



PUBLIC DISCLOSURE

August 30, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**CLAYTON STATE BANK
RSSD# 418753**

**P.O. BOX 580
CLAYTON, OKLAHOMA 74536**

**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 Clayton State Bank, Clayton, Oklahoma, prepared by the Federal Reserve Bank of Kansas City, the institution's supervisory agency, as of August 30, 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 entire assessment area in a manner consistent with its resources, capabilities, and operating philosophies. A majority of the bank's loans are originated within its assessment area. The bank's distribution of loans among low- and moderate-income borrowers and small businesses reflects an excellent penetration. In addition, the bank's loan-to-deposit ratio is considered reasonable, given the institution's size, local economic factors, and assessment area credit demand.

DESCRIPTION OF INSTITUTION

Clayton State Bank is located in Clayton, Oklahoma, a town with a population of 636 based on 1990 Census data. Community officials estimate that Clayton has grown to approximately 900 people as of the date of the compliance examination. The bank's office at the corner of Division and Lawson Streets is readily accessible to the entire community. The facility offers both drive-up teller windows and an automated teller machine (ATM). The bank has no other branches or ATMs.

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, 1999 Consolidated Reports of Condition and Income (Call Report), the bank's assets totaled \$18,121M, of which net loans comprised \$6,322M or 34.9 percent. The bank is primarily a commercial 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, 1999.

Loan Type	Amount (\$000)	Percent of Total
Commercial	1,911	31.0
Consumer	1,505	24.3
Farm land or Agricultural	1,458	23.6
1 - 4 Family Residential	1,244	20.1
Other	41	1.0
TOTAL	6,159	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's CRA performance was last reviewed by the Federal Reserve on December 2, 1996, when a rating of "Satisfactory" was assigned.

DESCRIPTION OF THE BANK'S ASSESSMENT AREA

Clayton State Bank's assessment area, located in the southeastern corner of Oklahoma, consists of one moderate-income block numbering area (BNA) in Pushmataha County. The assessment area is comprised of the northern third of the county. Clayton is located 40 miles south of McAlester and 30 miles north of the Pushmataha county seat of Antlers.

The assessment area is sparsely populated, and 1990 Census Bureau data indicated that the population was only 2,277. More recent data indicated that the Pushmataha County population increased 5.3 percent from 1990 to 1998, while the state's population grew 6.4 percent during the same period. In addition, there is a relatively large percentage of elderly in the assessment area.

The assessment area economy has not been in a growth mode, and the area economy has been only slightly outpaced by the county as a whole. According to 1990 Census data, the median-family income for the area was \$14,500, which is only 60.1 percent of the median-family income of \$24,139 for statewide rural areas. Pushmataha County's median-income at \$16,607 is 68.8 percent of statewide rural areas.

The assessment area population is predominantly low-income, even when compared to the county as a whole, and especially compared to all rural areas in the state. Low-income families in the assessment area comprised 41.1 percent of the total number of families in 1990, as compared to the county with 32.1 percent of low-income families. Statewide rural families in Oklahoma averaged 22.2 percent low-income. At the same time, upper-income families in the assessment area comprised only 17.4 percent of the total number of families, less than half of the 40.6 percent for upper-income families in the statewide rural areas.

Area characteristics based on 1990 Census data are summarized in Table 2 and are compared with Pushmataha County and with statewide rural areas in Oklahoma.

