



PUBLIC DISCLOSURE

June 16, 2003

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**WELEETKA STATE BANK
RSSD# 294359**

**102 WEST 9TH
WELEETKA, OKLAHOMA 74880**

**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.

TABLE OF CONTENTS

Institution's CRA Rating	2
Description of Institution	3
Description of Assessment Area.....	4
Conclusions	6

GENERAL INFORMATION

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

Weleetka State Bank has a satisfactory record of helping to meet the credit needs of its entire assessment area, including low- and moderate-income individuals and households, in a manner consistent with its resources and capabilities. The rating of the bank was assessed under the following 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;
- Distribution of Lending by Income Level of Geography; and,
- Record of Responding to Complaints about the Bank's CRA Performance.

The bank's net loan-to-deposit (LTD) ratios for the most recent eight quarters ending December 31, 2002 were compared to four similarly-situated competitor banks and averaged to mitigate disparities resulting from seasonal fluctuations. Conclusions for the remaining performance criteria were based on data compiled from a statistically derived sample of loan files reviewed for each major loan product line. The determination of the bank's major product lines was based on discussions with management, a review of the bank's Condition and Income Report (Call Report), and a review of the volume of loan originations since the last examination. As a result, the bank's major product lines chosen based on current balances, were consumer auto-secured loans and residential real estate loans.

Summary of Findings

- The bank's LTD ratio reflects a more than reasonable effort to extend credit in a competitive market consistent with safe and sound banking practices.
- The majority of the bank's lending activity is within its assessment area.
- The distribution of loans reflects a reasonable dispersion among borrowers of different income levels.

- The distribution of loans by income level of geography was not rated since all of the geographies were considered moderate-income geographies; therefore, the analysis was not considered meaningful.
- Also, the bank's response to complaints was not evaluated because no complaints about its performance under the CRA have been received since the last examination.

DESCRIPTION OF INSTITUTION

Weleetka State Bank is a full-service financial institution located in Weleetka, Oklahoma, a rural community of 1,104 residents located 69 miles southwest of Tulsa, Oklahoma and 89 miles east of Oklahoma City. The bank also offers a cash-dispensing automated teller machine (ATM) located at a local grocery store a few blocks from the bank. The bank's only office and cash-dispensing ATM are within close proximity of each other and are readily accessible to the entire community.

Based on its financial condition, size, and credit product offerings, the bank has the ability to meet the credit needs of its assessment area. According to the bank's March 31, 2003 Call Report, the bank's assets totaled \$21,030 million, of which gross loans comprised \$14,840 million or 70.6 percent. The bank is primarily a real estate and consumer lender, but offers a variety of products to meet the credit needs of its assessment area. Table 1 illustrates the composition of the bank's loan portfolio as a percentage of gross loans as of March 31, 2003.

<p align="center">Table 1 Loan Distribution as of the March 31, 2003 Call Report</p>		
Loan Type	Amount (\$000)	Percent of Total
1- to 4-Family Real Estate	5,556	37.4
Consumer	3,990	26.9
Commercial	3,361	22.7
Farmland or Agricultural	1,889	12.7
Other	44	0.3
TOTAL	14,840	100.0

There are no legal, financial, or other factors that would significantly hinder the bank's ability to meet the credit needs of its assessment area. The bank received a satisfactory rating at its previous evaluation on May 24, 1999.

DESCRIPTION OF THE BANK'S ASSESSMENT AREA

Weleetka State Bank's assessment area, located in central Oklahoma, consists of one moderate-income Block Numbering Area (BNA) in Okfuskee County and one moderate-income BNA in Hughes County. In addition, the bank is the only financial institution in a community of approximately 1,100 residents with the nearest financial institution, an affiliate bank in Wetumka, located 10 miles to the southwest. Of the seven financial institutions located in the two county region, Weleetka State Bank has the fifth largest market share of deposits at 8.5 percent (\$16.5 million) as of June 30, 2002.

The area is rural in nature containing three small communities, Weleetka, Dustin, and Wetumka, accounting for 53.5 percent (2,917 residents) of the area's population. The population in Weleetka, where the bank's main office is located, declined by 8.8 percent from 1990 to 2000, while the area's overall population increased only slightly by 1.1 percent from 5,393 to 5,451 for the same period. According to community contacts, the area is attractive to the elderly who return to the area upon retirement because of its affordability. However, the contact also stated that area is losing its younger working population to larger communities due to the lack of high paying jobs. Comments made by community contacts are further supported by decennial census data. In 2000, 18.3 percent of the area's population was 65 years and older compared to 15.9 percent for statewide rural areas, whereas the area labor force population at 50.8 percent was lower than statewide rural areas at 53.0 percent.

