

# **PUBLIC DISCLOSURE**

**January 18, 2000**

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**Oregon State Bank  
RSSD 2735762  
2851 NW 9<sup>th</sup> Street, Suite B  
Corvallis, OR 97330**

**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 Oregon 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 Oregon 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, which is comparable to the incidence of such entities in the assessment area. In addition, 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

Oregon State Bank is a unit bank, located in Corvallis, Oregon, which opened for business on April 1, 1999. The bank is a full service commercial bank with a focus on small business and real estate 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.

As of September 30, 1999, Oregon State Bank had total assets of \$10 million, with loans and leases comprising 55 percent of the total. The bank's assets increased 31 percent during the three-month period between June 30, 1999<sup>1</sup> and September 30, 1999. Loans also grew from \$4.3 million to \$5.7 million (33 percent) during the same period. The bank's loan portfolio reflects its community banking strategy with commercial loans representing 72 percent of total loans and leases. Consumer credit represents a minimal percentage of the bank's loan portfolio with consumer loans comprising only 1 percent.

LOAN TYPE	9/30/99 DOLLAR AMT ('000S)	% OF TOTAL	6/30/99 DOLLAR AMT ('000S)	% OF TOTAL
COMMERCIAL/INDUS. & NON-FARM/ NON RESIDENTIAL REAL ESTATE	4,113	72%	2,868	67%
1-4 RESIDENTIAL - OTHER	769	13%	634	15%
CONSTRUCTION & LAND DEVELOPMENT	443	8%	530	12%
FARMLAND & AGRICULTURE	286	5%	237	6%
CONSUMER LOANS	69	1%	25	1%
CREDIT CARDS & OTHER OPEN-END CONSUMER LINES OF CREDIT	26	0%	0	0%
LEASES	1	0%	0	0%
TOTAL (GROSS)	5,707	100%	4,294	100%

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

### Description of Assessment Area

Oregon State Bank's assessment area is defined as both Benton and Linn Counties, which combined consist of 38 census tracts. Together the counties measure 2,976 square miles in the center of the 100-mile long Willamette Valley. The distribution of population, families and households among the assessment area's census tracts is detailed below.

<sup>1</sup> The first available call report for this institution is June 30, 1999.

ASSESSMENT AREA TRACT CATEGORIES	TRACTS		POPULATION		FAMILIES		HOUSEHOLDS	
	#	%	#	%	#	%	#	%
LOW	3*	8%	12	0%	0	0%	6	0%
MODERATE	3	8%	12,750	8%	1,885	4%	4,266	7%
MIDDLE	21	55%	106,478	66%	27,979	66%	40,683	67%
UPPER	11	29%	42,798	26%	12,321	29%	16,114	26%
TOTAL	38	100%	162,038	100%	42,185	100%	61,069	100%

\*Only 1 low-income census tract was populated in 1990.

Based upon the assessment area's 1990 median family income of \$31,534<sup>2</sup> low- and moderate-income families (regardless of census tract location) comprised 16 percent each of assessment area families, middle-income families comprised 22 percent and upper-income families comprised 46 percent. Families below poverty comprised 9 percent of assessment area families.

Separated by the Willamette River, Benton and Linn Counties have vastly different economic structures. In June 1999, the Office of Management and Budget designated Benton County as the Corvallis Metropolitan Statistical Area. Benton County has a stable economic base due to the Oregon State University, located in Corvallis, which enrolls 15,000 students per year and employs 8,000 persons. This university has also attracted high technology manufacturers to the city of Corvallis who employ 6,000 persons. Benton County's dominant industries are higher education, agriculture, lumber products, electronics and research and development.<sup>3</sup> Due to this stability, Benton County has traditionally had lower unemployment than the State of Oregon and the nation as a whole. In 1998, Benton County's unemployment rate was estimated at 3.1 percent, below both Oregon's 5.6 percent and the nation's 4.5 percent.<sup>4</sup>

