

PUBLIC DISCLOSURE

November 1, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**LEGACY BANK
RSSD# 874256**

**101 WEST MAIN STREET
HINTON, OKLAHOMA 73047**

**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, Hinton, Oklahoma, prepared by the Federal Reserve Bank of Kansas City, the institution's supervisory agency, as of November 1, 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 areas, including low- and moderate-income families, in a manner consistent with its resources and capabilities. The bank's loan-to-deposit ratio is more than reasonable and compares favorably to its competitors and state and national peers. In addition, a majority of the bank's lending occurs within its assessment areas. The distribution of loans among businesses of different sizes reflects a strong dispersion to small businesses within the bank's assessment areas. The distribution of residential real estate loans among borrowers of different income levels is considered reasonable. Likewise, the geographic distribution of loans by income level of geography was also considered reasonable given the geographic location of the bank's facilities and area demographics.

DESCRIPTION OF INSTITUTION

Legacy Bank (the bank) is headquartered in Hinton, Oklahoma, approximately 50 miles west of Oklahoma City. The bank is the largest of three Legacy Banks owned by MidState Holding Company. The bank has its main office in Hinton and two branches in Duncan, Oklahoma, which is located approximately 100 miles south of Hinton. In addition, the bank maintains an automated teller machine (ATM) at a convenience store in Hinton, three ATMs within the city of Duncan, and five ATMs located in the communities of Lawton, Comanche, and Rush Springs, cities surrounding the Duncan area.

According to the bank's June 30, 1999 Consolidated Report of Condition and Income (Call Report), the bank's assets totaled \$61,613M; of which net loans comprised \$49,133M or 80 percent. The bank offers a variety of loan products that meet the community's credit needs with commercial and residential real estate loans representing 71 percent of the loan portfolio. Table 1 reflects the bank's loan portfolio composition as a percentage of gross loans as of June 30, 1999.

Loan Type	Amount (\$000)	Percent of Total
Commercial	20,455	41.2
1- to 4-Family Real Estate	14,843	29.9
Farm land or Agriculture	7,191	14.5
Consumer	6,797	13.7
Other	377	.7
TOTAL	49,663	100

No legal or financial factors exist that would hinder the bank's ability to meet the credit needs of its assessment areas. The institution received a "satisfactory" rating at its last CRA examination, conducted by the Federal Deposit Insurance Corporation (FDIC), on January 17, 1996.

DESCRIPTION OF THE BANK'S ASSESSMENT AREAS

Legacy Bank has designated two assessment areas that are noncontiguous rural areas.¹ The Hinton assessment area is nonmetropolitan and includes one tract in Caddo County. The Duncan assessment area is also nonmetropolitan and contains nine tracts in central and western Stephens County. A distance of approximately 100 miles separates the two assessment areas. The following is a more detailed analysis of each assessment area.

¹ Caddo County contains block numbering areas and Stephens County contains census tracts. For purposes of consistency, only the term tracts will be used in this analysis.

Hinton Assessment Area

The Hinton assessment area contains one tract located in Caddo County which abuts the western edge of the Oklahoma City Metropolitan Statistical Area (MSA). The town of Hinton is centrally located in this assessment area. The assessment area is primarily rural in nature and is designated a middle-income geography. According to 1990 Census data, the Hinton assessment area population was 4,477, but projected data suggested that the population increased to 4,935 in 1998. The assessment area population grew at a rate of 10.2 percent and outpaced the statewide rural rate of 6.4 percent. Several economic and demographic changes have occurred in the area since the 1990 Census. For instance, 1990 Census data did not indicate the presence of the Great Plains Correctional Facility or the facility's effect on assessment area demography. The facility was built by the town of Hinton and sold in the late 1980s to a private firm. The facility brought approximately 170 new jobs to Hinton, plus an increased tax base.

