



PUBLIC DISCLOSURE

AUGUST 18, 2014

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**BANK OF CUSHING
RSSD# 271752**

**224 EAST BROADWAY
CUSHING, OKLAHOMA 74023**

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

Bank of Cushing (the bank) has a satisfactory record of helping to meet the credit needs of its delineated assessment area (AA), including low- and moderate-income (LMI) borrowers, as well as small businesses, in a manner consistent with its resources, operating philosophy, and credit needs of the communities it serves.

The bank's net loan-to-deposit (NLTD) ratio indicated a reasonable effort to extend credit in a competitive market with low credit demand, and a majority of the bank's lending activity occurred inside its delineated AA. In addition, the bank's distribution of lending by income level of geography was reasonable and the bank's lending to borrowers of different income levels and businesses of different revenue sizes was excellent.

SCOPE OF EXAMINATION

The bank's Community Reinvestment Act (CRA) performance was evaluated using the Federal Financial Institutions Examination Council Small Bank Procedures. Four of the five criteria used in evaluating small bank lending performance were relevant to this review and are as follows:

- NLTD Ratio
- Lending inside the AA
- Distribution of Lending by Income Level of Geography
- Lending to Borrowers of Different Income Levels and Businesses of Different Revenue Sizes

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

The bank's CRA examination included an evaluation of the bank's performance with appropriate consideration given to demographic information. Conclusions regarding the four performance criteria were based on data compiled from the bank's major product lines: commercial and consumer motor vehicle secured loans. The major product lines were determined through discussions with bank management, a review of the Report of Condition and Income (Call Report), and a review of the number of loan originations since the bank's prior CRA examination dated June 14, 2010.

The CRA examination analyzed a statistical sample of 71 commercial loans from a universe of 110, and a statistical sample of 75 consumer motor vehicle loans from a universe of 119 loans. The commercial sample was originated between January 4, 2013 and December 26, 2013, while the consumer motor vehicle loan sample was originated between July 1, 2013 and December 30, 2013. To augment the evaluation, one interview was conducted with a member

of the local community to ascertain specific credit needs, opportunities, and local market conditions within the AA.

DESCRIPTION OF INSTITUTION

The bank is located in Cushing, Oklahoma a rural community located approximately 25 miles from Stillwater, Oklahoma. The bank's main bank and one branch location operate within Cushing, Oklahoma, and each location maintains a drive-through facility and cash dispensing automated teller machine (ATM). Also, the bank operates two additional ATMs located in Cushing, Oklahoma, and nearby Drumright, Oklahoma, approximately 10 miles east of Cushing.

The bank is an independent community bank formed in 1897 and is the only original locally owned bank that continues to serve the community. According to the June 30, 2013 Federal Deposit Insurance Corporation (FDIC) Summary of Deposits Report, the bank has a 4.6 percent share of all deposits in their AA, with more deposits than 15 of the 21 listed FDIC-insured institutions in the AA.

As of the June 30, 2014 Call Report, the bank's assets totaled \$119 million of which gross loans totaled \$46.5 million. Table 1 indicates the distribution of the bank's loan portfolio by product type. By dollar volume, the bank's major products are commercial and consumer loans, comprising 63.0 and 16.7 percent of the bank's loan portfolio, respectively.

TABLE 1 BANK OF CUSHING LOAN PORTFOLIO		
Loan Type	Amount (\$000)	Percent of Total
Commercial	29,249	63.0
Consumer	7,775	16.7
Agriculture	5,132	11.0
Residential Real Estate	4,194	9.0
Other	127	0.3
Total Gross Loans	46,477	100.0

No legal or financial factors exist that would significantly hinder the bank's ability to meet the credit needs of its AA.

DESCRIPTION OF THE BANK'S ASSESSMENT AREA

The bank's only AA consists of five census tracts in rural northeastern Oklahoma; four census tracts in southeastern Payne County and one census tract in northwestern Creek County. The four census tracts in Payne County are middle-income tracts and the one census tract in Creek County is a moderate-income tract.

