



## **PUBLIC DISCLOSURE**

March 7, 2005

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**THE GUARANTEE STATE BANK  
RSSD# 895158**

**6702 QUANAH PARKER TRAILWAY  
LAWTON, OKLAHOMA**

**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 .....	2
Description of Assessment Area.....	3
Conclusions.....	5
Glossary.....	10

## GENERAL INFORMATION

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

Guarantee State Bank (GSB) has a satisfactory record of helping to meet the credit needs of its entire assessment area, including low- and moderate-income neighborhoods, in a manner consistent with its resources, operating philosophy, and credit needs of the community. Four of the five criteria used in evaluating small bank lending performance were relevant to this review and are as follows:

- Loan-to-Deposit (LTD) Ratio
- Lending Inside the Assessment Area (AA)
- Lending to Businesses and Farms of Different Revenue Sizes
- Geographic Distribution of Loans

The bank's responsiveness to complaints under the Community Reinvestment Act (CRA), the fifth core criteria used to assess small bank performance, was not evaluated because the bank has not received such complaints.

Conclusions about the four performance criteria were based on data compiled from a statistically-derived sample of loan files for each major product line. 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 last CRA evaluation January 16, 2001. The three loan types selected for review were commercial, agriculture, and 1- to 4-family residential property secured loans. Loans selected for this review were originated from January 1, 2004 through January 31, 2005.

GSB's loan-to-deposit ratio indicated a reasonable effort to extend credit consistent with safe and sound banking practices. The analysis shows that a majority of the bank's lending activity occurred inside its AA. The bank's distribution of loans among businesses and farms of different revenue sizes was reasonable and the bank's geographic distribution of loans also reflected a reasonable dispersion throughout its AA.

## DESCRIPTION OF INSTITUTION

GSB is headquartered in Lawton, Oklahoma and operates a total of four branch offices. Three of its branches are located in rural Greer County and the fourth branch is located in Oklahoma City. The Oklahoma City branch opened in June of 2004 and is currently for sale. The Lawton office is located in an upper-income census tract, while its branch offices are located in middle-income census tracts. The June 2004 Federal Deposit Insurance Corporation (FDIC) Deposit Market Share report reveals that the bank has less than 2 percent market share of deposits in its assessment area. All four offices have cash dispensing automated teller machines (ATMs). The analysis of the bank's CRA performance considers the bank's financial impediments, local economic conditions, and demographics, including the competitive environment in which the bank operates. There are no legal impediments that currently impact the bank's ability to lend. The bank's lending activity is primarily devoted to commercial and agricultural financing. According to

the December 31, 2004 Call Report, the bank's total assets were \$57,878,000, including loans totaling \$47,774,000 and deposits totaling \$44,442,000. Table 1 illustrates the breakdown of the bank's loan portfolio by product.

<b>TABLE 1</b> <b>GUARANTEE STATE BANK'S LOAN PORTFOLIO MIX</b> (Based on 12/31/2004 Call Report)		
<b>Loan Type</b>	<b>Amount (\$000)</b>	<b>Percent of Total</b>
Business Loans (Commercial Related Loans 49%)	8,963	19
Nonfarm Nonresidential Properties Secured	14,330	30
Farm Loans (Agricultural Related Loans (15%))	2,890	6
Farmland Secured	4,128	9
Residential Real Estate Loans (Real Estate Loans (24%))		
Construction and Land Development Loans	3,032	6
Revolving Open-End Real Estate	131	>1
1-to-4 Family Residential Properties Secured	8,671	18
Multifamily (5 or more)	0	0
Consumer Loans	5,049	11
Other Loans	580	1
<b>TOTALS</b>	<b>47,774</b>	<b>100</b>

The bank's performance under the CRA was last evaluated at the January 16, 2001 examination, at which time it also was assigned a satisfactory rating.

### **DESCRIPTION OF THE BANK'S ASSESSMENT AREA**

Since the last evaluation, the bank opened a branch, in Oklahoma City, which is located in the Oklahoma City Metropolitan Statistical Area (MSA). The bank's newest assessment area consists of rural counties surrounding the Lawton MSA together with counties adjacent to Greer County; and all of the Lawton MSA; as well as a part of the Oklahoma City MSA.

The first designated assessment area, the rural assessment area, consists of Greer County, and eight other counties, Beckham, Caddo, Cotton, Harmon, Jackson, Kiowa, Stevens, and Tillman, which are adjacent to either Greer County or the Lawton MSA, three of the bank's branches are located, in this assessment area. The Lawton MSA consists of Comanche County and is the bank's second designated assessment area. Four counties, Canadian, Cleveland, Oklahoma, and Grady, are part of the Oklahoma City MSA, which is the bank's third designated assessment area.