Table 2			
BANK'S ASSESSMENT AREA CHARACTERISTICS COMPARED TO COUNTY & STATEWIDE RURAL AREAS			
Tract Summary			
	<i>Assessment Area</i>	<i>County</i>	<i>Statewide Rural</i>
Total Number of Tracts	1	3	NA
Number of Moderate-Income Tracts	1	3	NA
Income Summary			
Median Family Income	\$14,500	\$16,607	\$24,139
Percent Low-Income Families	41.1	32.1	22.2
Percentage Below Poverty Level	29.3	25.3	16.4
Percent Moderate-Income Families	22.7	26.1	17.2
Percent Middle-Income Families	18.9	19.3	19.9
Percent Upper-Income Families	17.4	22.5	40.6
Unemployment Summary			
Labor Force Population (Assessment Area)	1,022	4,302	551,673
Percent Unemployment	13.9	11.6	7.5
Miscellaneous Information			
Total Population	2,777	10,997	1,275,743
Percentage Population Age 65 or over	20.7	18.9	16.7
Total Housing Units	1,277	5,190	343,743
Percentage Owner-Occupied/Total Units	69.5	64.5	60.8
Percentage Rental Units to Total Units	17.0	19.7	22.7
Percentage Vacant Units to Total Units	13.5	15.8	16.5

In 1990, the bank's assessment area contained a higher concentration of owner-occupied housing units (69.5 percent) than statewide rural areas (60.8 percent), and more mobile homes (16.4 percent) than statewide rural areas (13.4 percent). Community contacts indicated that available residential real estate, and rental housing in particular, were extremely scarce in the county and in Clayton. The area's housing shortage was corroborated by Census statistics indicating a lower number of vacant and boarded-up units compared to statewide rural areas. None the less, community contacts indicated that contractors are unwilling to build housing in the area because it is not profitable. Census figures in 1990 indicated that the median-gross rent in the assessment area was \$187, as compared to \$291 for statewide rural areas.

Unemployment remains consistently higher in the assessment area than in the county and statewide rural areas. In 1990, the area's 13.9 percent unemployment rate was significantly higher than the county rate of 11.6 percent and the statewide rural area rate of 7.5 percent.

Regional Economic Information Systems (REIS) information shows that Pushmataha County is reliant on service industries for jobs and earnings, while agriculture is decreasing in importance. Sardis Lake, built by the Army Corps of Engineers, is located 10 miles north of Clayton, and attracts tourist dollars to the area. Furthermore, community contacts also confirmed the importance of the lake to the community's economy.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Several factors were considered in evaluating the bank's CRA performance. The factors included: a review of the bank's level of lending in relation to its deposits and that of other comparable financial institutions; the penetration of loan originations inside and outside of the bank's defined assessment area; and the bank's record of lending to borrowers of different income levels and businesses of different sizes. As previously mentioned, two local community leaders, a business owner and government official, were contacted to obtain information about the area's credit needs and to confirm that the products and services offered by the bank meet those needs. The bank has not received any complaints relative to its performance under the CRA since the last examination. Therefore, the bank's responsiveness to CRA complaints was not included in the evaluation. In addition, the distribution of loan originations within the bank's assessment area by income level of BNA was not considered meaningful since the assessment area included only one BNA, which is a moderate-income geography.

Distribution Of Business Loans Within The Bank's Assessment Area By Revenue Size Of Business

The bank's distribution of loans to small businesses is strong and generally reflects the business revenue demographics of the assessment area. According to 1998 Dun and Bradstreet data, 100 percent of the businesses in the bank's assessment area have revenues of less than \$1 million. All of the 21 loans in the sample were originated to small businesses, which is defined by the CRA as businesses with revenues of less than \$1 million in revenue. The bank's commercial lending activity indicates the bank's willingness to provide credit to small business.

Distribution of Lending Among Borrowers of Different Income Levels

Based on the demographics of the assessment area, the bank's distribution of loans represents excellent penetration among individuals of different income levels. Table 3 illustrates the percentage of consumer loans made to each borrower income level compared to the percentage of families in the assessment area that are 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 this product. The consumer loan sample included 39 loans from a 6-month period between December 8, 1998 and June 8, 1999.