Population Trends and Characteristics

According to the 2010 census data, the AA has a total population of 17,680 people. The Payne County census tracts contain 14,237 people with the other 3,443 people in the AA located in the Creek County census tract. Between the 2000 and 2010 census, the population of the AA decreased by 1.2 percent, from 17,896 in 2000 to 17,680 in 2010. The 2010 census data indicates that the population in the AA is stable with 16.0 percent of the population age 65 and older and 51.5 percent of the population age 25-64 compared to the state of Oklahoma at 13.5 and 51.6 percent, respectively.

Economic and Employment Characteristics

According to 2013 Dun & Bradstreet (D&B) data, the major industries in the AA are manufacturing, construction and mining. Cushing is a major distribution center for North America's oil supply chain network. A community contact stated that oil is shipped and stored in Cushing before it is sold to end users such as refineries. The community contact stated that there are 150 new oil tanks in Cushing, affording oil companies the capacity to store 80 million barrels of oil a day. Several oil companies operate pipeline terminals in Cushing including, Enbridge, Plains, and British Petroleum. Additionally, there are several construction and manufacturing companies that are ancillary to the oil supply chain that along with the oil companies support the local economy. The community contact stated that oil and gas companies operating in Cushing maintain central offices elsewhere and do not seek credit from local institutions. However he also noted that he believes credit needs in the AA are adequately met by local financial institutions.

The unemployment rate in the AA is above both the national average and the state of Oklahoma. The unemployment rate in the AA is 8.0 percent, compared to 6.1 percent for the state of Oklahoma and the nation at 6.2 percent. The unemployment rates for Payne and Creek County are 5.4 and 7.9 percent, respectively.

Income Characteristics

The AA is slightly less affluent than the state of Oklahoma as a whole. The 2010 median family income (MFI) for the AA is lower at \$42,511, than the state of Oklahoma, at \$53,607. It is also lower than both Payne and Creek County at \$54,394 and \$51,242, respectively. In 2010 the percentage of families living below the poverty level in the AA was higher at 14.9 percent, compared to the state of Oklahoma at 11.9 percent.

Housing Characteristics

The 2010 Census data indicates that housing units in the AA totaled 7,871 units with 58.9 percent of the housing owner-occupied compared to 59.0 percent for the state of Oklahoma. Housing in the AA is more affordable than the rest of the state of Oklahoma. The AA housing affordability ratio, which considers median household income as a percentage of the median housing value is 51.7 percent, compared to the ratio for the state of Oklahoma at 41.2 percent. The median housing value, for the AA and the state of Oklahoma is \$71,503 and \$104,300 respectively.

**TABLE 2
BANK OF CUSHING AA DEMOGRAPHICS**

Income Categories	Tract Distribution		Families by Tract Income		Families < Poverty Level as % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low-income	0	0.0	0	0.0	0	0.0	1,131	25.1
Moderate-income	1	20.0	878	19.5	175	19.9	929	20.6
Middle-income	4	80.0	3,628	80.5	498	13.7	999	22.2
Upper-income	0	0.0	0	0.0	0	0.0	1,447	32.1
Unknown-Income	0	0.0	0	0.0	0	0.0	0	0.0
Total AA	5	100.0	4,506	100.0	673	14.9	4,506	100.0
	Housing Units by Tract	Housing Type by Tract						
		Owner-occupied			Rental		Vacant	
		#	% by tract	% by unit	#	% by unit	#	% by unit
Low-income	0	0	0.0	0.0	0	0.0	0	0.0
Moderate-income	1,467	682	14.7	46.5	521	35.5	264	18.0
Middle-income	6,404	3,954	85.3	61.7	1,411	22.0	1,039	16.2
Upper-income	0	0	0.0	0.0	0	0	0	0.0
Unknown-Income	0	0	0.0	0.0	0	0	0	0.0
Total AA	7,871	4,636	100.0	58.9	1,932	24.5	1,303	16.6
	Total Businesses by Tract	Businesses by Tract & Revenue Size						
		Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported		
		#	%	#	%	#	%	
Low-income	0	0.0	0	0.0	0	0.0	0	0.0
Moderate-income	166	20.9	143	20.3	18	26.5	5	20.0
Middle-income	630	79.1	560	79.7	50	73.5	20	80.0
Upper-income	0	0.0	0	0.0	0	0.0	0	0.0
Unknown-Income	0	0.0	0	0.0	0	0.0	0	0.0
Total AA	796	100.0	703	100.0	68	100.0	25	100.0
Percentage of Total Businesses:			88.3		8.5		3.1	
	Total Farms by Tract	Farms by Tract & Revenue Size						
		Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported		
		#	%	#	%	#	%	
Low-income	0	0.0	0	0.0	0	0.0	0	0.0
Moderate-income	12	21.4	12	21.4	0	0.0	0	0.0
Middle-income	44	78.6	44	78.6	0	0.0	0	0.0
Upper-income	0	0.0	0	0.0	0	0.0	0	0.0
Unknown-Income	0	0.0	0	0.0	0	0.0	0	0.0
Total AA	56	100.0	56	100.0	0	0.0	0	0.0
Percentage of Total Farms:			100.0		0.0		0.0	

