



PUBLIC DISCLOSURE

November 15, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**LEGACY BANK TC
RSSD# 2038566**

**1000 N. MAIN
BLANCHARD, OKLAHOMA 73010**

**Federal Reserve Bank of Kansas City
925 Grand Boulevard
Kansas City, Missouri 64198**

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.

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 each 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 Community Reinvestment Act (CRA) performance of Legacy Bank TC, Blanchard, Oklahoma, prepared by the Federal Reserve Bank of Kansas City, the institution's supervisory agency, as of November 15, 1999. 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 bank has a satisfactory record of helping to meet the credit needs of its assessment area, including low- and moderate-income families, in a manner consistent with its resources, capabilities, and operating philosophies. The bank's loan-to-deposit ratio is considered reasonable. In addition, a majority of the bank's loans are originated within its assessment area. Furthermore, the distribution of loans among borrowers of different income levels and to businesses of different sizes reflects a reasonable dispersion throughout the assessment area.

DESCRIPTION OF INSTITUTION

Legacy Bank TC (hereafter "the bank") is located in Blanchard, Oklahoma, approximately 24 miles southwest of Oklahoma City. The bank is owned by Midstate Bancorp Inc., a three-bank holding company. In addition to the main office in Blanchard, the bank has one branch office located in Newcastle, Oklahoma, a town approximately 15 miles northeast of Blanchard. Also, the bank operates five automated teller machines; two located in Blanchard and three located in Newcastle. All facilities are readily accessible to assessment area residents.

Based on its financial condition, size, and credit offerings, the bank has the ability to meet the credit needs of its assessment area. According to the bank's September 30, 1999 Consolidated Report of Condition and Income (Call Report), the bank's assets totaled \$32,218M; of which, loans constituted \$18,713M or 58 percent. The bank is primarily a commercial lender but offers a variety of credit products to meet the needs of the assessment area. Table 1 presents the composition of the bank's loan portfolio as a percentage of average gross loans and leases as of the September 30, 1999 Call Report.

Loan Type	Amount (\$000)	Percent of Total
Commercial	10,822	57.8
Multiple & 1 to 4 Family Real Estate	4,127	22.1
Consumer	3,188	17.0
Farmland & Agriculture	517	2.8
Other	59	0.3
TOTAL	18,713	100.0

No legal or financial factors exist that would hinder the bank's ability to meet the credit needs of its assessment area. The bank received a "satisfactory" rating at its last CRA examination conducted by the Federal Deposit Insurance Corporation (FDIC) on May 11, 1998.

DESCRIPTION OF THE BANK'S ASSESSMENT AREA

The bank's assessment area consists of three census tracts representing portions of McClain and Grady Counties. The assessment area census tracts are classified as middle-income, with the exception of one tract in Grady County, which is an upper income tract. There are no low- or moderate-income census tracts in the bank's assessment area. Because of its location, the bank's assessment area contains both rural and urban characteristics. McClain County is located in the southwestern part of the Oklahoma City Metropolitan Statistical Area (MSA) but Grady County is a rural area. The middle-income tracts contain 55.0 percent of the area's population, 55.9 percent of families, 55.6 percent of housing units, and 65.6 percent of reporting business establishments.

According to the 1990 Census, the total population for the area is 24,141, with upper-income families representing 49.4 percent of all assessment area families. Based on recent CACI projections, the population of the assessment area has increased 13.7 percent from 1990 to 1998, which is significantly higher than the 6.4 percent growth rate for other statewide areas

over the same time period. Furthermore, CACI projected data shows that the number of families in the assessment area increased by 14.7 percent. The area's large family population was further confirmed by its high concentration of children (under 18 years old) and working adults (25 – 64 years old). In 1990, approximately 30 percent of assessment area residents were children, which is above that of other statewide areas at 26.6 percent and the Oklahoma City MSA at 26.5 percent. In addition, 53.2 percent of assessment area residents were individuals 25 to 64 years of age, compared to 50.3 percent for other statewide areas and 51.7 percent for the Oklahoma City MSA. From 1990 to 1998, the fastest growing population age group was individuals 45 to 64 years of age, individuals typically comprising a large portion of the area's labor force.