At the 1990 Census, the median-family income was \$23,433 for the Hinton assessment area. The Hinton assessment area's median-family income is slightly lower than the statewide rural area median-family income of \$24,139. As a percentage of families by income classification, the Hinton area contained 24.3 percent low-income, 16.7 percent moderate-income, 19.5 percent middle-income, and 39.5 percent upper-income families. Although 1997 Bureau of Economic Analysis (BEA) data was not available, countywide data showed that Caddo County's 1997 per capita personal income (PCPI) level for the assessment area ranked 70th of the state's 77 counties.

Although there was some economic diversification consisting of service and utilities industries, the Hinton assessment area remains dependent on agricultural industries. Dun and Bradstreet (D&B) data for 1998 showed that 12.6 percent of the area's reporting business establishments are related to farming. Oklahoma Department of Commerce (ODC) data indicated the largest nonagricultural employers in the area in 1996 were Great Plains Correctional Facility, Pioneer Gas Products, Niject Services and Caddo Electric.

The Hinton assessment area's unemployment rate continues to be above that of other statewide rural areas. According to 1990 Census data, the assessment area's unemployment rate of 8.2 percent was above that of the statewide rural unemployment rate of 7.5 percent. Preliminary Oklahoma Employment Security Commission (OESC) data indicates the unemployment rate for Caddo County in August 1999 declined to 3.5 percent. The 1990 Census data also showed that the Hinton assessment area's labor force of 54.7 percent was lower than the statewide rural figure of 62.5 percent. However, the area's increasing population indicates a growing labor force. The continued growth of the correctional facility accounts for some of the recent growth. REIS data indicated that Caddo County's labor force increased 2.2 percent from August 1997 to August 1999.

Assessment area housing was not in demand in 1990 and consisted of a large volume of older, owner-occupied units with low median values. Of total housing units, 63.0 percent were owner-occupied compared to 60.8 percent in statewide rural areas. The assessment area's housing unit vacancy rate was 17.0 percent compared to 16.5 percent in statewide rural areas. In 1990, 29.6 percent of the housing units were built prior to

1950 and the median age of housing stock was the same as in statewide rural areas, 36 years. A large volume of the housing stock consisted of mobile homes, 18.0 percent of housing units compared to 13.4 percent in statewide rural areas. It was noted that the correctional facility located in Hinton has impacted the assessment area housing composition and needs. Two community contacts indicated a need for housing construction in the area.

Duncan Assessment Area

The Duncan assessment area contains one low-income tract, two moderate-income tracts, three middle-income tracts and three upper-income tracts. The nine tracts represent a major part of Stephens County that includes the city of Duncan. Stephens County is located in south central Oklahoma, and its western edge abuts the Lawton MSA. In 1990 the Duncan assessment area's population was 27,024 but projected data suggested that the population had increased to 28,124 in 1998. The assessment area's population growth of 4.1 percent was at a slower pace than the statewide rural areas growth rate of 6.4 percent. The assessment area also contained an older population than in statewide rural areas. In 1990, 18.3 percent of the area's population consisted of senior citizens (over 64 years of age) and 48.8 percent of the population was adults from 25 to 64 years of age compared to 16.7 percent and 47.5 percent, respectively, for statewide rural areas.

At the 1990 Census, the median-family income was \$29,266 for the Duncan assessment area. The Duncan assessment area's median-family income is higher than the statewide rural area median-family income of \$24,139. As a percentage of families by income classification, the Duncan area contained 18.1 percent low-income, 12.1 percent moderate-income, 19.1 percent middle-income, and 50.6 percent upper-income families. Although 1997 BEA data was not available, countywide data showed that Stephens County's 1997 PCPI level for the assessment area ranked 27th of the state's 77 counties.

Stephens County's economy relies heavily on agriculture, mining, and mining-related industries. United States Department of Agriculture (USDA) data shows the area's primary farming product is cattle, and in 1997 livestock sales provided 87.0 percent of the market value of agricultural products sold. The area's largest employers include Halliburton Services, Duncan Public Schools, and Duncan Regional Hospital. The recent upturn in oil prices has aided the area's economy and helped it recover from the hardships occurring in its agriculture-based economy as a result of low commodity prices.