Based on 2010 ACS 5-year estimate data, 2010 FFIEC census tract designations, and 2013 D&B data.
(NOTE: Total percentages shown may vary by 0.1 percent due to automated rounding differences.)

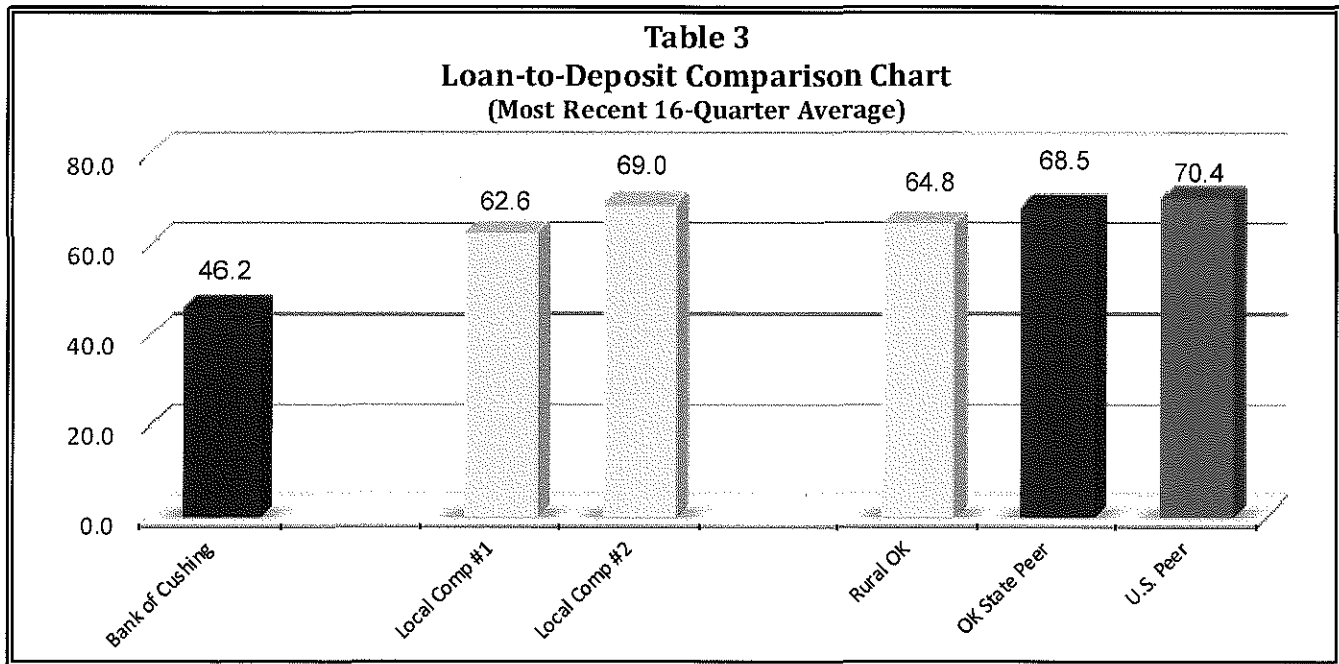
CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank's record of meeting the credit needs of its AA is considered satisfactory, based on the performance in the designated AA. A review of the bank's 16-quarter average NLTD ratio, lending within its AA, lending to borrowers of different income levels and businesses of different revenue sizes and the distribution of lending by income level of geography was conducted. Data utilized for the analysis included the bank's performance data, area demographic information, and input obtained from a member of the local community.

