PUBLIC DISCLOSURE

November 3, 2003

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

BANK SOUTH
RSSD# 2667911

6130 EAST 81ST STREET
TULSA, OKLAHOMA 74137

Federal Reserve Bank of Kansas City
925 Grand Boulevard
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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GENERAL INFORMATION

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

Bank South has a satisfactory record of helping to meet the credit needs of its assessment area in a manner consistent with its resources and capabilities. The rating of the bank was assessed under the five core criteria developed for evaluating the Community Reinvestment Act (CRA) performance of small banks.

- Loan-to-Deposit Ratio;
- Lending Inside the Assessment Area;
- Lending to Borrowers of Different Income Levels and to Businesses of Different Revenue Sizes;
- Distribution of Lending by Income Level of Geography; and,
- Record of Responding to Complaints about the Bank's CRA Performance.

Conclusions for each of the performance criteria were based, in part, on data compiled from statistically derived loan samples of the bank's major product lines. The bank's major product lines were determined based on discussions with management, a review of the bank's Report of Condition and Income (Call Report), and a review of the volume of loan originations since the last examination. As a result, the major product lines chosen for review were commercial and residential real estate loans.

Summary of Findings

- The bank's loan-to-deposit (LTD) ratio reflected an excellent effort to extend credit in a competitive banking market consistent with safe and sound banking practices.
- The majority of the bank's lending activity was within its assessment area.
- The distribution of loans among borrowers of different income levels and to businesses of different revenue sizes reflected a weak dispersion.
- The distribution of lending by income level of geography was reasonable based on the bank's economic and demographic factors.
- The bank's response to complaints was not evaluated because the bank had not received any complaints regarding its performance under the CRA since the last examination.

DESCRIPTION OF INSTITUTION

Bank South is a full service bank located in Tulsa, Oklahoma, a city of approximately 393,000 residents in parts of Tulsa, Rogers, and Osage Counties. The bank also has one full-service branch facility located at 2054 South Utica Square, also located in Tulsa. In addition, the bank has one full-service automated teller machine (ATM) located at the main bank.

The bank has the ability to meet the credit needs of its defined assessment area based on its financial condition, size, and credit product offerings. As of June 30, 2003, the bank's total assets were approximately $80 million, with net loans of $68.2 million. On June 30, 2002, bank deposits totaled $61.8 million, ranking 25th in terms of deposit market share out of 44 banks with offices in Tulsa County, Oklahoma. The bank's loan portfolio, as of the June 30, 2003 Report of Condition and Income[1] (Call Report), is illustrated in Table 1.

Table 1
BANK SOUTH'S LOAN PORTFOLIO
(AS OF JUNE 30, 2003)

Loan Type	Amount ($000)	Percent of Total
Commercial	47,256	69.3
Real Estate	15,183	22.2
Consumer	4,388	6.4
Other	1,402	2.1
TOTAL	**68,229**	**100.0**

DESCRIPTION OF THE BANK'S ASSESSMENT AREA

Bank South defined its assessment area as all of Tulsa County, Oklahoma. The bank revised its assessment area to ensure that low- and moderate-income tracts were not arbitrarily excluded as a result of the recent conversion from 1990 census data to 2000 census data, which may potentially include changes in tract boundaries and/or income classifications. The assessment area is comprised of 8 low-, 47 moderate-, 59 middle-, and 58 upper-income census tracts.

[1] The income level of a census tract is determined by comparing the median family income of the tract to the assessment area median family income. Please refer to the *Glossary of CRA Definitions* at the end of this evaluation for definitions of the four income classifications.

The assessment area's population increased by 11.9 percent from 503,341 in 1990 to 563,299 in 2000. In addition, the state population increased by 9.7 percent for the same period. The population in Tulsa County is concentrated in Tulsa, with a 2000 population of 393,049. Tulsa experienced a population increase of 7.0 percent from 1990 to 2000. A community member stated that many Tulsa residents have remained within the city despite the large percentage of jobs lost within the past 10 years. Companies, such as American Airlines (air transportation) and the Williams Company (telecommunications and fiber optics), have drastically downsized in the previous 12 months.

