

# PUBLIC DISCLOSURE

December 8, 1997

## COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The Security Bank  
RSSD# 267148

303 North Main Street  
Harrison, Arkansas 72601

Federal Reserve Bank of St. Louis

P.O. Box 442

St. Louis, Missouri 63166-0442

**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 Reserve 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 Community Reinvestment Act (CRA) performance of **The Security Bank** prepared by the Federal Reserve System, the institution's supervisory agency, as of December 8, 1997. The agency evaluates performance in assessment area(s), as they are delineated by the institution, rather than individual branches. This assessment area evaluation may include visits to some, but not necessarily all of the institution's branches. 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

The Security Bank's overall rating is **Satisfactory**.

The bank is rated satisfactory overall largely due to its strong lending performance and outstanding service performance. An analysis of the bank's lending activity reveals the following:

- The distribution of loans among borrowers of different income levels reflects excellent penetration;
- A significant number of small business loans are made to businesses and farms with revenue sizes of less than \$1 million;
- The bank has originated a moderate level of community development loans, based upon available opportunities;
- A significant majority of the bank's loans are located within the assessment area;
- The geographic distribution of loans is good; and
- The bank has made one qualified community development loan and numerous loans with nominal dollar amounts are originated based upon community credit needs rather than profitability.

The bank's retail and community development services are outstanding. The Security Bank offers a variety of services and products to retail customers, including those that

have special benefits for LMI individuals. In addition, bank personnel devote a significant amount of time providing financial expertise and other services to community organizations in the assessment area.

The Security Bank's investment in community economic development needs exhibits adequate responsiveness to assessment area needs. The bank has no qualified investments, but consideration is given to the limited opportunities for such investments.

The following table indicates the performance level of The Security Bank with respect to the lending, investment, and service tests.

PERFORMANCE LEVELS	Security Bank		
	PERFORMANCE TESTS		
	Lending Test	Investment Test	Service Test
Outstanding			X
High Satisfactory	X		
Low Satisfactory		X	
Needs to Improve			
Substantial Noncompliance			

## DESCRIPTION OF INSTITUTION

The Security Bank's main office and branch are located in Boone County in the city of Harrison, Arkansas. The bank has \$122 million in assets and \$85 million in loans as of September 30, 1997. Security Bank offers a wide variety of loan products and participates in government-insured loan programs. Primary lending products include commercial and consumer loans. A significant percentage of consumer credit consists of indirect motor vehicle loans.

Security Bank is a subsidiary of First Commercial Corporation, a multi-bank holding company located in Little Rock, Arkansas. The holding company reported assets of \$6.6 billion as of September 30, 1997.

Security Bank competes with several financial institutions for loans and deposits. Competitors include multi-bank holding companies with branches and/or other subsidiaries within the assessment area and local, independently owned financial institutions. The asset size of competitors ranged from \$102 million to \$1.3 billion as of September 30, 1997. In addition, a de novo bank opened in Harrison, Arkansas during November 1997.

## DESCRIPTION OF ASSESSMENT AREA

Security Bank's assessment area includes all of Boone County, Arkansas. Boone County includes five middle-income geographies (9902.00 through 9906.00) and one upper-income geography (9901.00). Security Bank's main office and branch, both located in Harrison, Arkansas, are in middle-income geography number 9905.00.<sup>1</sup>

Harrison, Arkansas is within close proximity to the Ozark Mountain Region and, therefore, benefits from several major tourist attractions and areas. For example, Eureka, Arkansas, the original Ozark Victorian Vacation Village, is less than one hour west of Harrison. The world's largest outdoor drama, The Great Passion Play, is also located in Eureka Springs. In addition, Branson, Missouri, home of American's largest number of music theaters, is less than one hour north of Harrison. Branson is a fast growing area that has become widely known for its music shows and entertainment. It also has an 1880s theme park, Silver Dollar City, and several art, craft and antique shops. The proximity of these heavily traveled tourist areas creates employment opportunities for residents in Boone County.

