

PUBLIC DISCLOSURE

January 18, 2000

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**McKenzie State Bank
RSSD 2697619
5251 Main Street
Springfield, OR 97477**

**Federal Reserve Bank of San Francisco
101 Market Street
San Francisco, California 94105**

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.

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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 CRA performance for McKenzie State Bank prepared by the Federal Reserve Bank of San Francisco, the institution's supervisory agency, as of January 18, 2000. 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 overall Satisfactory rating was based upon McKenzie State Bank's commitment to its community as measured by its lending performance. The bank maintains a satisfactory loan-to-deposit ratio and extended a substantial majority of its loans inside its assessment area. Loans to businesses with annual revenues of \$1 million or less accounted for the majority of the small business loans originated by the bank. Small business lending patterns exhibited adequate penetration of low- and moderate-income geographies. The bank is lending within its assessment area in a manner that is consistent with its resources, capabilities and strategies.

PERFORMANCE CONTEXT

Description of Institution

McKenzie State Bank is a unit bank, located in Springfield, Oregon that was opened on November 16, 1998. The bank is a full service commercial bank with a focus on small business lending. The bank also offers consumer loans and deposit accounts. The bank is a majority-owned subsidiary of Security Bank Holding Company, which is headquartered in Coos Bay, Oregon. Security Bank Holding Company owns approximately 66 percent of the bank's shares, with the remaining shares held by local investors.

As of September 30, 1999, with almost a year of operations, McKenzie State Bank had total assets of \$15 million, with loans and leases comprising 58 percent of the total. The bank's loan portfolio reflects a community banking strategy focused on commercial loans, with these facilities representing 56 percent of total loans and leases. Consumer credit represents 6 percent of the loan portfolio with consumer loans comprising 3 percent and credit cards and other open-end consumer lines of credit comprising another 3 percent. Also during this period, deposit growth has been significant, with deposits more than doubling during the first 9 months of 1999 from \$4.2 million as of December 31, 1998 to \$11.2 million as of September 30, 1999.

LOAN PORTFOLIO MIX LOAN TYPE	9/30/99		12/31/98	
	DOLLAR AMT ('000S)	% OF TOTAL	DOLLAR AMT ('000S)	% OF TOTAL
COMMERCIAL/INDUS. & NON-FARM NON-RESIDENTIAL REAL ESTATE	4,996	56%	1,275	79%
CONSTRUCTION & LAND DEVELOPMENT	1,569	18%	0	0%
SECURED BY 1-4 FAMILY RESIDENTIAL - OTHER	1,289	15%	0	0%
CREDIT CARDS & OTHER OPEN-END CONSUMER LINES OF CREDIT	273	3%	205	13%
CONSUMER LOANS	244	3%	40	2%
STATES AND POLITICAL SUBDIVISIONS	240	3%	0	0%
SECURED BY 1-4 FAMILY RESIDENTIAL - REVOLVING	168	2%	92	6%
ALL OTHER	0	0%	1	0%
TOTAL (GROSS)	8,779	100%	1,613	100%

This was the bank's first CRA examination. The bank faces no financial or legal constraints that would limit its lending.

Description of Assessment Area

McKenzie State Bank's assessment area is defined as the Eugene-Springfield Metropolitan Statistical Area (MSA), consisting of 82 census tracts which comprise Lane County, Oregon. The county measures 4,620 square miles and is unique in that it is both a topographic and

economic microcosm of the State of Oregon.¹ The city of Springfield and neighboring Eugene comprise the bank's target market and are located in the Willamette Valley in the center of Lane County. This valley is bordered by the Cascade Mountains to the east and the Siuslaw National Forest to the west. This forest separates the city of Florence from the rest of Lane County. County residents are concentrated within a thirty mile radius of Eugene. The distribution of population, families and households within the assessment area's census tracts are detailed below.

