PUBLIC DISCLOSURE

April 14, 2003

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

TERRITORY BANK
RSSD# 261557

3300 WEST BROADWAY
MUSKOGEE, OKLAHOMA 74401

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.**

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GENERAL INFORMATION

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

The bank 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 and capabilities. The bank's performance was assessed under the following five core criteria for small banks:

- Loan-to-Deposit Ratio
- Lending Inside the Assessment Area
- Lending to Borrowers of Different Income Levels
- Geographic Distribution of Loans
- Response to Complaints relating to the Bank's Community Reinvestment Act (CRA) Performance

The bank's net loan-to-deposit (LTD) ratios for the preceding 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 product line. An explanation of how each major product line was determined is provided later in this public disclosure. The bank's response to complaints was unrated, as the bank has not received any complaints about its performance under the CRA.

Based on a review of the data, the bank's average LTD ratio was considered reasonable. In addition, the analysis showed that a substantial majority of the bank's loans were originated in the bank's overall assessment area. The distribution of loans to individuals of different income levels was considered reasonable, given area economic conditions. The geographic distribution of loans throughout the bank's assessment area (area) reflected a reasonable dispersion, given the economic and housing factors that negatively impact a financial institution's ability to lend in area low- and moderate-income tracts.

DESCRIPTION OF INSTITUTION

Territory Bank is a locally owned and operated community bank headquartered in Muskogee, which is located in eastern Oklahoma, approximately 45 miles southeast of Tulsa. The bank services its area with one office and an attached drive-through facility located at 3300 West Broadway in Muskogee. The bank's only office is readily accessible to the community and surrounding area and is situated in a moderate-income tract.

According to the bank's December 31, 2002 Consolidated Report of Condition and Income (Call Report), assets totaled $8,195M of which loans comprised $5,850M or 71 percent. Total deposits for the same time period were $7,177M, resulting in a LTD ratio of 82 percent.

The bank offered a variety of credit products to meet the credit needs of its assessment area; however, its lending strategy focused on consumer lending. The Call Report as of December 31, 2002 showed that consumer loans comprised 45 percent of the dollar volume of the loan portfolio. Commercial and real estate loans represented a majority of the remainder of the portfolio at 27 percent and 25 percent, respectively. While commercial loans represented a slightly larger portion of the loan portfolio than real estate loans, commercial loans were not selected for review because a number of those loans involved the same borrowers. Consequently, consumer motor vehicle and real estate loans were used in evaluating the bank's performance under the Act. The statistical sample reviewed included 43 motor vehicle loans and 23 real estate loans. No legal or financial factors existed that hinder the bank's ability to meet the credit needs of its assessment area.

Territory Bank became a member of the Federal Reserve System on May 15, 2002. The Office of the Comptroller of the Currency (OCC) last assessed the bank's performance on January 30, 1997, when a Satisfactory rating was assigned.

DESCRIPTION OF THE BANK'S ASSESSMENT AREA

The area was composed of all 16 populated census tracts in Muskogee County, 1 Block Numbering Area (BNA) in Okmulgee County, 5 BNAs in southwest Cherokee County, and 5 BNAs in northeast McIntosh County. The northeast portion of the area was composed of four census tracts in Wagoner County located in the Tulsa Metropolitan Statistical Area (MSA) and the southeastern portion of the area was composed of three tracts in Sequoyah County, which was located in the Ft. Smith MSA. Although the area included parts of two MSAs as well as rural areas, the performance context treated the area as one assessment area because the demographic and economic characteristics of the MSA portions were more rural than metropolitan in nature. The bank's overall assessment area consisted of 1 low-income, 12 moderate-income, 18 middle-income, and 3 upper-income tracts[1].