Major industries within the assessment area include the service, manufacturing, and agricultural industries. The retail trade industry, especially as it relates to tourism, is the largest employment sector. Manufacturing jobs have declined over the past few years. A major manufacturer, Levi-Strauss, is in the process of closing a plant that employs approximately 300 individuals. Although not drastic, the agricultural industry has also experienced some decline over the past few years.

The unemployment rate for Boone County is generally higher than the rate for the State of Arkansas. The unemployment rate for Boone County reached a high of 7.5 percent and a low of 4.4 percent during the first 10 months of 1997. The unemployment rate for the State reached a high of 5.5 percent and a low of 4.6 percent for the same period. The most recently available unemployment rate for Boone County is 4.4 percent for October 1997 and 5.0 percent for the State.

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<sup>1</sup> Low-income is defined as individual income, or in the case of a geography, a median family income that is less than 50 percent of the MSA median family income or statewide nonmetropolitan median family income. MSA median family income is used for evaluating geographies located within an MSA, while the statewide nonmetropolitan median family income is used for geographies outside an MSA.

Moderate-income is defined as individual income, or in the case of a geography, a median family income that is at least 50 percent and less than 80 percent of the MSA median family income or the statewide nonmetropolitan median family income.

Middle-income is defined as individual income, or in the case of a geography, a median family income that is at least 80 percent and less than 120 percent of the MSA median family income or the statewide nonmetropolitan median family income.

Upper-income is defined as individual income, or in the case of a geography, a median family income that is 120 percent or more of the MSA median family income or the statewide nonmetropolitan median family income.

As of the 1990 census, the median family income for the assessment area was \$24,576, compared to the statewide nonmetropolitan median family income of \$22,420.

The following table compares the income level distribution of assessment area families to that of the Arkansas nonmetropolitan population.

Assessment Area Income Stratification		
Family Income Level	Assessment Area	State Nonmetropolitan
Low	14.8%	21.3%
Moderate	17.2%	17.4%
Middle	23.9%	21.0%
Upper	44.1%	40.3%

As reflected in the table, the low-income population for the assessment area is substantially lower than the state nonmetropolitan area while the middle- and upper-income populations are greater. The moderate-income population within the assessment area is similar to the state nonmetropolitan population. Further, the percentage of families living below the poverty level is substantially lower in the assessment area (10.7 percent) than in the state nonmetropolitan area (17.4 percent).

According to the 1990 census, the average housing value within the assessment area is higher than the average housing value for the state nonmetropolitan area. Census data shows a median housing value of \$45,791 for the assessment area compared to a median housing value of \$39,710 for the overall state nonmetropolitan area. Further, census data reflects that 68 percent of assessment area housing units are owner-occupied, 22 percent are rental units, and 10 percent are vacant, which closely approximates the data for the overall state nonmetropolitan area. The gross median cost of a rental unit in the assessment area is \$327 compared to \$287 for the overall state nonmetropolitan area. These figures, coupled with area income statistics, yield an affordability ratio<sup>2</sup> of only 45.1 percent for the assessment area and 46.9 percent for the state nonmetropolitan area.

Community contacts indicated that the most prominent credit need of low- and moderate-income (LMI) individuals within the assessment area is affordable housing. The contacts indicated that a loan product designed to assist LMI individuals in purchasing a house would be beneficial to them. Ideally, the loan product would assist with down payments and closing costs. In addition, the contacts stated there is a significant lack of available LMI rental units and that the average wait for such a rental may be from six to eight months.

<sup>2</sup> The affordability ratio is calculated by dividing the area median household income by the median household value. This figure represents the amount of single family owner-occupied housing that a dollar of income can purchase for the median household in the geography. A ratio of 100 percent is considered very affordable, while lower ratios are increasingly less affordable.