The individual assessment areas are discussed either separately or on a consolidated basis throughout this performance evaluation. The geographic distribution and borrower's distribution for the Oklahoma City MSA were not deemed meaningful, since the branch has only been open

for a short time and, therefore, is not included in this evaluation. The bank's designated assessment areas appear reasonable and do not exclude any low- or moderate-income areas. Table 2 below summarizes income-related demographic and economic characteristics of the bank's designated assessment areas based on 2000 Census and 2004 Dun and Bradstreet data.

<b>TABLE 2 CHARACTERISTICS OF GUARANTEE STATE BANK'S ASSESSMENT AREA</b>			
	<b>LAWTON MSA</b>	<b>RURAL ASSESSMENT AREA</b>	<b>OKLAHOMA MSA</b>
<b>Population</b>			
Population Totals	114,996	157,042	1,001,677
<b>Census Tract Summary</b>			
Number of Low-Income Tracts	2	0	24
Number of Moderate-Income Tracts	9	6	93
Number of Middle-Income Tracts	13	33	112
Number of Upper-Income Tracts	5	4	80
Tracts With No Population	0	0	5
<b>Total Number of Census Tracts</b>	<b>29</b>	<b>43</b>	<b>314</b>
<b>Percent of Families In Income Tracts</b>			
Low-Income Tracts	1.8	0.0	2.9
Moderate-Income Tracts	17.4	15.7	25.4
Middle-Income Tracts	65.1	71.2	38.1
Upper-Income Tracts	15.7	13.1	33.6
<b>Total Number of Families</b>	<b>29,090</b>	<b>42,904</b>	<b>263,358</b>
<b>Income Summary</b>			
Percent Low-Income Families	20.5	21.0	19.9
Percent Moderate Income Families	17.1	18.8	17.9
Percent Middle-Income Families	22.2	21.2	21.5
Percent Upper-Income Families	40.3	39.1	40.8
Percent Families Below Poverty Level	13.2	14.2	10.0
<b>Median Family Income</b>	<b>39,201</b>	<b>35,517</b>	<b>44,898</b>
<b>Unemployment Summary</b>			
Percent Unemployment	5.9	6.2	4.7
Percent Unemployment (State)	5.2	5.2	5.2
<b>Labor Force Population</b>	<b>56,461</b>	<b>67,746</b>	<b>505,960</b>
<b>Housing Information</b>			
Percentage Owner-Occupied Units	52.9	61.0	58.2
Percentage Rental Units	34.8	23.6	32.9
Percentage Vacant Units	12.3	15.4	8.9
<b>Total Housing Units</b>	<b>45,416</b>	<b>71,289</b>	<b>433,277</b>

### **The Rural Assessment Area**

The rural assessment area is located in the southwest corner of the state of Oklahoma. The local economy is subject to the fluctuating market prices of various crops and livestock raised in the area. A community contact stated that young people are moving out of the area in order to find higher paying jobs. Recent trends show that the number of farms is decreasing, but the size of

farms is increasing. Accordingly, credit demand remains comparatively strong. In addition, much of the vacant housing is in need of substantial repair, so there is a potential demand for various types of residential real estate loans.

### **The Lawton MSA Assessment Area**

The Lawton MSA is the third largest MSA in the state of Oklahoma. The assessment area includes the city of Lawton and Comanche County. All of the low- and moderate-income tracts are located in the city of Lawton. The local economy is strongly affected by the presence of Fort Sill. Currently, the credit demand for business and residential real estate loans appears to be relatively strong.

According to a community contact, the possible closure of Fort Sill, which is under review by the government's Base Realignment and Closure (BRAC), makes it difficult to find investors or venture capitalists willing to invest in large economic or community development projects in Lawton. Furthermore, if the base were to close, it is estimated that the population of Lawton would fall from 93,000 to 53,000. Affordable housing projects are also difficult to sell to the community, because an oversupply of housing units would likely occur if the base were to close. Furthermore, the contact also stated that the majority of new companies coming to the area, bring job opportunities but low wages. The presence of Fort Sill provides a stable and experienced labor pool of employees.