In 1990, the bank's assessment area was an upper-income area overall with a median family income ($36,156) that was 127 percent of the median family income statewide ($28,554).[2] The area contained slightly lower concentrations of low- and moderate-income (LMI) families than in Oklahoma as a whole. LMI families in the assessment area comprised 37.2 percent of area families based on 2000 figures, compared to the state of Oklahoma at 38.3 percent. In addition, families below the poverty level in the area for 2000 equaled 8.7 percent, while 11.2 percent of families statewide lived in poverty.

The assessment area's unemployment rate of 4.8 percent was slightly lower than the state of Oklahoma's at 5.2 percent, according to 2000 census data. Major employers in the area include American Airlines, Inc. (air transportation), Hillcrest Healthcare System (hospital), and Sabre, Inc (Information Retrieval Services).

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[2] The assessment area median family income used for the borrower income analysis in this evaluation was $52,200 for 2003.

Table 2 provides details of the bank's assessment area based on 2000 census data.

Table 2 **BANK SOUTH'S ASSESSMENT AREA CHARACTERISTICS**	
Tract Summary	
Total Number of Census Tracts	172
Number of Low-Income Tracts	8
Number of Moderate-Income Tracts	47
Number of Middle-Income Tracts	59
Number of Upper-Income Tracts	58
Income Summary	
Median Family Income*	$47,675
Percent Low-Income Families	19.4
Percent Moderate-Income Families	17.8
Percent Middle-Income Families	21.1
Percent Upper-Income Families	41.7
Unemployment Summary	
Labor Force Population (Assessment Area)	290,038
Percent Unemployment (Assessment Area)	4.8
Percent Unemployment (State)	5.2
Miscellaneous Information	
Total Population	563,299
Percentage of Families Below Poverty	8.7
Total Housing Units	243,953
Percentage Owner-Occupied Units to Total Units	57.4
Percentage Rental Units to Total Units	35.6
Percentage Vacant Units to Total Units	7.0

* The HUD-adjusted median family income was $52,200 for 2003.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

As previously noted, various criteria were considered when evaluating the bank's overall CRA performance. In addition, community members were interviewed to gather additional information about the assessment area's credit needs and to confirm that products and services offered by area financial institutions adequately met those needs. The bank's responsiveness to CRA complaints was not included in the evaluation, as no complaints relative to its CRA performance have been received since the last examination.

Loan-to-Deposit Ratio

Bank South's net LTD ratio, based on an average of the last 16 quarters since the previous CRA examination, was 98.9 percent and was considered excellent given the bank's financial condition and credit needs of its assessment area. An eight-quarter period was utilized for comparison with local, state, and national peer group averages. Based on eight consecutive quarters through June 30, 2003, the bank's net LTD ratio of 101.4 percent exceeded that of four of the five local peer banks with ratios ranging from 85.4 percent to 92.8 percent. One local peer bank's eight-quarter average LTD ratio exceeded that of Bank South's at 101.9 percent. However, the peer bank's total asset size of $206M exceeded that of Bank South's at $80M, according to the most recent Call Report.

Lending Inside the Assessment Area

Based on a sample of loans reviewed during the examination, a majority of the bank's lending occurred in the assessment area. A sample of 92 loans consisting of 64 residential real estate and 28 commercial loans originated through June 2003, revealed that 86 percent of the loans by number and 83 percent of the loans by dollar volume were originated inside the bank's assessment area. Table 3 summarizes the percentage of loans reviewed, by number and dollar amount, which were located inside the bank's assessment area.

Table 3
LOANS INSIDE THE BANK'S ASSESSMENT AREA

Loan Type	Number	Percent	$ Volume* (000s)	Percent
Residential Real Estate (64)	52	81	5,850	75
Commercial (28)	27	96	3,961	99
All Loans Reviewed (92)	79	86	9,811	83

Distribution of Loans to Borrowers of Different Income Levels and to Businesses of Different Revenue Sizes

Residential Real Estate Loans

The bank's distribution of lending to borrowers of different income levels for residential real estate loans was weak when compared to the percentage of families in the assessment area that were designated low-, moderate-, middle-, and upper-income. The analysis focused on the number of loans originated rather than the dollar volume, as it is a better indicator of the number of people benefiting from these products.