Local financial institutions have limited opportunities to participate in funding community development investments. Community development projects are usually funded through grants and below market rate loans from state and federal governmental entities. However, community contacts indicated that local financial institutions expressed a willingness to fund community development projects. Apparent investment opportunities available to financial institutions within the assessment area pertain to providing monetary contributions to organizations which assist LMI community members.

**CONCLUSIONS WITH RESPECT TO THE PERFORMANCE TESTS:**

**LENDING TEST**

Security Bank meets the standards for an overall high satisfactory rating for the lending test. The lending levels reflect good responsiveness to assessment area credit needs. The geographic distribution of loans reflects good penetration throughout the bank’s community and a substantial majority of outstanding loans are inside the assessment area. Security Bank exhibits a good record of meeting the credit needs of LMI community members and small business/farms. The distribution of loans reflects excellent penetration among borrowers of different income levels and good penetration among business/farms of different revenue sizes.

**Loan Distribution by Borrower Income and Business Revenues**

Security Bank’s lending to borrowers of different income levels is excellent. The following table shows that, compared to the assessment area family population, loans are reasonably distributed among borrowers of different income levels.

Distribution of Loans (Number and Dollar Volume) in Assessment Area by Income Level of Borrower <sup>3</sup>					
Loan Type	Borrower Income Classification				Total
	Low-	Moderate-	Middle-	Upper-	
Motor Vehicle	214 14.1%	357 23.4%	400 26.3%	552 36.2%	1523
	\$1,370 5.3%	\$2,667 10.4%	\$3,820 14.9%	\$17,811 69.4%	\$25,668
Other Secured Consumer	66 15.8%	101 24.2%	112 26.9%	138 33.1%	417
	\$494 13.2%	\$632 16.9%	\$1,024 27.4%	\$1,586 42.5%	\$3,736

<sup>3</sup> Borrower income level is determined by using the income definitions in footnote one, but is based on the 1997 median income figure of \$29,500, as made available by the Department of Housing and Urban Development, rather than 1990 census data.

Other Unsecured Consumer	134 18.2%	205 27.7%	195 26.4%	205 27.7%	739
	\$25 1.1%	\$555 23.9%	\$707 30.5%	\$1,033 44.5%	\$2,320
Real Estate	9 5.6%	22 13.8%	48 30.0%	81 50.6%	160
	\$105 1.3%	\$1,237 15.1%	\$2,022 24.6%	\$4,835 59.0%	\$8,199
TOTAL	423 14.9%	685 24.1%	755 26.6%	976 34.4%	2,839
	\$1,994 5.0%	\$5,091 12.8%	\$7,573 19.0%	\$25,265 63.2%	\$39,923
Assessment Area Population	14.8%	17.2%	23.9%	44.1%	

As illustrated in the table, the overall number of loans to LMI borrowers exceeds the proportion of LMI population within the assessment area. The bank originated 39.0 percent of its sampled loans to LMI borrowers, which compares favorably to the LMI assessment area population of 32.0 percent. The lower dollar amount of loans originated to LMI borrowers (17.8 percent) is mitigated by the fact that Security Bank originates a substantial number of small dollar loans to LMI applicants. These loans are not very profitable due to the stringent Arkansas usury laws. The lack of profitability creates a credit need in the community, which Security Bank meets.

The table also shows that the percentage of real estate lending to LMI borrowers is low compared to the assessment area LMI population. However, the low lending level to LMI borrowers is reasonable considering the assessment area's demographics and the high cost of housing. According to census data, the cost of housing in the assessment area is relatively high, as evidenced by an affordability ratio of 45.1 percent.

Security Bank attempts to meet the real estate credit needs of LMI borrowers through its participation in the Veterans Administration (VA) and Federal Housing Authority (FHA) government-insured loan programs. Included in the real estate total are 19 FHA loans totaling \$235,000 and 16 VA loans totaling \$1 million. Two of the FHA loans totaling \$94,000 and two of the VA loans totaling \$105,000 were made to moderate-income borrowers. Although the lack of government-insured loans to low-income borrowers appears to support the community contacts' perception that there is a need for an additional flexible loan product, consideration must be given to the cost of housing. The high cost of housing and low wages of LMI borrowers will continue to be major obstacles to home ownership for such borrowers.