The 1990 Census data indicated unemployment in the Duncan assessment area was 7.6 percent compared to the statewide rural unemployment rate of 7.5 percent. Recent OESC data showed that the unemployment rate for the assessment area at 5.0 percent in August 1999 continued to be higher than for the statewide rural areas at 3.1 percent. In addition, the 1990 Census data shows that the assessment area's labor force of 55.9 percent was lower than the statewide rural areas at 56.5 percent. However, REIS data indicated that Stephens County's labor force increased by 3.7 percent in August 1999.

Housing was affordable for assessment area residents in 1990, despite the fact that the median-housing value in the area was 15.3 percent higher than the median-housing value

in statewide rural areas. According to the 1990 Census, 62.6 percent of the housing units were owner-occupied compared to 60.8 percent for statewide rural areas. Rental units represented 23.7 percent in the assessment area compared to 22.7 percent rural statewide. The area contained a large volume of newer housing stock, indicating recent housing development. In 1990 the median age of housing stock was 32 years compared to 36 years statewide.

Table 2 summarizes the demographics and economic characteristics of the two assessment areas as of the 1990 Census data.

TABLE 2 BANK ASSESSMENT AREA CHARACTERISTICS				
Tract Summary	Hinton AA	Duncan AA	State of OK/ Non-Metro	Combined Assessment Area
Total Number of Tracts	1	9	NA	10
Number of Low-Income Tracts	0	1	NA	1
Number of Moderate-Income Tracts	0	2	NA	2
Number of Middle-Income Tracts	1	3	NA	4
Number of Upper-Income Tracts	0	3	NA	3
<i>Income Summary</i>				
Median Family Income	\$23,433	\$29,266	\$24,139	\$28,481
Percent Low-Income Families	24.3	18.1	22.2	19.0
Percent Moderate-Income Families	16.7	12.1	17.2	12.8
Percent Middle-Income Families	19.5	19.1	19.9	19.2
Percent Upper-Income Families	39.5	50.6	40.6	49.1
<i>UNEMPLOYMENT SUMMARY</i>				
Labor Force Population	1,880	11,612	551,676	13,492
Percent Unemployment	8.2	7.6	7.5	7.7
<i>Miscellaneous Information</i>				
Total Population	4,477	27,024	1,275,743	31,501
Percentage of Families Below Poverty	19.7	13.1	16.4	14.0
Total Households	1,725	10,921	355,765	12,646
Total Housing Units	2,080	12,636	585,161	14,716
Percentage Owner-Occupied Units to Total Units	63.0	62.6	60.8	62.7
Percentage Rental Units to Total Units	22.6	23.7	22.7	23.2
Percentage Vacant Units to Total Units	17.0	14.8	16.5	14.2
Total Rental Units	416	2,993	132,939	3,409
Affordability Ratio ²	.58	.58	.54	.58

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Several factors were considered in evaluating the bank's CRA performance, including: a review of the bank's level of lending in relation to its deposits and that of other comparable financial institutions; penetration of loan originations inside and outside of the bank's defined assessment areas; the bank's level of lending to borrowers of different income levels and to businesses of different revenue sizes; and the bank's level of lending across geographic tracts of different income classifications. 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. Three community members, including two private business leaders and one public official, in the Hinton area; and one community member, involved with a business development agency, in the Duncan area were contacted to obtain additional information

² The affordability ratio is calculated by dividing the Median Household Income by Median Household Value.

about the area's credit needs and to confirm that the products and services offered by the bank met those needs.