TRACT CATEGORIES	CENSUS TRACTS		POPULATION		FAMILIES		HOUSEHOLDS	
	#	%	#	%	#	%	#	%
LOW-INCOME	15*	18%	9,464	3%	838	1%	4,213	4%
MODERATE-INCOME	12	15%	49,332	18%	11,950	16%	20,006	18%
MIDDLE-INCOME	43	52%	176,361	62%	47,991	65%	67,830	61%
UPPER-INCOME	12	15%	47,755	17%	13,286	18%	18,891	17%
TOTAL	82	100%	282,912	100%	74,065	100%	110,940	100%

*Only 2 low-income census tracts were populated in 1990

Additionally, based upon the assessment area's 1990 median family income of \$30,763,² low-income families and moderate-income families (regardless of location) comprised 19 percent each of assessment area families, middle-income families comprised 24 percent and upper-income families comprised 38 percent. Families below poverty comprised 9 percent of assessment area families.

With a 1998 population estimated at 313,000,³ Lane County is the fourth most populous county in Oregon and the third most populous metropolitan area, ranked behind Portland and Salem.⁴ Both the State of Oregon and Lane County have seen a substantial increase in their populations, with growth rates in excess of the national average. Estimates by the state data center at Portland State University indicate that in the eight years between 1990 and 1998, Lane County's total population increased by 10.6 percent (versus 15 percent for all of Oregon and 8.4 percent for the U.S.), an increase of 30,088 persons.

Due to the separation of Springfield and Eugene by the Willamette River, these two neighboring cities grew in different directions. Springfield has historically been more rural and acted as a trading post and transportation hub for wood products from the east heading west. Eugene, on the other hand, has been consistently more metropolitan drawing from its location on north-south trade routes. Trade remains a stable economic sector in the county, but has been eclipsed by the service sector, accounting for nearly two of every three new jobs created in Lane County since 1986.⁵ This growth in the services sector, as well as an increase in manufacturing, has helped to stabilize the once resource dependent industrial base of the county. This has

¹ Oregon Employment Department: 2000 Regional Economic Profile - Region 5 - Lane County (page 1)

² U.S. Dept. of Housing and Urban Development (HUD)

³ 1999 State of Oregon Employment Department:
(http://olmis.emp.state.or.us/olmis/olmtest.reg_outputp_areacode=000005/)

⁴ Oregon Employment Department: 2000 Regional Economic Profile - Region 5 - Lane County (page 3)

⁵ Oregon Employment Department: 2000 Regional Economic Profile - Region 5 - Lane County (page 9)

translated in record low unemployment rates since 1995. In 1998, unemployment was estimated at 5.4 percent, below the State of Oregon's 5.6 percent.⁶

EMPLOYMENT SECTOR	1990	1998	% CHANGE
MANUFACTURING	20,700	22,200	7%
CONSTRUCTION	4,000	7,300	83%
TRANSPORTATION/COMMUNICATION/ UTILITIES	4,500	4,500	0%
TRADE	30,600	34,900	14%
FINANCE/INSURANCE/REAL ESTATE	5,800	7,300	26%
SERVICES	28,000	38,400	37%
GOVERNMENT	24,200	25,300	5%

Source: Oregon Employment Department, 2000 Regional Economic Profile, Region 5 Lane County (page 48)

According to Dun and Bradstreet data released in 1999, 89 percent of Lane County's 11,217 businesses were small businesses, defined as having gross annual revenues of \$1 million or less. These businesses are concentrated in the cities of Eugene, Springfield, Florence, and Veneta as well as along the Interstate 5 corridor.

The majority are located in middle-income census tracts (53 percent), followed by moderate-income census tracts (26 percent) with substantially fewer small businesses located in upper-income (15 percent) and low-income (6 percent). Small business concentrations in low- and moderate-income areas are most evident in the cities of Springfield, Eugene and Florence.