Net Loan-to-Deposit Ratio:

The bank's average NLTD ratio is considered reasonable based on its size, financial condition, local economic conditions, AA credit needs, and the NLTD ratios of other institutions and peer groups. As shown in Table 3, the bank's NLTD ratio was averaged over a 16-quarter period since the previous CRA examination and compared with the NLTD ratios of two similarly-situated institutions, the state of Oklahoma, Oklahoma statewide rural and national peer groups over the same time period. The bank's NLTD ratio is less than the two similarly-situated institutions, the statewide Oklahoma, rural Oklahoma and national peer group averages.

The bank's total deposits increased since the last exam by 27.8 percent while the bank's total loans increased by only 21.1 percent during the same time period. The bank attributed this to low loan demand, compared to stable deposit growth. Additionally, none of the similarly-situated institutions are located in either Cushing or the greater AA. The only financial institutions located in Cushing are branches of \$2 billion banks headquartered elsewhere. The bank mentioned that the AA is reliant on the oil and gas industry which limits credit demand. The oil and gas companies operating in the area provide employees with generous fringe benefits such as; home rental allowances, per diem, and company vehicles, resulting in low credit demand. Therefore, even though the bank's NLTD ratio is lower than comparable institutions, the state of Oklahoma, Oklahoma statewide rural and national peer groups, the bank's NLTD ratio is still considered reasonable based on the AA's lack of credit demand and increased bank deposits.



Assessment Area Concentration:

This core performance criterion evaluates the bank's lending inside its AA. As illustrated in Table 4, a majority of the bank's commercial and consumer motor vehicle secured loans were originated within the bank's AA at 63.4 and 70.7 percent, respectively. The analysis focused on the number of originations within the AA rather than the dollar volume, as originations are a better representation of the number of applicants served. The bank's level of lending reflects a reasonable effort to serve the credit needs of its AA. Only those loans originated inside the AA were considered for the remaining analyses.

Bank Loans	Inside				Outside			
	#	\$(000)	#%	\$\$	#	\$(000)	#%	\$\$
Motor Vehicle	53	541	70.7	58.1	22	390	29.3	41.9
Small Business	45	3,167	63.4	46.0	26	3,716	36.6	54.0
Total Loans	98	3,708	67.1	47.5	48	4,107	32.9	52.6

Distribution by Income Level of Geographies:

TABLE 5 DISTRIBUTION BY INCOME LEVEL OF GEOGRAPHIES					
Census Tract Income Level	Motor Vehicle Loans				% of Households¹
	#	\$(000)	#%	\$%	
Low	0	0	0.0	0.0	0.0
Moderate	10	82	18.9	15.1	18.3
Middle	43	459	81.1	84.9	81.7
Upper	0	0	0.0	0.0	0.0
Unknown ³	0	0	0.0	0.0	0.0
Census Tract Income Level	Small Business Loans				% of Businesses²
	#	\$(000)	#%	\$%	
Low	0	0	0.0	0.0	0.0
Moderate	7	562	15.6	17.8	20.9
Middle	38	2,605	84.4	82.2	79.1
Upper	0	0	0.0	0.0	0.0
Unknown ³	0	0	0.0	0.0	0.0

¹ Based on 2010 ACS 5-year estimate data and 2010 FFIEC census tract designations.
² Based on 2013 D&B data.
³ Does not include tracts where the income level is unknown. Only includes tract locations not known.
(NOTE: Total percentages shown may vary by 0.1 percent due to automated rounding differences.)