The data for the two assessment areas was combined for the analyses of the bank's loan-to-deposit ratio, lending within the bank's assessment areas, and the bank's lending to businesses of various sizes. However, because of the difference in the demographics and economic characteristics of the Hinton and Duncan assessment areas, separate analyses for residential real estate loans were performed regarding the bank's lending to borrowers of different income levels. In addition, the geographic distribution of lending was only considered meaningful for the Duncan assessment area because the area included one low- and two moderate-income tracts. The Hinton assessment area consisted of only one middle-income tract. Therefore, the geographic distribution analysis was not performed for the Hinton area.

Loan-to-Deposit Ratio

The bank's net loan-to-deposit ratio (LTD) of 81.3 percent, calculated by averaging the previous seven quarters beginning December 31, 1997, is considered excellent. The bank's LTD ratio exceeded four of five similarly situated banks whose LTD ratios ranged from 24.2 percent to 89.3 percent. In addition, the bank's LTD ratio substantially exceeds its national peer and state peer group ratios of 64.4 percent and 62.4 percent, respectively. The bank's peer group is composed of insured commercial banks having assets between \$50 million and \$100 million with three or more banking offices, and located in a nonmetropolitan area. Given the institution's size, local economic conditions, and credit demand, the average LTD ratio reflects the bank's commitment to serve the credit needs of its assessment areas.

In addition, the bank's Duncan South branch originates and sells real estate loans to the secondary market that are not accounted for in the bank's loan portfolio. During 1998, the bank originated 66 loans that were sold into the secondary market, totaling \$6,170M. Of the 66 loans, 57 loans originated in Duncan and 9 loans originated in Hinton. Through October 1999, the bank has originated 32 loans totaling \$3,028M, that were sold into the secondary market. Of the 32 loans, 28 loans originated in Duncan and 4 loans originated in Hinton.

Percentage of Loans in the Assessment Areas

A majority of the bank's lending occurred inside its assessment areas. Two products were reviewed in this analysis, including residential real estate and commercial loans. The commercial loan sample included 42 loans, and 28 loans were found to be within the bank's assessment areas. Of the commercial loans within the bank's assessment areas, 16 loans were in the Duncan area and 12 loans were in the Hinton area. The residential real estate sample included 39 loans with 21 loans found to be within the Duncan area. In addition, a further review of loans for the previous year indicated 23 loans were made in the Hinton area. An analysis of the judgmental sample of 81 total loans revealed that 60.4 percent, by number, were originated within the bank's assessment areas. Table 3 illustrates the bank's lending within its combined assessment areas by product type.

Loan Type Sampled	Percentage of Loans Reviewed (by number)
Small Business	66.7%
Real Estate	53.8%
Total	60.4%

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

The bank's distribution of loans to businesses of different sizes and borrowers of different income levels is considered reasonable. The analysis for commercial loans was combined for the two assessment areas since the assessment area business characteristics were similar, and the distribution of business loans was fairly even between the geographies.

Commercial Loans

The distribution of loans to businesses reflects a strong penetration among small businesses. Small businesses are defined as businesses with annual revenues of less than \$1 million. Of the 28 commercial loans sampled, all loans, totaling \$1,691M, were originated to businesses with revenues less than \$1 million. Commercial lending is the bank's primary loan product, representing 41.2 percent of the bank's total loan portfolio. The bank recognizes and strives to meet the need for small dollar commercial credit in its assessment areas. Table 4 illustrates that 82 percent of the bank's sampled small business loans were made for amounts less than \$100M, loan amounts that typically serve small business credit needs.

Loan Value	Percentage of Dollar Amount (Combined)	Percentage of Number of Loans (Combined)
Less than or Equal to \$100,000	17	82
Greater than \$100,000 and less than or equal to \$250,000	20	7
Greater than \$250,000	63	11
Total	100	100

Real Estate Loans

Based on the demographics of the assessment areas, the bank's distribution of loans represented reasonable penetration among individuals of different income levels. 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. Due to varying assessment area characteristics and credit needs related to real estate loans, separate analyses were conducted for the two assessment areas.