All business and farm loans within the assessment area are to entities with revenues of less than \$1 million. Below is a table showing the distribution of these loans by number and dollar amount.



Distribution of Loans to Businesses and Farms with Revenues < \$1 Million				
Loan Type	Loan Origination Amount \$ (000s)			
	≤ \$100	> \$100 ≤ \$250	> \$250 ≤ \$1,000	Total Loans
Small Business	236 87.1%	26 9.6%	9 3.3%	271 100.0%
	\$5,396 38.2%	\$4,503 31.9%	\$4,220 29.9%	\$14,119 100.0%
Small Farm	181 92.3%	9 4.6%	6 3.1%	196 100.0%
	\$2,938 45.3%	\$1,329 20.5%	\$2,213 34.2%	\$6,480 100.0%

The table reflects good distribution by loan size and provides evidence that the bank is willing to lend in low dollar amounts to small farms and businesses.

### **Community Development Lending**

Based upon available opportunities, Security Bank has made a one community development loan. Security Bank has the following qualifying community development loan:

- A \$79,000 loan to Ozark Regional Share and Care. The nonprofit corporation serves LMI community members by operating a food pantry and a thrift store and assisting in emergency situations for various items, including housing and utility payments.

Although the bank has originated more loans that promote community development, they do not qualify as community development loans under the CRA. “Qualifying” community development loans are not readily available and thus impact the level of qualified lending in which a bank can engage.

### **Geographic Distribution of Loans**

#### **Proportion of Lending within Assessment Area**

A review of the bank’s motor vehicle, real estate, other secured, and other unsecured loans revealed that a significant majority of all loan types are extended to borrowers inside the assessment area. The following table identifies, by loan type, the number, dollar volume and percent of loans originated inside the assessment area.

Distribution of Loans In/Out of the Assessment Area					
	Sample Size	Inside Assessment Area		Outside Assessment Area	
		Number	Dollar	Number	Dollar
Motor Vehicle	2,385	1,523 63.9%	\$25,668,000 75.3%	862 36.1%	\$8,424,000 24.7%
Real Estate	221	163 73.8%	\$8,355,561 70.6%	58 26.2%	\$3,483,533 29.4%
Other Secured	600	417 69.5%	\$3,736,000 73.0%	183 30.5%	\$1,381,000 27.0%
Other Unsecured	985	740 75.1%	\$27,645,000 97.2%	245 24.9%	\$793,000 2.8%
Small/Business Small Farm	644	467 72.5%	\$20,599,000 67.4%	177 27.5%	\$9,981,000 32.6%
Totals	4,835	3,310 68.5%	\$86,003,561 78.1%	1,525 31.5%	\$24,062,533 21.9%

As shown in the table, 3,310 of the 4,835 loans reviewed (68.5 percent) were located within the assessment area. By dollar volume, over 78 percent of the loans reviewed were located inside the assessment area. A substantial portion of the motor vehicle loans involves dealer paper originated outside of the assessment area. Even with this loan product included in the analysis, the bank's lending activity within its assessment area is good.

### **Number and Dollar Amount of Loans by Geographic Classification**

The geographic distribution of loan originations reflects good penetration throughout Security Bank's assessment area. As previously mentioned, there are no LMI block numbering areas (BNAs) within the assessment area. The assessment area includes five middle-income BNAs and one upper-income BNA.

The following table reflects the geographic distribution of loans inside of the assessment area by income level of the BNA.