The assessment area is an upper-income area with a median-family income that is 133.7 percent that of the statewide median-family income (\$24,139), based on 1990 Census data. In addition, the assessment area's unemployment rate at 5.7 percent is less than that of other statewide rural areas at 6.4 percent and the Oklahoma City MSA at 6.4 percent according to 1990 Census data. Unemployment rates and labor force trends vary by assessment area county. Recent Oklahoma Resources Integrated General Information Network Systems (ORIGINS) data indicates that from August 1997 to August 1999, the unemployment rate for Grady County was consistently higher than that of McClain County and the other statewide areas. Over the same period, the labor force in McClain County increased 5.3 percent, while the labor force in Grady County increased less than 1 percent. McClain County's rising labor force and rapid population growth suggest that it is becoming an Oklahoma City suburb. Two community contacts, both public officials, interviewed during the examination process confirmed that the area is increasingly becoming a bedroom community for commuters to nearby, heavily populated areas like Oklahoma City and Norman.

The 1999 Dun & Bradstreet (D&B) data indicated that the assessment area contains a high concentration of agricultural, construction, and public administration industries. Oklahoma Department of Commerce (ODOC) data showed that public school systems, small manufacturing and construction industries, and the Braums dairy processor were among the area's major employers. D&B data also showed a relatively high percentage of assessment area businesses had gross revenues of less than \$50M. Furthermore, 1999 D&B data showed that the assessment area contains a high concentration of construction business establishments, due to recent housing and business development in the assessment area. Community contacts also confirmed that there has been significant housing and business development in the area, and they expect this growth to continue.

United States Department of Agriculture (USDA) data indicated that a substantial majority (92.6 percent) of the farm operations in McClain and Grady Counties were small farms with revenues of less than \$100M. In addition, from 1992 to 1997, the number of full-time farms slightly increased in both counties while the average size of farms decreased, indicating a larger volume of small, full-time farmers in the area. Recent agricultural trends reported by the Reserve Bank's Banking Studies and Structure Department as of July 1999 indicate that the portions of the assessment area that are most reliant on agriculture may face future economic hardships.

Housing affordability for the assessment area mirrors that of other rural statewide areas but, is more favorable than the Oklahoma City MSA. Approximately 80 percent of the area's housing stock consist of one- to four-family housing units. In addition, housing units with values less than \$60M represent 59 percent of all the area's owner-occupied housing units. Vacancy and boarded-up rates were low compared to that of other statewide areas and the Oklahoma City

MSA, which suggests that housing demand was relatively high in the assessment area. The median age of the housing stock is low at 25 years, compared to 36 years for statewide rural areas and 38 years for the Oklahoma City MSA. The area did contain a large stock of mobile homes, which somewhat explains the younger age of housing stock. Nearly 19 percent of total housing units in the assessment area were mobile homes, compared to 13.4 percent for other Oklahoma rural areas and 4.9 percent for the Oklahoma City MSA.

Additional assessment area characteristics are summarized in the Table 2.

TABLE 2	
BANK ASSESSMENT AREA CHARACTERISTICS	
<i>Tract Summary</i>	
Total Number of BNAs	3
Number of Middle-Income BNAs	2
Number of Upper-Income BNAs	1
<i>Income Summary</i>	
Median Family Income	\$32,275
Percent Low-Income Families	15.3
Percent Moderate-Income Families	14.7
Percent Middle-Income Families	20.5
Percent Upper-Income Families	49.4
<i>Unemployment Summary</i>	
Labor Force Population (Assessment Area)	11,805
Percent Unemployment (Assessment Area)	5.7
Percent Unemployment (OK Rural Areas)	7.5
Percent Unemployment (OKC MSA)	6.4
<i>Miscellaneous Information</i>	
Total Population	24,171
Percentage of Families Below Poverty	9.5

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

In evaluating the bank's CRA performance, the following factors were considered: (1) the bank's level of lending in relation to its deposits and that of similarly situated financial institutions; (2) the penetration of loan originations inside and outside of the bank's defined assessment area; and (3) the bank's record of lending to borrowers of different income levels and to businesses of different revenue sizes. Because there were no low- or moderate-income geographies in the assessment area, the geographic distribution of the loans was not meaningful and was not considered in the analysis. The bank has not received any complaints since the last examination related to its CRA performance, so that factor also was not evaluated. Furthermore, as mentioned earlier, two community members were contacted to obtain information about the assessment area's credit needs and to confirm that the products and services offered by the local banks adequately meet those needs.