In 2000, the median family income for the assessment area was \$26,543, which was 75.3 percent of the statewide rural area income (\$35,250). Consequently, the assessment area contained a higher percentage of low- and moderate-income individuals compared to other statewide rural areas. Low-income families in the assessment area comprised 31.3 percent of the total number of families compared to the statewide rural families in Oklahoma at 20.4 percent, while moderate-income families comprised 21.6 percent of the families in the assessment area compared to 18.4 percent for statewide rural areas. The area also contains a high percentage of families living below the poverty level. In 2000, 22.8 percent of the families in the assessment area were below the poverty level, compared to 13.4 percent for statewide rural Oklahoma.

Contacts with local community members indicated that area housing is affordable, but it is also limited. In 2000, the area's median housing value was \$33,750 resulting in a housing affordability of rate¹ of 0.62. In rural Oklahoma, the median housing value was \$52,091 and the housing affordability rate was 0.54. Of the area's specified owner-occupied units, 58.5 percent were valued under \$40,000 compared to 37.5 percent for statewide rural areas. The area also contained a relatively high concentration of older housing units with 33.2 percent of housing units built prior to 1950 compared to

¹ Affordability rates are calculated using median household income/median housing value. The higher the rate, the more affordable the housing stock.

23.0 percent for statewide rural areas. While community contacts stated that area home prices generally start at \$10,000, lower-priced homes are often in poor condition and in need of rehabilitation in order to provide habitable living conditions.

Finally, the area contained a higher percentage of mobile homes at 17.2 percent compared to statewide rural areas at 16.2 percent. According to a community contact, mobile homes are an affordable alternative to traditional housing units, and with no deed restrictions, the units may be placed on vacant lots in town. However, the contact also stated that the prices for some mobile homes and manufactured housing have increased to levels similar to traditional housing, and have become too expensive for many low- and moderate-income individuals.

Unemployment remains consistently higher in the assessment area than in statewide rural areas. In 2000, the area's 15.4 percent unemployment rate exceeded the 5.9 percent unemployment rate for statewide rural areas. The public school system and healthcare facilities in Weleetka and Wetumka are the major employers in the area. In addition, general service and retail trades provide a substantial number of jobs. However, because area businesses offer mainly minimum wage jobs, many residents commute to larger towns, traveling as far north as Tulsa and as far south to McAlester for higher paying jobs. The largest employers in Hughes and Okfuskee Counties are located in the towns of Okemah and Holdenville, and include Healthback Home Health, Davis Correctional Center, Lillis Correctional Facilities, Wrangler Jeans, and Muskogee Creek Nation Hospital. Although agriculture has been a mainstay for the community, the number of farming operations is declining. In particular, peanut farms, which in the past provided a major crop in the area, have decreased substantially since government subsidies for the crop were eliminated. Presently, farming in the area consists mainly of wheat crops and cattle ranching.

Table 2 on the following page provides some details of the bank's assessment area based on 2000 census data, except as noted.

Table 2		
Bank Assessment Area Characteristics		
<i>Tract Summary</i>		
Total Number of BNAs		2
Number of Moderate-Income BNAs		2
<i>Income Summary</i>		
	<i>Non Metro Areas</i>	<i>Assessment Area</i>
Median Family Income**	\$35,250	\$26,543
Percent Low-Income Families	20.4	31.3
Percent Moderate-Income Families	18.4	21.6
Percent Middle-Income Families	21.6	22.1
Percent Upper-Income Families	39.6	25.0
<i>Unemployment Summary</i>		
Labor Force Population (Assessment Area)		2,162
Percent Unemployment (Assessment Area)		15.4
Percent Unemployment (State)		5.2
<i>Miscellaneous Information</i>		
Total Population***		5,451
Percentage of Families Below Poverty		22.8
Total Housing Units		2,535
Percentage Owner-Occupied Units to Total Units		64.3
Percentage Rental Units to Total Units		19.3
Percentage Vacant Units to Total Units		16.4
*Based on 2000 Census Data		

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

As previously noted, various criteria were considered when evaluating the bank's overall CRA performance, including the bank's level of lending in relation to its level of deposits, compared with local, state, and national peer financial institutions; the concentration of loans originated within the bank's assessment area; the bank's distribution of lending among borrowers of different income levels, and the distribution of loans by income level of geography within the bank's assessment area.

Two community contacts were interviewed to gather additional information about the assessment area's credit needs and to confirm that products and services offered by the bank adequately meet those needs. The bank's responsiveness to CRA complaints was not included in the evaluation, as no complaints pertaining to its CRA performance have been received since the last examination.

