



## **PUBLIC DISCLOSURE**

January 31, 2000

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**WESTSTAR BANK  
RSSD# 933854**

**121 West Fourth Street  
P.O. Box 999  
BARTLESVILLE, OKLAHOMA 74003**

**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.

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**INSTITUTION'S**

**OVERALL PERFORMANCE**

## 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 WestStar Bank, Bartlesville, Oklahoma, prepared by the Federal Reserve Bank of Kansas City, the institution's supervisory agency, as of January 31, 2000. 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.*

## OVERALL RATING

An evaluation of the Community Reinvestment Act (CRA) performance of WestStar Bank, Bartlesville, Oklahoma, was conducted as of January 31, 2000, using the lending, investment, and service tests for large banks. The examination covers the time period elapsed since the February 2, 1998 CRA evaluation.

The evaluation also includes a review of the CRA performance within each of the bank's two assessment areas, which includes the Bartlesville assessment area (Nowata, Osage, and Washington Counties) and the Oklahoma County assessment area. The Oklahoma County assessment area is located in the Oklahoma City Metropolitan Statistical Area (MSA) and serves as the basis for the bank's record of performance in MSAs in Oklahoma. The Bartlesville assessment area comprises the non-MSA portion of the bank's assessment areas being evaluated. Effective March 25, 1999, WestStar Bank transferred ownership of the branch in Oklahoma County to an Oklahoma City affiliate bank that was acquired by WestStar's parent company. In addition, WestStar purchased a branch in Nowata, Oklahoma, on August 28, 1998, and added Nowata County to the Bartlesville assessment area at that time.

Despite the sale of the branch in Oklahoma County, the branch's performance in Oklahoma County will be included in the evaluation so that WestStar may receive full credit for all of its lending, investment and service activities since the last evaluation. However, approximately 85 percent of WestStar's commercial, agricultural and residential

real estate loan portfolio and 90 percent of its deposit base for 1998 originated within the Bartlesville assessment area; therefore, it was weighted significantly heavier in the overall assessment. The following is a summary of WestStar Bank's overall performance in its assessment areas.

**WestStar Bank's Overall CRA Rating:** This institution is rated "*Satisfactory*"

An institution in this group has a satisfactory record of helping to meet the credit needs of its assessment areas, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

WestStar Bank's lending activities reflect a good responsiveness to the credit needs of its assessment areas. A substantial majority of the bank's loans were originated within the Oklahoma County and Bartlesville assessment areas. The distribution of loans reflects an adequate penetration throughout the assessment area geographies, to businesses and farms of different sizes, and to borrowers of all income levels. Compared with local financial institutions operating within the Bartlesville assessment area, WestStar's lending levels are market leaders for mortgage and small business lending.

The bank had no qualifying community development loans, primarily in view of the lack of available opportunities in the Bartlesville assessment area. However, the bank contributed monetary donations to community development organizations and agencies that serve low- and moderate-income individuals and families. A substantial portion of the donations benefited the western side of Bartlesville, where the majority of the town's low- and moderate-income families reside. The bank has not identified any opportunities to use complex or innovative investments to support community development initiatives in the Bartlesville area.

Approximately 75 percent of the bank's loan portfolio in 1998 consisted of commercial loans and real estate loans secured by 1- to 4-family residential properties. Farm lending was also significant in the Bartlesville area. Accordingly, commercial, residential real estate, and farm loans were considered in evaluating the bank's performance under the lending test.

The bank's delivery systems and business hours offer reasonable access to individuals and businesses in the assessment areas. The bank also provides a high level of qualified community development services that benefit low- and moderate-income individuals, families, and areas.

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

TABLE 1 WestStar Bank			
Performance Levels	Performance Tests		
	Lending Test*	Investment Test	Service Test
Outstanding			
High Satisfactory	X		X
Low Satisfactory			
Needs to Improve		X	
Substantial Noncompliance			

\* **Note:** The lending test is weighted more heavily than the investment and service tests when arriving at an overall rating.

### SCOPE OF THE EXAMINATION

An evaluation of the institution's CRA performance was conducted as of January 31, 2000, using the lending, investment and service tests for large banks. The evaluation covers the time period elapsed since the February 2, 1998 CRA examination. Small business and small farm loans were analyzed for calendar year 1998 through November 4, 1999. Residential mortgage loan data used in the analysis covered the period from January 1, 1998 through November 2, 1999.