### **The Oklahoma City MSA Assessment Area**

This assessment area includes the city of Oklahoma City and four of eight counties located in the Oklahoma City MSA. The Oklahoma MSA is the largest MSA in the state and is the economic center for the state of Oklahoma. This assessment area also contains 91 percent of the MSAs population. Moreover, it is the chief market for the state's livestock and agricultural industries, as well as the major wholesaling and jobbing center for the state. A community contact stated that Oklahoma City is currently in an expansion mode as evidenced by the revitalization projects in the downtown area that have attracted several major companies to the area.

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

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

This performance standard evaluates the reasonableness of the bank's aggregate loan-to-deposit ratio in light of performance context information, including the institution's capacity to lend, demographic and economic factors present in the assessment area, and the availability of lending opportunities. GSB does not have any issues that would restrict their capacity to lend. GSB's average net LTD ratio is considered reasonable.

The bank's average LTD over the past 16 quarters equaled 74 percent. During the same time period, 16 banks of similar size located in the bank's designated assessment areas average LTD ratio was 75 percent. These ratios indicated that there are lending opportunities available in the area. Nationwide peer group banks (assets between \$50 million and \$100 million, located in a metropolitan area with three or more full-service offices) average LTD ratio was 74 percent for the same period. Accordingly, GSB's LTD ratio was comparable to both local banks and banks nationwide, which warrants a satisfactory rating for this criterion.

## **Lending in the Bank's Assessment Areas**

This performance standard evaluates the concentration of loans originated by the bank in its assessment areas. An analysis was performed based on data compiled from the statistically-derived sample of loans. As shown in Table 3, a reasonable majority of loans both in terms of number and dollar amount were originated in the bank's assessment areas, which is considered satisfactory.

	Inside				Outside			
	#	%	\$('000s)	%	#	%	\$('000s)	%
Total Business	31	86.1	4,201	66.6	5	13.9	2,110	33.4
Total Farm	32	91.4	1,136	92.1	3	8.6	97	7.9
Total 1-4 Residential	38	95.0	1,257	92.1	2	5.0	108	7.9
<b>TOTAL LOANS</b>	<b>101</b>	<b>91.0</b>	<b>6,594</b>	<b>74.0</b>	<b>10</b>	<b>9.0</b>	<b>2,315</b>	<b>26.0</b>

## **Geographic Distribution**

This performance standard evaluates the bank's distribution of loans among census tracts of various income levels. The bank's business loans and farm loans are compared to the percentage of small businesses and small farms located in each of these census tracts. Similarly, the bank's distribution of 1- to 4-residential real estate loans is compared to the percentage of families located in the geographies of various income levels.

### **The Lawton Assessment Area**

The bank's level of business and farm lending in the low- and moderate-income census tracts is lower than the percentages of small businesses and farms located in these tracts. Also, the bank's level of 1- to 4-residential real estate lending in the low- and moderate-income tracts is slightly lower than the percentage of families located in these tracts. Several other financial institutions have offices closer to or in low- or moderate-income tracts (8 of 15 offices of financial institutions in Lawton are located in low- or moderate-income tracts). In addition, the percentages of farms and families located in these tracts are relatively small. The bank's performance for this assessment area is considered reasonable. See Table 4A for specific distribution levels.

### **The Rural Assessment Area**

The bank's level of business and farm lending in the moderate-income census tracts is slightly lower than the percentages of small businesses and farms located in these tracts. Also, the bank's level of 1 to 4 residential real estate lending in the moderate-income tracts is slightly lower than the percentage of families located in these tracts. The bank does not have branches located in the counties where the moderate-income tracts are located. In addition, the percentages of businesses, farms and families located in these tracts are nominal. The bank's performance for this assessment area is considered reasonable. See Table 4B for specific distribution levels.

GSB's overall rating for the geographic distribution criterion is satisfactory.

TABLE 4A GEOGRAPHIC DISTRIBUTION IN THE LAWTON MSA ASSESSMENT AREA								
	% Bank Loans				% of Small Businesses/Farms			
Income Level of Census Tracts	Low	Moderate	Middle	Upper	Low	Moderate	Middle	Upper
Business	0.0	14.3	78.6	7.1	12.7	37.1	41.3	8.9
Farm	0.0	0.0	60.0	40.0	0	6.8	80.7	12.5
	% Bank Loans				% of Families			
Income Level of Census Tracts	Low	Moderate	Middle	Upper	Low	Moderate	Middle	Upper
1-to-4 Residential	0.0	11.8	58.8	29.4	1.8	17.4	65.1	15.7