McKenzie State Bank has numerous competitors in its assessment area, including branches of larger financial institutions. The economic profile of the assessment area could benefit from continued business growth and development. While competition exists, the bank's product offerings match well with the financing needed to achieve this objective.

⁶ Oregon Employment Department: 2000 Regional Economic Profile - Region 5 - Lane County (page 7)

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Scope of Examination

The evaluation of McKenzie State Bank's performance under the Community Reinvestment Act was based upon four of the five performance criteria established for small banks.⁷ The performance criteria include an assessment of the bank's loan volume in comparison to deposits (Loan-to-Deposit Ratio), concentration of loans extended inside the bank's assessment area (Lending in Assessment Area), the distribution of loans extended throughout the assessment area (Geographic Distribution of Loans), and the distribution of lending to businesses of different sizes and borrowers with different income levels (Lending by Borrower Income and Business Revenue). The bank's responsiveness to consumer complaints was not evaluated because no CRA-related complaints have been received by the bank.

In order to evaluate the bank's CRA performance, examiners reviewed a sample of 37 of the bank's small business loans and 32 consumer loans. Based on the dollar composition of the bank's loan portfolio and its overall strategy, small business loans were weighted more heavily than consumer loans. The loans sampled were extended during the period beginning November 16, 1998 through September 30, 1999. The entire loan sample was used to determine the percentage of the bank's lending with its assessment area. Only those loans inside the assessment were used to evaluate bank's record of lending to borrowers of different income levels and in different income geographies.

Loan-to-Deposit Ratio

McKenzie State Bank's loan-to-deposit ratio is reasonable. Examiners evaluated the bank's lending volume in comparison to the bank's total deposits, using a four-quarter average of its loan and deposit ratio.

Given the relatively short period of operations, McKenzie State Bank's results were compared with three other institutions in Oregon in business for three years or less. All of the institutions had assets of \$50 million or less. McKenzie State Bank's average loan-to-deposit ratio was 56 percent and ranked above two of the three banks at 41 percent and 46 percent respectively. While the bank's average is below the state average of 72 percent and the national average of 76 percent, it has been increasing steadily from 38 percent reported in December 1998 to 77 percent for September 1999. This increase illustrates sufficient lending activity while the bank was experiencing strong deposit growth.

Lending in Assessment Area

A substantial majority of the bank's lending activity falls within its assessment area and exceeds standards for satisfactory performance. Of the 69 combined loans sampled, 66 or 95 percent were within the bank's assessment area. The local concentration is also evident in the dollar

⁷ A small bank is defined as a bank that, as of December 31 of either of the prior two calendar years, had total assets of less than \$250 million and was independent or an affiliate of a holding company that, as of December 31 of either of the prior two calendar years had total banking and thrift assets of less than \$1 billion.

volume represented by these loans. Of the \$5.1 million extended, nearly \$4.9 million (95 percent) was lent inside the bank's assessment area. These results did not differ materially between the products. Of the 32 consumer loans sampled, 30 loans (94 percent) were within the assessment area, representing 97 percent of the total \$741,000 extended. Similarly, 36 commercial loans (97 percent) totaled nearly \$4.2 million and represented 95 percent of the total commercial dollars lent during the period.

The bank's defined market is large enough to expect a high local concentration; however, examination results illustrate that a substantial majority of the bank's lending is actually concentrated in the primary market (Springfield and Eugene) it has the bank's capacity to serve.

Lending by Borrower Income and by Business Revenue

The bank's distribution of loans to businesses of different sizes and to borrowers of different income levels meets the standard for satisfactory performance.

Commercial Lending

The bank's percentage of loans to small businesses reasonably compare to the percentage of small businesses in the assessment area at 89 percent. Twenty eight loans (78 percent of the number and 85 percent of the dollar amount) of the 36 commercial loans sampled went to small businesses. According to outside contacts the growth in the service sector in Springfield has spurred the need for small business loans to micro-enterprises for equipment financing and expansion. The bank extended 72 percent of its loans (26 loans totaling \$1.5 million) in amounts less than or equal to \$100,000. Of these loans, 77 percent (20 loans totaling \$1.1 million) were to small businesses. While these loans have not all necessarily been extended to micro-enterprises, the availability of such credit facilities and the bank's willingness to lend in such small amounts is apparent by the incidence of these loans in its portfolio.