Loan-to-Deposit Ratio

Weleetka State Bank's net LTD ratio, based on an average of the prior 15 quarters since the previous CRA examination was 86.5 percent, and is considered more than reasonable, given the bank's financial condition and credit needs of its assessment area. The most recent eight-quarter period ending December 31, 2002 was utilized for comparison with state and national peer group averages and four similarly-situated competitor banks. The bank's average LTD at 91.3 percent was higher than all competitor banks' LTD ratios, which ranged from 55.7 percent to 71.1 percent. A comparison was also performed between the bank's LTD ratio and that of its national and state peer groups whose LTD ratios averages were 64.9 percent and 67.0 percent, respectively. The bank's peer group consists of all insured commercial banks having assets between \$10 million and \$25 million with one banking office, and located in a nonmetropolitan area.

Lending Inside the Assessment Area

Based on the sample of loans reviewed during the examination, a substantial majority of the bank's lending occurs inside its assessment area. A sample of auto-secured loans and residential real estate loans revealed that 74.4 percent and 78.6 percent, respectively, were located within the assessment area. Of the total 67 loans sampled, 51 loans or 76.1 percent were originated inside the bank's assessment area. Table 3 illustrates the percentage of loans, by number and dollar amount, originated inside the bank's assessment area.

<i>Loan Type Sampled</i>	Total Originations		Within the Assessment Area			
	<i>Number</i>	<i>\$(000)</i>	<i>Number</i>	<i>Percent</i>	<i>\$(000)</i>	<i>Percent</i>
Auto-secured Loans	39	187	29	74.4	158	84.5
Residential Loans	28	576	22	78.6	509	88.4
TOTAL LOANS REVIEWED	67	763	51	76.1	667	87.4

Distribution of Loans to Borrowers of Different Income Levels

Based on the demographics of the assessment area, the bank's distribution of loans represents a more than reasonable dispersion among individuals of different income levels. The bank's percentage of loans made to each income level was compared to the percentage of families in the assessment area that were designated as 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. The results of the auto-secured and residential real estate loans reviewed are summarized in Table 4.

Table 4			
Percentage Distribution of Loans Reviewed			
Within the Bank's Assessment Area			
By Income Level of Borrower			
Area Median Family Income *			\$39,400
Income Level Of Borrower	Percentage of Real Estate Loans Reviewed	Percentage of Auto-Secured Loans Reviewed	Percentage of Families within Assessment Area **
<i>Low (Less Than 50 Percent Of Median Income)</i>	13.6	75.9	31.3
<i>Moderate (50 To 80 Percent Of Median Income)</i>	27.3	6.9	21.6
<i>Middle (80 To 120 Percent Of Median Income)</i>	27.3	6.9	22.1
<i>Upper (Greater Than 120 Percent Of Median Income)</i>	31.8	10.3	25.0
<small>*Non-MSA Median Family Income is based on the 2003 HUD-adjusted median family income. The HUD-adjusted median family income for non-metropolitan areas in the state of Oklahoma for 2002 was \$34,200. **The percentage of families in the assessment area is based on 2000 census data.</small>			

As shown above, the distribution of consumer auto-secured loans to borrowers of different income levels is strong and shows a more than reasonable penetration among low- and moderate-income borrowers. Based on 29 auto-secured loans reviewed within the assessment area, 75.9 percent were to low-income borrowers and 6.9 percent were to moderate-income borrowers. A total of 82.8 percent of the auto-secured loans were made to low- and moderate-income borrowers, which substantially exceeds the percentage of low- and moderate-income families in the assessment area.

In contrast, as Table 4 indicates, the percentage of residential loan originations to low-income borrowers is less than the percentage of low-income families within the bank's assessment area. The bank originated 13.6 percent of residential loans to low-income borrowers, although 31.3 percent of the assessment area families are in the low-income category. The bank's lending to moderate-income families better demonstrates its efforts to serve the credit needs of its assessment area. The volume of loans originated to moderate-income borrowers at 27.3 percent exceeds the percentage of moderate-income families in the assessment area at 21.6 percent. Overall, the bank's distribution is reasonable, given the area's limited availability of affordable homes and the high volume of working poor families that may have limited financial resources to obtain loans.

Distribution of Lending among Geographies of Different Income Levels

The bank's assessment area contains two BNAs, both of which are considered moderate-income geographies. The geographies are defined as moderate-income because their median family incomes are at least 50 percent and less than 80 percent of the statewide rural median family income. Since the geographies contained in the bank's assessment area are homogenous, the bank's geographic distribution of loans was not considered meaningful and was not evaluated.

COMPLIANCE WITH ANTIDISCRIMINATION LAWS AND REGULATIONS

No substantive violations of anti-discriminatory laws and regulations were identified during the examination. Interviews with bank personnel and a review of bank policies, credit applications, and loans revealed no practices designed to discourage loan applications to any particular class. Further, 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.”