<u>Income Characteristics</u>

In 1990 the area was a moderate-income area overall with a median family income ($23,628) that was 98 percent that of the statewide rural area ($24,139). The area also contained a relatively high level of low- and moderate-income families, 44 percent,

[1] While the area contains census tracts and BNAs, for purposes of this evaluation tracts will be used.

compared to the statewide rural area of 39 percent in 1990. In addition, 19 percent of the families in the area lived below the poverty level according to 1990 census data.

Housing Trends and Characteristics

In 1990 there were 63,638 housing units in the area. Of the total housing units, 69 percent were single-family units compared to statewide rural areas of 76 percent. The area contained 58 percent specified owner occupied units, which was also less than the statewide rural area percentage of 61 percent. In 2000 the total housing units in the area increased to 70,145 with the largest growth in Wagoner County, an area where the bank had no physical presence.

There were also signs of housing deterioration as evidenced by the relatively high housing unit vacancy and boarded up rates. The area vacancy and boarded up rates were 19 percent and .3 percent, respectively, compared to statewide rural area percentages of 17 percent and .4 percent, respectively.

Interviews with community leaders indicated that there was a demand for affordable and multifamily housing; however, the contacts noted that due to the large number of low-income families and families living below the poverty level, homeownership may not be feasible.

Labor, Employment and the Economy

The area is primarily rural in nature and reliant upon the service and manufacturing industries for employment. The 2001 Dun and Bradstreet data indicated that for the assessment area as a whole, non-farm businesses represented 94 percent of the businesses, and farms represented 6 percent.

Census data for 1990 indicated that the unemployment rate for the area was 8 percent, which was the same as the statewide rural area rate. The unemployment rate for the assessment area revealed a decreasing trend in 2001, but the rate remained higher than the state rate of 4 percent. Interviews with community leaders indicated that there had been a slight increase in the unemployment rate, but they believed that the area economy as a whole had not experienced the fluctuation that had occurred in the more metropolitan areas.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank's performance under the Act was considered satisfactory based on the following assessment criteria analysis.

Loan-to-Deposit Ratio

As of December 31, 2002, the bank's LTD ratio averaged 73 percent over the twelve quarters since the last exam and was considered reasonable. The bank's net LTD ratio, based on an average of the prior eight consecutive quarters ending December 31, 2002, was 75 percent. Although the bank's average LTD ratio was slightly lower than most of its local peers, the LTD ratio exceeded the state peer average by nearly 8 percent and the national peer average by 15 percent. The bank's average LTD ratio was compared to that of four similarly situated competitor banks whose LTD ratios ranged from 53 percent to 88 percent over the same time period. A comparison was also performed between the bank's LTD ratio and that of its national and state peer groups whose LTD ratios averaged 60 percent and 67 percent, respectively. The bank's peer group consisted of all insured commercial banks having assets less than or equal to $10MM and located in a nonmetropolitan area.

Lending in the Assessment Area

Based on the loans reviewed, a substantial majority of the bank's lending occurred inside its assessment area. A total of 66 loans were reviewed for this analysis, which included 43 motor vehicle loans and 23 real estate loans. Overall, 86 percent of the number of loans and 80 percent of the dollar volume of the loans were in the assessment area.

Lending to Borrowers of Different Income Levels

Motor Vehicle and Real Estate Loans

The bank's percentage of motor vehicle and real estate loans made to borrowers of different income levels was compared to the percentage of families in the assessment area that were designated 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 distribution of motor vehicle loans and real estate loans by income level of borrower was summarized in Table 1.

Although the level of lending to low-income borrowers was less than the percentage of low-income families within the assessment area, the bank's distribution of motor vehicle loans to moderate-income borrowers indicated a strong penetration. Approximately 45 percent of the bank's motor vehicle loans were originated to moderate-income borrowers, while only 18 percent of the assessment area families were in this income category.

The bank's distribution of real estate loans reflected a reasonable penetration to borrowers of all income levels. The real estate loan distribution was similar to the proportion of assessment area families in each income level. The bank's performance was further supported by the large percentage of area families living below the poverty level at an estimated 19 percent. As indicated by a local housing authority representative, the low- and moderate-income individuals in the area generally did not have sufficient incomes to support a real estate loan.