The bank's percentage of loans made to each income level was compared to the percentage of families in the assessment areas that are designated low-, moderate-, middle-, and upper-income. Of the 21 real estate loans initially sampled in the assessment areas, all were located in the Duncan area. Therefore, an additional judgmental sample of 23 loans from the Hinton area covering the period from September 24, 1998 to July 19, 1999 was selected for additional analysis and is included in Table 5.

Table 5 illustrates the percentage of residential real estate loans made to each borrower income level compared to the percentage of families in each assessment area.

Table 5
Percentage Distribution of Loans Reviewed
Within the Bank's Assessment Areas
By Income Level of Borrower

Area Median Family Income *				\$32,700
Income Level of Borrower	Percentage of Real Estate Loans Reviewed (Hinton)	Percentage of Families Within Hinton Assessment Area**	Percentage of Real Estate Loans Reviewed (Duncan)	Percentage of Families Within Duncan Assessment Area**
Low (Less than 50 percent of Median Income)	4	24	10	18
Moderate (50 to 80 percent of Median Income)	9	17	5	12
Middle (80 to 120 percent of Median Income)	22	20	10	19
Upper (Greater than 120 percent of Median Income)	65	39	75	51

* Area Median Family Income is based on the 1999 HUD State estimated Median-Family Income.
 ** The percentage of families in assessment area is based on 1990 census data.

Residential real estate lending to low- and moderate-income borrowers is below the percentage of low- and moderate-income families in the bank's assessment areas. However, when demographic factors are considered, lending in these areas is considered reasonable. In addition, high poverty and unemployment rates impede a financial institution's ability to lend because of a lack of disposable income. Thus, the bank may find fewer opportunities to lend to low- and moderate-income borrowers. A discussion of the bank's lending by borrower income level is included for each assessment area.

Hinton Assessment Area

Real estate loans to low- and moderate-income borrowers represented 4 and 9 percent, respectively. These percentages are below the percentages of low- and moderate-income families within the assessment area. The bank has conducted a marketing campaign in the area for home loans by distributing flyers to each home, with no results. Community contacts indicated that there has been some new residential building in the last two years, but there is a shortage of low- and moderate-income housing for sale or rent. A new housing addition, Chimney Hills, has been developed with homes priced in the \$80,000 to \$90,000 range. Likewise, another addition is being built north of town that plans to sell homes in the \$60,000 to \$70,000 range. One community contact stated that there are a few houses in the \$10,000 to \$30,000 price range; however, these homes sell quickly. The contact also stated that secondary market programs, such as offered by Legacy Bank, were very helpful to a buyer who needs to search for financing. However, the contact added that buyers preferred to keep their loans in Hinton, and many of these borrowers believed that all Legacy Bank real estate loans were processed through the Duncan branch office. Although the Hinton office processes in-house real estate loans, this misperception by the community may negatively impact the bank's ability to originate many residential real estate loans in the Hinton assessment area. Another factor in the bank's low level of lending to low- and moderate-income borrowers is that 50 percent of the labor force in Hinton was on social security, public assistance and retirement based on 1990 Census data. Also, the percentage of unemployment in the Hinton area was at 8.2 percent compared to Duncan at 7.6 percent and 7.5 percent

in statewide rural areas. Furthermore, OESC unemployment rates for the last three years indicated some employment instability. Another factor contributing to the low level of real estate loans is that families below the poverty level in Hinton are at 19.7 percent compared to 13.1 percent in Duncan and 16.4 percent in statewide rural areas. As a whole, individuals in these groups have less financial means to purchase real estate. Based on assessment area demographics, lower real estate loan demand and the unemployment level in the area, the bank's residential real estate lending is reasonable in the Hinton assessment area.