Geographic Distribution of Loans (Number and Dollar Volume) Across Assessment Area by Income Level of BNAs					
Loan Type	BNA Income Classification				Total
	Low-	Moderate-	Middle-	Upper-	
Motor Vehicle	N/A	N/A	1,381 90.7%	142 9.3%	1,523 100.0%
	N/A	N/A	\$24,332,000 94.8%	\$1,336,000 5.2%	\$25,668,000 100.0%
Real Estate	N/A	N/A	132 81.0%	31 19.0%	163 100.0%
	N/A	N/A	\$7,048,000 84.3%	\$1,307,000 15.6%	\$8,355,000 100.0%
Other Secured	N/A	N/A	374 90.0%	43 10.0%	417 100.0%
	N/A	N/A	\$3,369,000 90.0%	\$367,000 10.0%	\$3,756,000 100.0%
Other Unsecured	N/A	N/A	670 90.5%	70 9.5%	740 100.0%
	N/A	N/A	\$27,449,000 99.3%	\$196,000 0.7%	\$27,645,000 100.0%
Small Business/Small Farm	N/A	N/A	399 85.4%	68 14.6%	467 100.0%
	N/A	N/A	\$17,790,000 86.4%	\$2,809,000 13.6%	\$20,599,000 100.0%
Total Loans Sampled	N/A	N/A	2,956 89.3%	354 10.7%	3,310 100.0%
	N/A	N/A	\$79,988,000 93.0%	\$6,015,000 7.0%	\$86,003,000 100.0%
Population Residing in Census Tract	N/A	N/A	83.3%	16.7%	100.0%

As illustrated in the table, the majority of loans originated are within middle-income BNAs (89.3 percent of the total number and 93.0 percent of the total dollars). Approximately 83.3 percent of the assessment area population live in middle-income BNAs. The bank also originated 10.7 percent of its loans in the upper-income BNA. By dollar volume, 7.0 percent of the originations were made in the upper-income BNA. Approximately 16.7 percent of the assessment area population reside in the upper-income BNA. The geographic distribution of the bank's loans is reasonable and indicates that the bank makes loans to consumers throughout its assessment area.

### **Lending Activity**

Security Bank's lending level demonstrates good responsiveness to assessment area credit needs. The bank's average loan-to-deposit ratio is 74.6 percent for the last six quarters reported (March 31, 1996 through June 30, 1997). This ratio is comparable to the local peer ratio of 77.4 percent.

Management considers three other non-local financial institutions with branches and/or subsidiaries located in Harrison to be major competitors. These competitors had loan-to-deposit ratios that ranged from 52.1 percent to 86.4 percent for the same six quarters. Total assets for these institutions range from \$102 million to \$1.3 billion. Security Bank's loan-to-deposit ratio was higher than two of the three competitors.

### **Innovative or Flexible Lending Practices**

Security Bank participates in government-insured loan programs to help meet the credit needs of LMI loan applicants, small businesses, and small farms. The bank offers and originated loans with low interest rates and low down payments through its participation in government-insured lending programs. As previously discussed, the analysis of loan products revealed the bank originated VA and FHA loans during 1996 and year-to-date 1997.

In addition, the bank has recently become a member of the Federal Home Loan Bank of Dallas (FHLB) to take advantage of further opportunities to help meet the credit needs of LMI applicants, small businesses, and small farms. Through its membership in the FHLB, the bank is able to participate in the Community Investment Program (CIP) and Helping Hand Grant Programs. CIP was established to encourage involvement in community revitalization and development activities and to undertake community-oriented mortgage lending that otherwise would not occur. CIP advances may be utilized to fund single- and multi-family housing that benefit very low-income individuals and families. The advances may also be used to finance economic development or commercial revitalization projects that benefit LMI households. The Helping Hand Grant Program was established to create grant funds that directly benefit LMI home buyers and encourage member to make mortgage loans they would not be able to make otherwise. Helping Hand Grant funds may be used for down payment assistance, closing costs, prepaid charges, and principal reduction or principal guarantees. Although no loans are outstanding, Security Bank did bid on two loans, but was under-bid on both. Management continues to pursue these programs in their efforts to meet the credit needs of LMI consumers, small businesses, and small farms.