A review of 51 residential real estate loans[3] originated within the assessment area revealed that no loans were made to LMI families compared to 37 percent of families designated as LMI in the area. However, the majority of the bank's residential real estate lending involves secondary market activity, which was not reflected in the sample of residential real estate loans reviewed. The bank table funds residential real estate loans that are typically more affordable for LMI borrowers and sells them to investors on the secondary market. In addition, a community contact indicated that there are limited opportunities available to meet the residential real estate loan needs of LMI individuals. Over 8 percent of families within the assessment area were below the poverty level and consequently, less likely to have sufficient economic viability to obtain residential real estate loans. Bank management also stated that large competitor banks in the area have been particularly aggressive in meeting consumer loan needs in the community.

Commercial Loans

A review of the bank's commercial loans revealed a weak distribution of loans to small businesses. Approximately 83 percent of the businesses in the bank's assessment area are designated as small businesses, with gross annual revenues of $1 million or less. Of the commercial loans reviewed, 48 percent of the loans were extended to small businesses. However, of these loans to small businesses, 62 percent were for amounts less than or equal to $100,000, amounts typically needed for small businesses. The bank's performance appears to be consistent with its focus on lending to established professional businesses with high gross annual revenues in excess of $1 million, including physicians' groups, law firms, architectural firms, land development companies, accounting firms, and trade associations. A community member stated that there is a large volume of start-up businesses in the area due to the high level of job loss within Tulsa. These businesses are high risk and difficult for financial institutions to fund without some type of repayment guaranty.

Distribution of Lending Among Geographies of Different Income Levels

Residential Real Estate Loans

The bank's geographic distribution of real estate lending was considered reasonable based on the bank's economic and demographic factors. Although no residential real estate loans were originated in low-income tracts, and only 2 percent were made in moderate-income tracts, demographic data showed that 70.8 percent of the assessment area's total population resided in the middle- and upper-income geographies. Of total families

[3] One loan originated within the assessment area was missing income information and could not be analyzed for purposes of the bank's distribution of lending to borrowers of different income levels.

residing in LMI areas, 62.4 percent were LMI families. In addition, only 2 percent and 21 percent of owner occupied housing units in the area were located in low- and moderate-income geographies, respectively. According to a community contact, a large number of housing units within low-and moderate-income geographies were converted to rental property. The unemployment rate was also higher in LMI areas at 10.1 percent and 8.0 percent, compared to 3.8 percent and 3.3 percent in middle- and upper-income areas, respectively, which was a factor concerning the economic viability of residents in those geographies.

The limited opportunity for residential real estate lending in the area's LMI geographies was further corroborated by the 2002 Home Mortgage Disclosure Act (HMDA) data. A review of the data based on home purchase loans originated by HMDA reporting banks in Tulsa County, Oklahoma, revealed that 1.3 percent and 9.9 percent of home purchase loans were originated in LMI tracts, respectively.

Commercial Loans

The bank's lending to businesses throughout the assessment area was considered adequate. Although no commercial loans in the sample were originated to businesses in low-income tracts, only 3 percent of the area's businesses were located in those tracts. In addition, the bank originated 15 percent of the commercial loans sampled in moderate-income tracts compared to 23 percent of the area's businesses located in those tracts. Discussions with bank management revealed that there are a number of local banks in closer proximity to the LMI tracts that are better suited to meet the needs of those areas by virtue of their location.

A review of 2002 aggregate lending data from the Federal Financial Institutions Examination Council (FFIEC) also revealed a low penetration in the LMI geographies. Of all CRA-reported loans originated in the assessment area, only 2 percent and 16 percent of loans to small businesses were originated in LMI areas, respectively. Comparison of the bank's level of lending at 15 percent in moderate-income tracts to the aggregate data strengthens the bank's performance, as the CRA reporters all have asset sizes of $250 million or more.