Unlike its metropolitan neighbors, Linn County's own economic base is more closely tied to resources, such as lumber products, manufactured homes, rare metals manufacturing and agriculture.<sup>5</sup> Losses in jobs in lumber, wood products and primary metals manufacturing have contributed to the county's comparatively high unemployment rate. After double-digit inflation through the mid 1980's, Linn County's unemployment rate has decreased to 8.8 percent, due to the county's diversifying industrial base and its location.<sup>6</sup>

EMPLOYMENT SECTOR	BENTON			LINN		
	1990	1998	% CHANGE	1990	1998	% CHANGE
MANUFACTURING	5,120	8,660	69%	10,480	11,770	12%
CONSTRUCTION	400	1,050	163%	980	2,530	158%
TRANSPORTATION/COMMUNICATION/UTILITIES	730	960	32%	1,380	1,950	41%
TRADE	5,320	6,170	16%	6,470	9,080	40%
FINANCE/INSURANCE/REAL ESTATE	990	1,290	30%	1,020	1,410	38%
SERVICES	5,720	8,940	56%	5,490	8,000	46%
GOVERNMENT	11,400	11,670	2%	5,420	6,480	20%

Source: Oregon Employment Department: 2000 Regional Economic Profile - Region 4 (Pages 87 and 91)

<sup>2</sup> U.S. Dept. of Housing and Urban Development (HUD)

<sup>3</sup> Oregon Employment Department: 2000 Regional Economic Profile - Region 4 (Page 2)

<sup>4</sup> Oregon Employment Department: 2000 Regional Economic Profile - Region 4 (Page 92)

<sup>5</sup> Oregon Employment Department: 2000 Regional Economic Profile - Region 4 (Page 3)

<sup>6</sup> Oregon Employment Department: 2000 Regional Economic Profile - Region 4 (Page 18)

Employment growth in the bank's assessment area has been strongest in construction, followed by manufacturing in Benton County and the services industry in both Benton and Linn Counties. Dun and Bradstreet data released in 1999 indicate that in the bank's assessment area a substantial majority of businesses in these growth sectors were small businesses defined as having gross annual revenues of \$1 million or less ninety four percent of construction businesses, 89 percent of manufacturing businesses and 96 percent of service businesses were small businesses.

The Dun and Bradstreet data further indicate that there are no substantial differences in the location of small businesses versus large businesses. The area's businesses are located throughout the two counties with concentrations in the cities of Corvallis and Philomath in Benton County and the cities of Albany and Lebanon in Linn County. The majority of businesses are located in the assessment area's middle-income census tracts (65 percent) followed by upper-income census tracts (20 percent) and moderate-income census tracts (15 percent). There were neither small nor large businesses identified in the assessment area's populated low-income census tract.

Oregon State Bank faces competition from 11 banks with 46 branches in both Benton and Linn Counties. Major competitors include Citizens Bank, U.S. Bank and First Security Bank, that together maintain over 56 percent of bank deposits. In addition to banks, Oregon State Bank faces competition from 8 credit unions in both Benton and Linn Counties.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

### **Scope of Examination**

The evaluation of Oregon State Bank's performance under the Community Reinvestment Act was based upon four of the five performance criteria established for small banks.<sup>7</sup> 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 lending to businesses of different sizes (Lending by Business Revenue) and the distribution of loans extended throughout the assessment area (Geographic Distribution of Loans). 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 all 20 small business loans,<sup>8</sup> totaling \$3.4 million, extended by the bank during the sample period beginning April 1, 1999 through September 30, 1999. These small business loans were used to determine the percentage of the bank's lending inside the assessment area. Loans in the assessment area

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<sup>7</sup> 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.

<sup>8</sup> As defined by the CRA regulation, small business loans are commercial /industrial and non-farm/non-residential real estate loans with an original amount of \$1 million or less.

were then used to determine the bank's record of lending to businesses of different sizes as well as to determine the bank's record of lending to census tracts or geographies of different income levels.

### **Loan-to-Deposit Ratio**

Oregon State Bank's loan-to-deposit ratio is reasonable. Examiners evaluated the bank's lending volume in comparison to the bank's total deposits as of the examination date. The bank had only been open for 10 months. Consistent with the review period, the average of the bank's loan and deposit activity was limited to two quarters, June 30 and September 30, respectively.