TABLE 4B GEOGRAPHIC DISTRIBUTION IN THE RURAL ASSESSMENT AREA								
	% Bank Loans				% of Small Businesses/Farms			
Income Level of Census Tracts	Low	Moderate	Middle	Upper	Low	Moderate	Middle	Upper
Business	0.0	0.0	100.0	0.0	0.0	17.5	69.1	13.4
Farm	0.0	0.0	100.0	0.0	0.0	2.8	90.3	6.9
	% Bank Loans				% of Families			
Income Level of Census Tracts	Low	Moderate	Middle	Upper	Low	Moderate	Middle	Upper
1-to-4 Residential	0.0	0.0	100.0	0.0	0.0	15.7	71.2	13.1

### Lending to Businesses and Farms of Different Sizes

This performance standard focuses on the bank's level of lending to businesses and farms with gross annual revenues less than \$1,000,000 and compares it to the percentage of businesses and farms with gross annual revenues less than \$1,000,000.

#### **The Lawton MSA Assessment Area**

The bank's level of business and farm lending to smaller businesses and farms is comparable to the overall number of smaller businesses and farms in the assessment area. The bank's performance for this assessment area is considered reasonable. See Table 5A for specific distribution levels.

#### **The Rural Assessment Area**

The bank's level of business and farm lending to smaller businesses and farms is comparable to the overall number of smaller businesses and farms in the assessment area. The bank's



performance for this assessment area is considered reasonable. See Table 5B for specific distribution levels.

GSB’s overall rating for lending to businesses and farms of different sizes criterion is satisfactory.

**Lending to Borrowers of Different Income Levels**

This performance standard compares the bank’s lending distribution to borrowers of different levels and compares it to the income level demographics of the assessment area.

**The Lawton MSA Assessment Area**

The bank’s level of 1 to 4 residential real estate lending to low- and moderate-income borrowers is slightly less than the level demographics would suggest. However, low-income borrowers typically have more difficulty qualifying for real estate loans. The bank’s lending to moderate-income borrower is comparable to demographics. The bank’s performance for this assessment area is considered reasonable. See Table 5A for specific distribution levels.

**The Rural Assessment Area**

The bank’s level of 1 to 4 residential real estate lending to low- and moderate-income borrowers is slightly less than the level demographics would suggest. However, low-income borrowers typically have more difficulty qualifying for real estate loans. The bank’s lending to moderate-income borrower is comparable to demographics. The bank’s performance for this assessment area is considered reasonable. See Table 5B for specific distribution levels.

GSB’s overall rating for the lending to businesses and farms of different sizes criterion is satisfactory.

TABLE 5A BORROWER’S DISTRIBUTION IN THE LAWTON ASSESSMENT AREA								
	% Bank Loans				% of Small Businesses			
<b>Small Businesses with Gross Revenues Less than One Million</b>	92.9				88.5			
	% Bank Loans				% of Small Farms			
<b>Small Farms with Gross Revenues Less than One Million</b>	100.0				97.7			
	% Bank Loans				% of Families			
<b>Income Level of Borrower</b>	Low	Moderate	Middle	Upper	Low	Moderate	Middle	Upper
	5.9	17.6	17.6	58.8	20.5	17.1	22.2	40.3

**TABLE 5B  
BORROWER'S DISTRIBUTION IN THE RURAL ASSESSMENT AREA**

	% Bank Loans				% of Small Businesses			
<b>Small Businesses with Gross Revenues Less than One Million</b>	100.0				87.7			
	% Bank Loans				% of Small Farms			
<b>Small Farms with Gross Revenues Less than One Million</b>	100.0				97.5			
	% Bank Loans				% of Families			
<b>Income Level of Borrower</b>	<b>Low</b>	<b>Moderate</b>	<b>Middle</b>	<b>Upper</b>	<b>Low</b>	<b>Moderate</b>	<b>Middle</b>	<b>Upper</b>
	5.3	26.3	10.5	57.9	21.0	18.8	21.2	39.1

**COMPLIANCE WITH ANTIDISCRIMINATION LAWS**

An evaluation of the bank's fair lending activities was conducted during the examination to determine compliance with the broad, nondiscriminatory provisions of the Equal Credit Opportunity Act. The Federal Financial Institutions Examination Council (FFIEC) Interagency Fair Lending Examination Procedures were used for the analysis. No violations of the substantive provisions of the antidiscrimination laws and regulations were identified. Overall, satisfactory policies, procedures, and training programs have been developed to support nondiscrimination in lending activities. Furthermore, the bank is not engaged in other illegal practices inconsistent with helping to meet the community's 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.

**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 1,500 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.

**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.”