs of the business community in which the bank operates.

TABLE 4 LENDING INSIDE AND OUTSIDE THE BANK'S ASSESSMENT AREA								
Loan Type	Inside				Outside			
	#	%	\$(000s)	%	#	%	\$(000s)	%
Small Business Loans	65	77.4	16,176	81.3	19	22.6	3,728	18.7

Only loans originated within the bank’s AA are considered for the remaining lending test components discussed within this Performance Evaluation.

Distribution by Income Level of Geographies

This performance criterion reviews the distribution of the bank’s lending to geographies of different income level classifications within the AA, including LMI geographies. The bank’s geographic distribution of loans is reasonable given the distribution of businesses in each income level of geography. As illustrated in Table 5, the distribution of the bank’s small business loans (by number of originations) within the LMI tracts, at 6.2 percent (8.8 percent by dollar volume) and 20.0 percent (24.4 percent by dollar volume), respectively, was similar to the demographic comparisons, at 6.8 percent in low-income tracts and 23.1 percent in moderate-income tracts. Lending within the middle- and upper-income tracts was also comparable to the demographic figures, with a slightly higher percentage of lending in the middle-income tracts.

**TABLE 5
DISTRIBUTION OF 2015 SMALL BUSINESS LOANS
BY INCOME LEVEL OF GEOGRAPHY
TULSA METROPOLITAN STATISTICAL AREA ASSESSMENT AREA**

Census Tract Income Level	Small Business Loans				% of Businesses ²
	#	\$(000)	#%	\$%	
Low	4	1,430	6.2	8.8	6.8
Moderate	13	3,941	20.0	24.4	23.1
Middle	21	4,535	32.3	28.0	28.3
Upper	27	6,270	41.5	38.8	41.8

¹ Based on 2010 ACS five-year estimate data and 2015 FFIEC Census tract designations.
² Based on 2015 D&B data.

Distribution by Revenue Size of Businesses

This performance criterion evaluates the bank’s lending to businesses of different revenue sizes, particularly those with gross annual revenues of \$1MM or less. Taking into consideration the AA’s demographic profile, local economic conditions, as well as information about the performance of aggregate lenders within the market, the bank’s overall distribution of loans to businesses of different revenue sizes was considered reasonable.

The bank’s lending to businesses with revenues of \$1MM or less, at 43.1 percent (36.1 percent by dollar volume), was substantially lower than the percentage of small businesses operating in the AA, at 91.6 percent. However, the bank’s performance was comparable to the aggregate loan data for CRA reporting banks for 2013 (45.5 percent), 2014 (44.1 percent), and preliminary data for 2015. Furthermore, the statistical sample of loans reviewed for this analysis included six large customers with multiple loans, which skewed the data towards larger borrowers. When adjusting for this anomaly, the bank’s distribution of lending to small businesses increased to 52.9 percent.

**TABLE 6
DISTRIBUTION OF 2015 BUSINESS LOANS BY REVENUE SIZE
TULSA METROPOLITAN STATISTICAL AREA ASSESSMENT AREA**

Business Revenue by Size ¹	Bank Loans				% of Businesses ²
	#	\$(000s)	#%	\$%	
\$1MM or less	28	5,841	43.1	36.1	91.6
Over \$1MM	37	10,335	56.9	63.9	8.2
Not Known	0	0	0.0	0.0	0.2

¹ This analysis focuses on the bank’s lending to "small businesses" as defined by the CRA, which are those businesses with gross annual revenues of \$1MM or less.
² The percentage of businesses in the AA is based on 2015 D&B data.
(NOTE: Total percentages may vary due to automated rounding differences.)

Additionally, competition for lending opportunities in the Tulsa market is strong as there is an oversaturation of banks seeking qualified applicants. As noted in the market share discussion,

the bank has only one location, a relative small part of the 289 total banking offices present in the overall Tulsa MSA. According to one community contact, the credit needs of the Tulsa area are primarily being met, with the noted exception of startup businesses having a difficult time finding capital due to the slowdown in economic conditions and the conservative approaches of many area banks.

The bank's stated lending strategy is aimed toward lending to small businesses as it faces significant competitive pressures in vying for the larger businesses in the area. This strategy of lending to smaller businesses is supported by the fact that 67.7 percent of the business loans in the loan sample were originated in amounts of \$250,000 or less.

FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

An evaluation of the bank's fair lending activities was conducted during the examination to determine compliance with the substantive provisions of the antidiscrimination laws and regulations, including the Equal Credit Opportunity Act and the Fair Housing Act. No signs of discrimination were identified. Furthermore, the bank has not engaged in any illegal credit practices inconsistent with helping to meet community credit needs.