WestStar Bank had two assessment areas until ownership of the Oklahoma County branch was transferred on March 25, 1999, to an affiliate bank in Oklahoma City. As previously stated, the branch's performance in Oklahoma County will be included in the evaluation so that WestStar receives credit for all of its lending, investment and service activities since the last CRA examination. Accordingly, the evaluation will include an entire institution analysis which combines significant elements of the bank's performance in both assessment areas, followed by separate analyses for the Oklahoma County (MSA) and Bartlesville (non-MSA) assessment areas. Due to the timing of the branch divestiture, the overall analysis and Oklahoma County analysis will only include a review of 1998 data; the Bartlesville assessment area analysis will include a review of 1998 and available 1999 data.

The evaluation includes a comparison between WestStar Bank and other commercial banks that operate within the same market areas. The comparison utilizes market share information provided by the Federal Financial Institutions Examination Council (FFIEC) for all Home Mortgage Disclosure Act (HMDA) and CRA data reporters in the Oklahoma County and Bartlesville assessment areas.

## DESCRIPTION OF INSTITUTION

WestStar Bank is headquartered in Bartlesville, Oklahoma, which is approximately 50 miles north of Tulsa, Oklahoma, in the northwestern part of the state. The bank is owned by First Bancshares, Inc., which, in turn, is wholly owned by Arvest Bank Group, Inc., a multibank holding company headquartered in Bentonville, Arkansas. Arvest Bank Group, reporting assets of \$4.1 billion as of September 30, 1999, owns seven bank holding companies and 13 other banks. WestStar Bank had total assets of \$455.4 million as of the same date, and no financial or legal impediments exist that might affect the institution's ability to meet the credit needs of its assessment areas. The bank's CRA performance was last evaluated as of the February 2, 1998 examination, at which time it was rated "Satisfactory".

The bank's branch structure consists of the main office and four full-service branches. Two of the branches are located in Bartlesville; one is located in Dewey, a small town which borders the city limits of Bartlesville; and one is located in Nowata, approximately 19 miles east of Bartlesville. The bank has 14 automated teller machine (ATM) locations in its assessment area. Twelve ATMs are located throughout Bartlesville, and the Dewey and Nowata branches each have an ATM. Bank customers also have cost-free access to over 100 Arvest ATMs located in northeastern Oklahoma and northwestern Arkansas.

WestStar Bank is a full-service banking institution offering a wide range of retail and commercial banking services to meet the credit needs of its assessment areas. The types of credit offered by the bank include commercial, Small Business Administration (SBA), residential real estate, agricultural and consumer loans. The bank also sells conventional fixed-rate, Federal Housing Administration (FHA), and Veterans Administration (VA) real estate loans on the secondary market to an affiliate, Arvest Mortgage Company. The majority of agricultural loans originated by the bank are in Osage County, located in the western portion of the Bartlesville assessment area.

The bank competes with a large credit union in Bartlesville, as well as the branches of two other regional banking organizations. The total assets of the three institutions range from \$248 million to \$13.2 billion. The bank also competes with seven other FDIC-insured institutions having main offices located in the Bartlesville assessment area.

According to the September 30, 1999 Consolidated Reports of Condition and Income (Call Report), loans constituted \$224,827M or 49 percent of total assets. Table 2 reflects the composition of the bank's loan portfolio as of that date.

Loan Type	Amount (\$000)	Percent of Total
Multiple and 1- to 4-Family Real Estate	\$72,345	32
Commercial	58,462	26
Nonfarm Nonresidential	36,389	16
Consumer	28,238	13
Farm land or Agricultural	20,070	9
Other	9,345	4
Less: Unearned Income	22	0
<b>TOTAL</b>	<b>224,827</b>	<b>100</b>

The bank is primarily a commercial lender, as evidenced in Table 2 when combining the commercial and nonfarm nonresidential loan portfolios for a total of 42 percent. Loans secured by 1- to 4-family residential real estate constitute the second largest portfolio, at 32 percent. Consumer and agricultural loans represent smaller lending sectors, at 13 and 9 percent, respectively.