Consumer Lending

The bank has demonstrated a reasonable response to consumers' income levels in each of the four income categories. The bank extended 30 consumer loans within the review period: two to low-income borrowers, four to moderate-income borrowers, four to middle-income borrowers, and the remainder to upper-income borrowers. While the majority of the bank's loans have been extended to upper-income borrowers, loans to low- and moderate-income borrowers represent 20 percent of the total number, comparing favorably to 19 percent of all families being low- and moderate-income.

Geographic Distribution of Loans

McKenzie State Bank's distribution of loans across census tracts of different income levels shows a reasonable dispersion and meets standards for satisfactory performance.

Commercial Lending

INCOME	TRACTS		DUN & BRADSTREET (1999)		MSB BUSINESS LOANS			
	#	%	TOTAL BUS #	TOTAL BUS %	#	%	\$(000)	%
LOW	* 2	3%	726	6%	0	0%	0	0%
MODERATE	12	17%	2,966	26%	5	14%	848	21%
MIDDLE	43	62%	5,867	52%	29	81%	3,134	75%
UPPER	12	17%	1,658	15%	2	5%	175	4%
TOTAL	69	100%	11,217	100%	36	100%	4,157	100%

* EXCLUDES 13 CENSUS TRACTS WITH 0 POPULATION.

The above table illustrates a preponderance of lending in middle-income census tracts in the market, which is reasonable because these tracts make up most of the assessment area. The activity levels are less robust in the other income tract categories because of their distance from the bank's office. For example, the bank's primary market in Springfield has no low-income census tracts. The bank has, however, made loans in each of the moderate-income census tracts within the city limits. Other low- and moderate-income census tracts in the assessment area are either a great distance from the bank's single office or are served extensively by numerous competitors with established relationships in the community. Due to these factors, the bank's penetration of census tracts of differing income classifications is reasonable.

Consumer Lending

The distribution profile for consumer loans is similarly concentrated in middle-income tracts (27 loans). However, none of the consumer loans in the sample were in low-income census tracts; one loan was in a moderate income census tract; and two loans were in upper-income census tracts. The absence of consumer loans in low-income tracts is not a supervisory concern in large part because only 1 percent⁸ of the assessment area's families resided in low-income census tracts. Secondly, these tracts all are not within the bank's immediate service area. Additionally, due to the bank's commercial lending focus, consumer lending was not weighted as heavily in the overall assessment.

Response to Complaints

This criterion was not evaluated, as the bank has not received any complaints relating to its CRA performance since it opened in 1998.

Compliance with Fair Lending Laws and Regulations

The bank is in compliance with all substantive provisions of the anti-discrimination laws and regulations. No violations were noted during this examination that would indicate that McKenzie State Bank engages in any type of discrimination or discouragement in its lending activities.

⁸ 1990 U.S. Census data

GLOSSARY OF FREQUENTLY USED TERMS

AREA MEDIAN INCOME
(MEDIAN INCOME)

The median family income for the Metropolitan Statistical Area (MSA) if a person or geography is located in an MSA, or the statewide nonmetropolitan median family income, if a person or geography is located outside an MSA.

ASSESSMENT AREA

A geographic area which generally consists of one or more MSAs or one or more contiguous subdivisions, such as counties, cities or towns. Assessment areas also include geographies in which the bank has its main office, its branches and its deposit taking ATMs, as well as the surrounding geographies in which the bank has originated or purchased a substantial portion of its loans (including home mortgage loans, small business loans, small farm loans, and any other loans the bank chooses, such as those consumer loans on which the bank elects to have its performance assessed).