Table 1
Distribution of Motor Vehicle and Real Estate Loans Originated Within the Bank's Assessment Area By Income Level of Borrower

Income Level Of Borrower	Percentage of Total Motor Vehicle Loans Reviewed	Percentage of Total Real Estate Loans Reviewed	Percentage of Families within AA*
Low (Less Than 50 Percent of Median Income)	18	23	26
Moderate (50 To 80 Percent of Median Income)	45	18	18
Middle (80 To 120 Percent of Median Income)	12	18	19
Upper (Greater Than 120 Percent of Median Income)	25	41	37

* The percentage of families within assessment area at the various income levels is based on 1990 census data.

Distribution of Loans by Income Level of Geography

Motor Vehicle and Real Estate Loans

The motor vehicle analysis included a comparison between the bank's distribution of motor vehicle loans by income level of geography and the percentage of the area population within the geographies at each income level. The real estate analysis included a comparison between the bank's distribution of real estate loans by income level of geography and the percentage of area owner occupied housing units within the geographies at each income level. These benchmarks provided some perspective on the potential lending opportunities within each geography. Because less than one percent of the area's population resided in the low-income tract, further analysis of the bank's lending performance in the low-income tract would not have been meaningful and was not discussed in this evaluation for either loan type.

The bank's motor vehicle lending in the moderate-income tracts appeared reasonable, given the demographic and economic factors that impacted the institution's ability to lend in those areas. As Table 2 shows, 20 percent of the motor vehicle loans reviewed were made in the moderate-income tracts, while 36 percent of the area population resided in the moderate-income tracts. However, as previously stated, the area as a whole contained a large population of families living below the poverty level. In the moderate-income geographies, 21 percent of the families were living below the poverty level in 1990.

The bank's geographic distribution of real estate loans reflected adequate penetration in the moderate-income tracts throughout the area. As reflected in Table 2, the bank's distribution of real estate loans in the moderate-income geographies was less than the percentage of area owner occupied housing units in those areas.

In addition to the large concentration of families living below the poverty level, other factors affecting the bank's ability to lend in the moderate-income tracts included a relatively high vacancy rate and a high percentage of rental units. In 1990, approximately 17 percent of the housing stock in the moderate-income tracts were vacant, and 27 percent were occupied rental units.

Further challenging the bank's ability to serve all of the area moderate-income tracts was the distance from the bank to a number of the area moderate-income geographies. While the bank was situated in a moderate-income tract and was in close proximity to three other moderate-income tracts, the more populated moderate-income areas were at least 20 miles from the bank. In addition to the distance barrier, there were also competing institutions situated in the moderate-income tracts and by virtue of their locality were better able to serve the credit needs of those areas.

Table 2
Distribution of Motor Vehicle and Real Estate Loans Originated Within the Bank's Assessment Area By Income Level of Geography

Income Level Of Geography	Percentage of Total Motor Vehicle Loans Reviewed	Percentage of Population within AA by Tract Category*	Percentage of Total Real Estate Loans Reviewed	Percentage of Owner Occupied Housing Units**
Low (Less Than 50 Percent of Median Income)	0	<1	0	<1
Moderate (50 To 80 Percent of Median Income)	20	36	18	36
Middle (80 To 120 Percent of Median Income)	65	51	53	51
Upper (Greater Than 120 Percent of Median Income)	15	12	29	12

* The percentage of the population within assessment area by tract category is based on 1990 census data.
** The percentage of owner occupied units is the number of owner occupied housing units in a particular geography divided by the number of owner occupied housing units in the area based on 1990 census data.

Compliance with Antidiscrimination Laws and Regulations

The bank was in compliance with the substantive provisions of the antidiscrimination laws and regulations. A review of bank policies, credit applications, and loans revealed no prohibited practices designed to discourage loan applicants. 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.”