## **OVERALL DESCRIPTION OF THE BANK'S ASSESSMENT AREAS**

The assessment areas served by the bank include the Oklahoma County assessment area and the Bartlesville assessment area (Nowata, Osage and Washington Counties). The two assessment areas are approximately 155 miles apart and consist of significantly different markets and demographic characteristics. Washington, Nowata and Osage Counties are generally rural in nature. Osage County is the northernmost county of the five-county Tulsa Metropolitan Statistical Area (MSA) and is primarily rural. The bank has no offices located in Osage County, but included the county in its assessment area since the majority of the bank's agricultural loans are located in this area. Nowata County was added to the Bartlesville assessment area when the bank purchased a branch in Nowata on August 28, 1998. The Bartlesville assessment area includes the entire non-MSA portion of the bank's presence in Oklahoma.

WestStar's second assessment area is located in central Oklahoma and consists of Oklahoma County, which is included in the six-county Oklahoma City MSA. The bank had one office in Oklahoma County until it was sold to an affiliate on March 25, 1999, and Oklahoma County is no longer part of the bank's current assessment area. However, the Oklahoma County assessment area was included in the evaluation so that the bank receives credit for all of its CRA-related activities since the prior evaluation. The Oklahoma County assessment area included the bank's only office located in an MSA and



was the basis for the bank's MSA performance in this evaluation. Detailed descriptions of each assessment area may be found in the respective sections that follow.

Table 3 details the general demographic and economic characteristics of the combined assessment areas as of the 1990 Census.

<b>TABLE 3 BANK ASSESSMENT AREA CHARACTERISTICS</b>		
<i>Tract Summary</i>		
Total Number of Tracts		249
Number of Low -Income Tracts		25
Number of Moderate -Income Tracts		64
Number of Middle -Income Tracts		103
Number of Upper -Income Tracts		57
<i>Income Summary</i>		
	Assessment Area	State
Median Family Income	\$31,639	\$28,554
Percent Below Poverty Families	11.2	13.0
Percent Low -Income Families	20.6	21.0
Percent Moderate -Income Families	17.8	17.6
Percent Middle -Income Families	21.8	21.5
Percent Upper -Income Families	39.8	39.9
<i>Business Summary*</i>		
Total Number of Businesses		22,853
Percent in Low -Income Tracts		9.2
Percent in Moderate -Income Tracts		24.4
Percent in Middle -Income Tracts		41.4
Percent in Upper -Income Tracts		25.0
<i>Unemployment Summary</i>		
Labor Force Population (Assessment Area)		352,995
Percent Unemployment (Assessment Area)		6.7
Percent Unemployment (State)		6.7
<i>Miscellaneous Assessment Area Information</i>		
Total Population		699,314
Percentage of Households Below Poverty		11.2
Total Housing Units		323,777
Percentage Owner-Occupied Units to Total Units		54.2
Percentage Rental Units to Total Units		31.2
Percentage Vacant Units to Total Units		14.6
Median Housing Value: Assessment Area		\$51,659
	State	\$47,643
	Statewide Nonmetropolitan Areas	\$36,373

\*Dun and Bradstreet Business Summary Report

## CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

The conclusions regarding WestStar Bank's performance under the lending, investment, and service tests are summarized at the beginning of each section. Issues, facts, and supporting information regarding performance characteristics for the Bartlesville and Oklahoma County assessment areas follow in detail. A peer group of similarly situated financial institutions was developed as a contextual reference by which to evaluate WestStar's performance under the CRA. Institutions within the peer group were identified on the basis of their competitive relationships with the bank as well as similarities in product type, asset size, and service area.

### LENDING TEST

In assessing the bank's lending performance, the review focused on WestStar's lending levels; assessment area concentration; geographic distribution of loans; borrowers' profiles; responsiveness to credit needs of economically disadvantaged geographies, low- and moderate-income individuals, small businesses and small farms; community development lending; and product innovation and flexibility.