COMMUNITY
DEVELOPMENT

- (1) Affordable housing (including multifamily rental housing) for low- or moderate-income individuals.
- (2) Community services targeted to low- or moderate-income individuals.
- (3) Activities that promote economic development by financing business or farms which have gross annual revenues of \$1 million or less or that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs.
- (4) Activities that revitalize or stabilize low- or moderate-income geographies.

COMMUNITY
DEVELOPMENT LOAN

A loan that has as its primary purpose community development; 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 for consideration in the bank's assessment 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, and has not been considered in the evaluation of the bank's retail banking services under CRA.

CONSUMER LOANS

Loans to one or more individuals for household, family or other personal expenditures. A consumer loan does not include a home mortgage, small business or small farm loan. Examples of consumer loans are: Motor Vehicle Loans, Credit Card Loans, Home-Equity Loans, Secured Consumer Loans and Unsecured Consumer Loans.

FAMILIES

Defined by the U.S. Bureau of Census as all persons occupying a housing unit related to the householder by birth, marriage or adoption. A single person living alone or two or more unrelated individuals occupying the same household are not considered to be a family.

GEOGRAPHIES

Census tracts or numbering area blocks delineated by the U.S. Bureau of Census in the most recent decennial census.

HOUSEHOLDS

Defined by the U.S. Bureau of Census as all persons occupying a housing unit.

HUD ADJUSTED MEDIAN
INCOME

Based initially on the area median income derived from the most recent decennial census, the Department of Housing and Urban Development adjusts the figure annually for inflation.

INCOME LEVEL

Includes low-income, moderate-income, middle-income and upper-income.

LOW-INCOME

An individual income that is less than 50 percent of the HUD-adjusted median income or a census tract or block numbering area with a median family income that is less than 50% of the area median income.

MEDIAN INCOME

See Area Median Income and HUD Adjusted Median Income

METROPOLITAN
STATISTICAL AREA (MSA)

An area qualifies as an MSA if it contains a city with a population of at least 50,000 or is defined by the Bureau of the Census as an urbanized area and has a population of 50,000 or more and a total metropolitan population of 100,000.

MIDDLE-INCOME	An individual income that is at least 80 percent and less than 120 percent of the HUD-adjusted median income, or a census tract or block numbering area with a median family income that is at least 80 and less than 120 percent of the area median income.
MODERATE-INCOME	An individual income that is at least 50 percent and less than 80 percent of the HUD-adjusted median income, or a census tract or block numbering area with a median family income that is at least 50 and less than 80 percent of the area median income.
QUALIFIED INVESTMENT	A lawful investment, deposit, membership share, or grant that has as its primary purpose community development.
REAL ESTATE MORTGAGE LOAN	Defined by the Home Mortgage Disclosure Act (HMDA) as a home purchase loan, home improvement loan or the refinancings for both. A home purchase loan is any loan secured by and made for the purpose of purchasing a dwelling. A home improvement loan is for the purpose, in whole or part, of repairing, rehabilitating, remodeling, or improving a dwelling or the real property on which it is located and is classified by the financial institution as a home improvement loan.
SMALL BANK	A bank that, as of December 31 of either of the prior two calendar years, had total assets of less than \$250 million and was independent or an affiliate of a holding company that, as of December 31 of the prior two calendar years, had total banking and thrift assets of less than \$1 billion.
SMALL BUSINESS	Businesses with gross annual revenues of \$1 million or less as defined by the Community Reinvestment Act.
SMALL BUSINESS LOAN	Business purpose loans with original amounts of \$1 million or less as defined by the instructions for the Consolidated Reports of Condition and Income (CALL Report) for entry on schedule RC-C, part II "Loans to Small Businesses."
UPPER-INCOME	An individual income that is 120 percent or more of the HUD-adjusted median income, or a census tract or block numbering area with a median family income that is 120 percent or more of the area median income.