Oregon State Bank's average loan-to-deposit ratio was 93 percent. Since the bank opened, loans have grown steadily and represented 55 percent of total assets. The loan-to-deposit ratio reflects efforts to invest available funds into loans consistent with the start-up operations of a new bank.

### **Lending in Assessment Area**

A substantial majority of the bank's lending activity falls within its assessment area. Of the 20 loans sampled, 16 or 80 percent of the loans were extended in the bank's assessment area. The bank's local focus is further evidenced by the dollar volume represented by these loans. Of the \$3.4 million extended in the sample, \$3.1 million or 91 percent were lent inside the bank's assessment area.

### **Lending by Business Revenue**

During its first six months of operations, the bank's record of lending to businesses of different revenue sizes is reasonable. According to Dun & Bradstreet data released in 1999, 92 percent of the businesses in the bank's assessment area were small businesses. Based on the sample reviewed, Oregon State Bank's lending to such businesses accounted for 69 percent of commercial loans (11 loans). In terms of dollars, these loans totaled \$1.7 million and represented 54 percent of the \$3.1 million originated. As noted under the Performance Context for the bank, as a start-up institution, the bank is competing in an environment of commercial banks and other financial institutions with established branch networks within the assessment area.

## Geographic Distribution of Loans

COMMERCIAL LENDING (GEOGRAPHIC DISTRIBUTION)	CENSUS TRACTS		DUN & BRADSTREET (1999)				OSB BUSINESS LOANS			
	#	%	SMALL BUS #	SMALL BUS %	TOTAL BUS #	TOTAL BUS %	#	%	\$0	%
LOW	1	3%	0	0%	0	0%	0	0%	0	0%
MODERATE	3	8%	787	15%	873	15%	1	6%	10	0%
MIDDLE	21	58%	3,540	65%	3,830	65%	9	56%	1,641	52%
UPPER	11	31%	1,096	20%	1,215	21%	6	38%	1,488	47%
TOTAL	36	100%	5,423	100%	5,918	100%	16	100%	3,139	100%

Does not include 2 census tracts with 0 population.

The bank's geographic distribution of loans to small businesses is reasonable. Commercial loans were concentrated in the cities of Corvallis, Albany, Lebanon and Philomath, which is consistent with the geographic distribution of businesses. During the six-month sample period, in addition to loans made in middle- and upper-income census tracts, the bank made one loan for \$10,000 in a moderate-income census tract in Corvallis. This represented 6 percent of the bank's loans and is adequate, given the overall volume and short tenure of the bank in the market. As previously mentioned, there were no businesses identified in the assessment area's only populated low-income census tract.

### 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 April 1999.

### 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 Oregon State Bank engages in any type of discrimination or discouragement in its lending activities.



## 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).

<b>Community Development Service</b>	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.
<b>Consumer Loans</b>	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.
<b>Families</b>	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.
<b>Geographies</b>	Census tracts or numbering area blocks delineated by the U.S. Bureau of Census in the most recent decennial census.
<b>Households</b>	Defined by the U.S. Bureau of Census as all persons occupying a housing unit.
<b>HUD Adjusted Median Income</b>	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.
<b>Income Level</b>	Includes low-income, moderate-income, middle-income and upper-income.
<b>Low-Income</b>	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.
<b>Median Income</b>	See Area Median Income and HUD Adjusted Median Income
<b>Metropolitan Statistical Area (MSA)</b>	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.

<b>Middle-Income</b>	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.
<b>Moderate-Income</b>	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.
<b>Qualified Investment</b>	A lawful investment, deposit, membership share, or grant that has as its primary purpose community development.
<b>Real Estate Mortgage Loan</b>	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.
<b>Small Bank</b>	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.
<b>Small Business</b>	Businesses with gross annual revenues of \$1 million or less as defined by the Community Reinvestment Act.
<b>Small Business Loan</b>	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."
<b>Upper-Income</b>	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.