### **INVESTMENT TEST**

Security Bank meets the standards for a low satisfactory rating for the investment test.

## **Qualified Investments**

Security Bank exhibits only adequate responsiveness to credit and community economic development needs. The bank's rural location and limited opportunities in the assessment area hinder its ability to obtain qualified investments. As previously discussed, readily available investment opportunities within the assessment area are limited to monetary contributions to organizations established to assist LMI individuals.

Security Bank, in coordination with its parent bank holding company, aggressively searches for qualified community development investments and grants. While the bank has no qualified investments, several local municipal bonds have been purchased and numerous contributions that benefit the overall community have been made. However, none are specifically targeted for LMI individuals or areas.

## **SERVICE TEST**

Security Bank meets the standards for an outstanding rating for the service test. Delivery systems are readily accessible to all portions of the bank's assessment area. Available services and banking are tailored to meet the needs of the entire assessment area. The bank is a leader in providing services community development services.

## **Retail Services**

Security Bank's main bank and its branch are accessible to essentially all portions of the assessment area. The bank's main office is located in the downtown Harrison area, and its branch is located a few miles north. Banking hours are the same at each bank location and are as follows: Monday through Thursday, 9 a.m. to 4 p.m., and Friday, 9 a.m. to 5 p.m. The drive-up has extended hours and is open on Saturday. In addition, the bank operates an ATM at the branch location.

Security Bank is a leader in providing retail services that benefit the entire community, including LMI residents. Retail services offered that are of special benefit to LMI consumers include free and very low cost checking accounts, bank-by-mail, Christmas club accounts, money orders, notary services, and utility payment services. Bank-by-mail services are also beneficial to senior citizens and customers with physical handicaps since it is not required that they travel to the bank. The variety of loan products offered is discussed under previous sections.

## **Community Development Services**

Security Bank provides a relatively high number of community development services in its assessment area. Bank personnel participate in seminars that provide financial expertise on small businesses, women-owned businesses, start-up businesses, small farms, and affordable housing. In addition, bank personnel provide financial expertise to community organizations in which they are members such as the Northwest Arkansas Economic Development Commission, the City of Harrison Planning

Commission, the Chamber of Commerce, and the Housing Authority. Community contacts confirmed that bank officers and employees are active members of many area organizations where they willingly provide financial expertise and other community services.

**Additional Information**

A fair lending analysis focusing on Regulation B (Equal Credit Opportunity) and the Fair Housing Act was performed during the examination. The analysis revealed that the bank is in compliance with the substantive provisions of antidiscrimination laws and regulations.

**SCOPE OF EXAMINATION**

The bank's reported small business and small farm loans for 1996 were reviewed during the examination. In addition, the bank provided information for other loan types. Of these, consumer loans originated in 1996 were chosen for review because of the bank's business and strategy and the high loan volume. The bank has one assessment area, and bank activities in the area were reviewed using the large bank examination procedures.

**TIME PERIOD REVIEWED**

January 1, 1996 to December 8, 1997

**FINANCIAL  
INSTITUTION**The Security Bank  
Harrison, Arkansas**PRODUCTS  
REVIEWED**Small Farm,  
Small Business,  
Real Estate,  
Motor Vehicle,  
Other secured &  
Unsecured Consumer**AFFILIATE(S) REVIEWED**

None

**AFFILIATE  
RELATIONSHIP****PRODUCTS  
REVIEWED****LIST OF ASSESSMENT AREAS AND TYPE OF EXAMINATION****ASSESSMENT AREA**ArkansasBoone County  
9601.00, 9602.00, 9603.00  
9604.00, 9605.00, 9606.00**TYPE OF  
EXAMINATION**

On - site

**BRANCHES  
VISITED**

One

**OTHER  
INFORMATION**