Motor Vehicle Loans

This performance criterion compares the bank's consumer auto lending activity to the percentage of households in each census tract income category to determine the bank's distribution of loans by geographic income level. Focus is placed on lending within the LMI tracts in the bank's AA. Here, the AA contains one moderate-income tract and four middle-income tracts.

The bank's geographic distribution of consumer motor vehicle secured lending among tracts of various income levels is reasonable. As illustrated in Table 5, the bank originated 18.9 percent of the consumer motor vehicle secured loans sampled, in the AA's moderate-income tract, exceeding the percentage of households in the AA's moderate-income tract by 0.6 percent. The bank originated 81.1 percent of consumer motor vehicle secured loans in middle-income tracts compared to 81.7 percent of households in the middle-income tracts of the AA.

Small Business Loans

This performance criterion compares the bank's small business loans to the percentage of all businesses located in each income tract category. Focus is placed on lending within the LMI tracts in the bank's AA. Here, the AA contains one moderate-income tract and four middle-income tracts.

The bank's geographic distribution of lending to businesses among tracts of various income levels is reasonable. Table 5 reflects the geographic distribution of the bank's business loans compared to the number of businesses located in each tract income category. The bank originated 15.6 percent of its business loans in the moderate-income tract, which is slightly below the 20.9 percent of businesses located in the moderate-income tract. The bank originated 84.4 percent of business loans in middle-income tracts compared to 79.1 percent of businesses located in those tracts.

Distribution by Borrower Income and Revenue Size of Business:

TABLE 6 DISTRIBUTION BY BORROWER INCOME LEVEL AND REVENUE SIZE OF BUSINESS					
Borrower Income Level	Motor Vehicle Loans				% of Households¹
	#	\$(000)	#%	\$%	
Low	16	126	30.2	23.4	25.4
Moderate	17	147	32.1	27.2	18.3
Middle	14	155	26.4	28.8	18.2
Upper	6	112	11.3	20.8	38.1
Business Revenue	Business Loans				% of Businesses by Revenue²
	#	\$(000)	#%	\$%	
\$1MM or Less	44	3,017	97.8	95.3	88.3
Over \$1MM	1	150	2.2	4.7	8.5

¹ Based on 2010 ACS 5-year estimate data.
² Based on 2013 D&B data.
 (Note: Total percentages shown may vary by 0.1 percent due to automated rounding differences.)

Motor Vehicle Loans

This performance criterion reviews the bank's distribution of lending to borrowers of different income levels with emphasis placed on lending to LMI borrowers. The bank's lending to low-income borrowers is higher than the demographic, with 30.2 percent compared to 25.4 percent, respectively. Lending to moderate-income borrowers is also higher than the demographic, with 32.1 percent compared to 18.3 percent, respectively. The bank's loan policy includes a character component which is given greater weight to assess a borrower's credit worthiness than focusing primarily on a credit score. With a disproportionate amount of LMI borrowers with low credit scores, the bank's lending policy and philosophy helps LMI borrowers in the community gain access to credit. Lending levels to middle-income borrowers is significantly above the demographic figure at 26.4 percent compared to 18.2 percent, respectively, while lending levels to upper-income borrowers were well below the area demographic figure at 11.3 percent and 38.1 percent, respectively. The bank's lending to LMI borrowers is considered excellent.

Small Business Loans

This performance criterion evaluates the bank's distribution of lending to businesses of different revenue sizes with an emphasis on businesses with gross annual revenues of \$1 million or less. The bank's distribution of loans to businesses of different revenue sizes is excellent, with 97.8 percent of small business loans made to small businesses with revenue of \$1 million or less, exceeding the percentage of small businesses in the AA area at 88.3 percent.

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. A review of the bank's policies and procedures, credit applications, loan denials, and staff interviews revealed no prohibited practices designed to discourage loan applicants. In addition, the bank has not engaged in illegal credit practices inconsistent with helping to meet the credit needs of the bank's AA.