Table 3 Distribution of Loans Reviewed Within the Bank's Assessment Area By Income Level of Borrower		
Assessment Area Median Family Income \$14,500*		
Income Level of Borrower	Percentage of Consumer Loans Reviewed	Percentage of Families within Assessment Area **
<i>Low (Less Than 50 Percent of Median Income) ***</i>	45.2	41.1
<i>Moderate (50 To 80 Percent of Median Income)</i>	19.4	22.7
<i>Middle (80 To 120 Percent of Median Income)</i>	12.9	18.9
<i>Upper (Greater Than 120 Percent of Median Income)</i>	9.7	17.4

* Area Median Family Income is based on the 1997 HUD estimated median family income.
 ** The Percentage of Families in Assessment Area is based on 1990 census data.

According to 1990 Census data, low-income borrowers comprised 41.1 percent of families within the assessment area. At the same time, 29.3 percent of families within the assessment area were living below the poverty level and consequently less likely to have sufficient financial viability to obtain loans and service debt. In spite of these statistics, the bank originated 45.2 percent of its consumer loans to low-income individuals which exceeds the percentage of low-income borrowers in the assessment area. In addition, the bank originated 19.4 percent of its consumer loans to moderate-income borrowers and is comparable to the 22.7 percent of moderate-income families in the assessment area.

Percentage of Loans in Assessment Area

A majority of the bank's lending occurred inside its assessment area. Based on a sample of 27 small business loans and 39 secured consumer loans originated during the period from June 15, 1998 through June 15, 1999, 78.8 percent by number and 80.8 percent by dollar amount were originated within the bank's assessment area. Table 4 presents the bank's lending activity within its assessment area among selected product types for the sample period.

Table 4 Loans Within the Bank's Assessment Area		
Loan Type Sampled	Percentage of Loans Reviewed	Percentage of Total Dollar Amount
Small Business	77.8	82.7
Consumer	79.5	74.7
TOTALS	78.8	80.8

Loan-to-Deposit Ratio

The bank's net loan-to-deposit (LTD) ratio indicates a reasonable responsiveness to the community's credit needs. The bank's LTD ratio, calculated by averaging the seven previous quarters beginning September 30, 1997, is 39.6 percent. It is lower than any of the four local competitor banks, with average LTD ratios ranging from 52.3 percent to 68.1 percent during the same period. In addition, the bank's LTD ratio is lower than its national peer average of 62.7 percent. The bank's peer group consists of all insured commercial banks having assets under \$25 million and with one banking office, and located in a nonmetropolitan area.

Despite the relatively low LTD ratio, the bank's lending level is reasonable due to the low loan demand in the assessment area. Since none of the competitor banks are located in the bank's assessment area, none are truly comparable to Clayton State Bank. Unique assessment area characteristics include a larger population of borrowers 65 years of age and older, a group that typically generates a lower loan demand. In addition, the assessment area has a higher unemployment rate, a larger population of low-income families and families living below the poverty level, and a lower median-family income than county and statewide rural areas. Housing and Urban Development (HUD) estimates for 1998 indicate that of total households in the county, 42.9 percent, 18 percent, and 17.8 percent of the households report social security, retirement, and public assistance, respectively, as a source of income. Also, the unemployed and low-income families are less likely to have the financial viability to obtain loans and service debt.

Despite a lower loan demand, the bank has proactively responded to the credit needs of its assessment area. For example, the bank originates a large number of small-dollar consumer loans. Of the consumer loans on the books as of August 31, 1999, a total of 26.9 percent were in amounts of \$1,000 or less. Although the bank does not have any government guaranteed loans currently on its books, management is willing to initiate the process for any customer requesting this type of loan. Given the bank's size, local economic conditions, and low credit demand, the LTD ratio reflects a reasonable commitment to serve the credit needs of its assessment area.

COMPLIANCE WITH THE ANTIDISCRIMINATION LAWS AND REGULATIONS

The bank is in compliance with the substantive provisions of the antidiscrimination laws and regulations. Review of bank policies, credit applications, and loans revealed no prohibited practices designed to discourage loan applicants. Although a violation of Regulation B regarding required information on adverse action notices was noted, the issue was nondiscriminatory in nature.

August 30, 1999