Duncan Assessment Area

The bank's primary real estate lending is focused in the Duncan assessment area. Real estate loans to low- and moderate-income borrowers represented 10 and 5 percent, respectively, in those income categories. These percentages are somewhat below the percentages of low- and moderate-income families within the assessment area. However, a community contact indicated that the Duncan area is recovering from the recent downturn in the oil industry, and recent unemployment figures in August 1999 at 4.5 percent indicated some improvement in the area. The contact also noted that for the first time in ten years, spec houses are being built in the \$70,000 to \$80,000 price range and that there was a definite need for low- and moderate-income housing construction.

Although the bank's lending to low- and moderate-income borrowers is somewhat lower than the percentages of families in the assessment area, 1990 Census data indicated that 46.7 percent of the households in the Duncan assessment area were receiving public assistance, and 18.3 percent of persons in the assessment area are aged 65 and over. As a whole, individuals in these groups have less financial means or need to purchase real estate. Taking into account the assessment area's poverty level and large number of senior citizens in the area, the bank's residential real estate lending to low- and moderate-income borrowers in the Duncan assessment area is reasonable.

Distribution of Lending in Tracts of Different Income Levels

Since the Hinton assessment area consists of one middle-income tract, the bank does not have the opportunity to lend in low- and moderate-income geographies within this assessment area. Therefore, the geographic distribution of loans within the Hinton assessment area was not considered to be a meaningful part of the CRA evaluation. The analyses of lending in tracts of different income levels was evaluated only for the Duncan assessment area.

Duncan Assessment Area

Residential Real Estate Loans

The geographic distribution of residential real estate loans originated by the bank reflects a fair dispersion throughout the Duncan assessment area, considering the area demographics. Although none of the residential real estate loans included in the sample were to low- and moderate income tracts, analysis revealed that while adequate credit is available by the local financial institutions, the availability of housing units is low. The

one low-income tract in the assessment area contains 211 families with a median-family income of \$12,061, and only 2.6 percent of the total assessment area housing units are in the tract. The two moderate-income tracts in the assessment area contain 678 families with a median-family income of \$13,798, and 10.1 percent of the total assessment area housing units are in the tract.

Combined, low- and moderate-income tracts contained only 12.8 percent of assessment area households, 16.1 percent of housing units and 13.8 percent of area businesses. Thus, there are fewer opportunities to lend in the assessment area's low- and moderate-income tracts than in the middle- and upper-income tracts. To further explain the bank's lack of lending in low- and moderate-income tracts, the household poverty rates in the low-income tract at 44 percent was over twice as high as households in the two middle-income tracts at 10 percent and 20 percent. In addition, the low- and moderate-income tracts had double-digit unemployment rates in 1990. The unemployment rate was 28.1 percent in the low-income tract and 11.7 percent in the moderate-income tracts compared to 6 percent and 7 percent unemployment rates, respectively, in the middle- and upper-income tracts.

Another factor contributing to the lack of demand is that housing stock was deteriorated in the low- and moderate-income tracts, and the low- and moderate-income tracts had a combined 24 percent vacancy rate which indicates a low level of demand for housing in these tracts.

Furthermore, one of the bank's branches is located in the northern upper-income tract, and the other branch is located in a middle-income tract. The low- and moderate-income tracts are located in the southern portion of the assessment area and are some distance from the bank's locations. In addition, the low- and moderate-income tracts have a credit union and a competitor institution that adequately serve the real estate credit needs in these tracts. Given the distance and the demographics of the low- and moderate-income tracts, the bank's real estate lending in these tracts is considered reasonable.

Commercial Loans

The commercial loan sample in the Duncan assessment area contained 16 loans totaling \$9.28M. The distribution of loans by income level of the tracts included no loans in the low-income tract, one loan in the moderate-income tracts, nine loans in the middle-income tract and six loans in the upper-income tracts. A significant factor contributing to the lower level of business loans in the low- and moderate-income tracts is that the low- and moderate-income tracts contained only 13.8 percent of area businesses in 1998. In addition, the bank's locations are distant from the low- and moderate-income tracts which reduces loan demand from businesses in these tracts.

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.