Loan-To-Deposit Ratio

The bank’s net loan-to-deposit ratio (LTD) of 57.3 percent, which was calculated by averaging the previous five quarters beginning June 30, 1998, is considered reasonable. The bank’s LTD ratio was compared to that of three similarly situated competitor banks, whose LTD ratios ranged from 25.1 percent to 64.9 percent over the same period. In addition, the bank’s LTD ratio was slightly below that of its national peer group at 67 percent and its state peer group at 63 percent. The bank’s peer group is composed of insured commercial banks having assets between \$25MM and \$50MM with two banking offices, and located in a metropolitan area. Given the institution’s size, local economic conditions, and credit demand, the average LTD reflects the bank’s effort to meet the credit needs of its assessment area.

Lending in the Assessment Area

Based on a sample of loans reviewed during the examination, a majority of the bank’s lending occurred inside its assessment area. A sample of 55 residential real estate and commercial loans revealed that 69.1 percent of the loans were to borrowers within the assessment area. The percentage of loans within the assessment area varied by product type as detailed in Table 3.

TABLE 3	
LOANS WITHIN THE BANK’S ASSESSMENT AREA	
Loan Type Sampled	Percentage of Loans Reviewed
Residential real estate	74.1
Commercial	64.3
TOTALS	69.2

Distribution of Lending Among Borrowers of Different Income Levels and to Businesses of Different Revenue Sizes

Residential Real Estate Lending

Based on the demographics of the assessment area, the bank’s distribution of residential real estate loans represents a more than reasonable penetration 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 are 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 residential real estate loan review are shown 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 *	\$32,275

Income Level of Borrower	Percentage of Residential Real Estate Loans Reviewed	Percentage of Families within Assessment Area **
<i>Low (Less Than 50 Percent of Median Income)</i>	30.0	15.3
<i>Moderate (50 To 80 Percent Of Median Income)</i>	15.0	14.7
<i>Middle (80 To 120 Percent Of Median Income)</i>	35.0	20.5
<i>Upper (Greater Than 120 Percent Of Median Income)</i>	20.0	49.4
* Area Median Family Income is based on the 1998 HUD estimated median family income.		
** The Percentage of Families in Assessment Area is based on 1990 census data.		

The bank's lending represents a strong penetration to low-income individuals. Approximately 30.0 percent of the residential real estate loans reviewed were originated to borrowers in the low-income category. This distribution of loans well exceeds the proportion of assessment area families in the low-income category (15.3 percent). Moreover, the bank's lending to moderate-income borrowers at 15 percent is similar to the proportion of assessment area families in the moderate-income category (14.7 percent). A total of 45 percent of the loans reviewed were made to low- and moderate-income borrowers, as compared to the 30 percent total population of low- and moderate-income borrowers in the assessment area.

Commercial Lending

A review of commercial loans showed that a majority of the bank's loans, 83.3 percent, were originated to businesses with gross annual revenues of less than \$1 million. This is reasonable since 1999 Dun and Bradstreet data indicates that 92.6 percent of the businesses in the bank's assessment area have revenues of less than \$1 million. In addition, a review of 15 small business loans originated within the bank's assessment area showed 93.3 percent were for dollar amounts of \$100,000 or less, which shows the bank's responsiveness to the credit needs of small businesses, typically the borrowers of smaller commercial loans.

COMPLIANCE WITH THE ANTIDISCRIMINATION LAWS AND REGULATIONS

No substantive violations of the antidiscrimination laws and regulations were identified. Furthermore, reviews of bank policies, credit applications, loans, and interview procedures revealed no prohibited practices designed to discourage loan applicants.