Compliance with Antidiscrimination Laws and Regulations

The bank is in compliance with the substantive provisions of the antidiscrimination laws and regulations. Discussions with bank personnel and a review of bank policies and procedures, credit applications, and loans revealed no practices designed to discourage loan applications on a prohibited basis. Furthermore, the bank was not engaged in other illegal credit practices inconsistent with helping to meet community credit needs.

GLOSSARY OF COMMON CRA TERMS

(For additional information, please see the Definitions section of Regulation BB at 12 CFR 228.12.)

Assessment Area – The geographic area(s) delineated by the bank and used in evaluating the bank's record of helping to meet the credit needs of its community. The assessment area must include the geographies where the main office, branches, and deposit-taking automated tellers machines are located. The assessment area must consist only of whole geographies, may not reflect illegal discrimination, and may not arbitrarily exclude low- or moderate-income geographies.

Block Numbering Areas (BNAs) – BNAs are geographic entities similar to census tracts. Metropolitan areas are most often delineated into census tracts, while rural areas are delineated into BNAs.

Census Tracts – Census tracts are small, relatively permanent geographic entities within counties delineated by a committee of local data users. Generally, census tracts have between 2,500 and 8,000 residents and boundaries that follow visible features.

Community Development – Includes affordable housing (including multifamily rental housing) for low- and moderate-income individuals, community services targeted to low- and moderate-income individuals, activities that promote economic development by financing businesses or farms that have gross annual revenues of $1 million or less, or activities that revitalize or stabilize low- or moderate-income geographies.

Community Development Loan – A loan that has community development as its primary purpose and (except in the case of a wholesale or limited-purpose bank).

1. Has not been reported or collected by the bank or an affiliate as a home mortgage, small business, small farm, or consumer loan, unless it is a multifamily dwelling loan and
2. Benefits the bank's assessment area(s) or a broader statewide or regional area that includes the bank's assessment area(s).

Community Development Service – A service that has as its primary purpose community development, is related to the provision of financial services, has not been considered in the evaluation of the bank's retail banking services, benefits the banks assessment area(s) or a broader statewide or regional area that includes the bank's assessment area and has not been claimed by other affiliated institutions.

Consumer Loans – Loans to individuals for household, family and other personal expenditures. These loans do not include real estate-secured loans.

Dun & Bradstreet Data – Data collected by Dun & Bradstreet regarding types of businesses and their respective gross annual revenues. The data can be sorted by geographies.

Geography – A census tract or a block numbering area.

Income Level – Both geographies and individuals can be described in terms of their income levels. In MSAs, the level is based on the MSA median income. In nonMSA areas, the level is based on the statewide, nonMSA median income.

> **Low-Income** – Less than 50 percent of the area median income
>
> **Moderate-Income** – At least 50 percent and less than 80 percent of the area median income
>
> **Middle-Income** – At least 80 percent and less than 120 percent of the area median income
>
> **Upper-Income** – At least 120 percent or more of the area median income

Metropolitan Statistical Area (MSA) - The general concept of an MSA is that of a core area containing a large population nucleus, together with adjacent communities having a high degree of economic and social integration with that core. Generally, a single city with at least 50,000 inhabitants or an urbanized area with a total population of at least 100,000 would meet the definition of an MSA.

Qualified Investment – A lawful investment, deposit, membership share or grant that has as its primary purpose community development.

Small Business – A business with gross annual revenues of $1 million or less.

Small Business Loan – A loan with an original amount of $1 million or less that has been reported in the Consolidated Report of Condition and Income in the category "Loans secured by nonfarm nonresidential properties" or "Commercial and industrial loans."

Small Farm – A farm with gross annual revenues of $1 million or less.

Small Farm Loan – A loan with an original amount of $500,000 or less that has been reported in the Consolidated Report of Condition and Income in the category "Loans secured by farmland" or "Loans to finance agricultural production and other loans to farmers."