### CONCLUSIONS

- WestStar Bank's performance under the lending test is rated "high satisfactory."
- Lending levels reflect a good responsiveness to assessment area credit needs based on the bank's size, financial condition, and resources.
- The bank's market share for home improvement, small business, and small farm loans is the highest among its competitors in the Bartlesville assessment area.
- A substantial majority of the bank's loans are made within its assessment area.
- The bank exhibits a strong record of serving the credit needs of low- and moderate-income borrowers, small businesses and small farms.
- The distribution of loans reflects a good penetration throughout the assessment area geographies, including low- and moderate-income areas.
- The bank had a small number of CRA and HMDA loans in which the primary purpose was community development.
- WestStar Bank makes good use of flexible lending programs to better serve the needs of its assessment areas.

### Lending Activity

WestStar's lending levels reflect a good responsiveness to credit needs in the bank's assessment areas. The bank's average loan-to-deposit ratio for the past seven quarters was 61.9 percent, and is lower than the average net loan-to-deposit ratio for its competitors, which ranged from 66.7 percent to 95.1 percent. However, the average loan-to-deposit ratio for the bank's state peer group was similar, at 62.6 percent over the same time period. The bank's peer group consists of all insured banks having assets between \$300M and \$500M with three or more banking offices.

The loan-to-deposit ratio does not fully reflect the bank's lending activity because WestStar Bank originates and sells home mortgage loans through an affiliate, Arvest Mortgage Company. Since the prior examination, the bank has originated and sold 381 home purchase and refinance loans totaling \$36.2 million. WestStar Bank is also a leader in originating home improvement loans in the Bartlesville assessment area. Data compiled from Home Mortgage Disclosure Act (HMDA) lenders for 1998 indicates that WestStar's market share ranked first for home improvement loans made in Washington, Osage, and Nowata Counties. WestStar originated 47 percent of the home improvement loans reported by HMDA lenders in the Bartlesville assessment area, compared to 10 percent for the second highest lender. Home improvement loans are meeting a significant need in Bartlesville, where substantial concentrations of substandard and dilapidated housing are located.

WestStar's small business and small farm lending levels are high based on the total loan portfolios reported by similarly situated banks. Data compiled by the Federal Financial Institutions Examination Council (FFIEC) for 1998 indicates that WestStar bank made 55 percent of small business and 76 percent of small farm loans in the Bartlesville assessment area, ranking the bank first in both categories. In 1998, the bank ranked 18<sup>th</sup> for small business originations in the Oklahoma County assessment area. The rank is noteworthy considering the small asset size of the Oklahoma County branch relative to other significantly larger financial institutions that operate in Oklahoma City. The Oklahoma County branch made no small farm loans in the Oklahoma City area since agricultural lending is not a principal loan product in the metropolitan area.

Banks are not required to collect and report data on consumer loan activity, and consumer loans comprise a less significant portion of WestStar Bank's entire loan portfolio. Therefore, an evaluation of consumer lending was not included in this examination.

### Assessment Area Concentration

A substantial majority of the number and dollar amount of the bank's total lending occurs within its assessment areas. The analysis was based on all of WestStar's HMDA loans reported from January 1, 1998 through November 2, 1999, and all of its CRA business and farm loans reported from January 1, 1998 to November 4, 1999. Table 4

demonstrates by product type the percentage and dollar amount of loans that were originated within the bank's assessment area.

TABLE 4 LENDING WITH IN ASSESSMENT AREA Loans Originated in 1998						
Products	Total Originations		Within The Assessment Area			
	Number	\$(000s)	Number	Percent	\$(000s)	Percent
Home Purchase	76	6,735	70	92.1	5,941	88.2
Refinance	127	4,687	112	88.2	3,427	73.1
Home Improvement	197	2,594	188	95.4	2,539	97.9
Total Home Loans	400	14,016	370	92.5	11,907	85.0
Small Business	567	29,564	501	88.4	23,401	79.2
Small Farm	153	4,557	138	90.2	4,151	91.1
<b>Grand Total</b>	<b>1,120</b>	<b>48,137</b>	<b>1,009</b>	<b>90.1</b>	<b>39,459</b>	<b>82.0</b>

As the table above indicates, 90.1 percent of the bank's total number of loans and 82 percent of the bank's total dollar volume of loans were located within the bank's assessment areas. The significant percentage of originations within the bank's assessment areas reflects a high responsiveness to the assessment area credit needs.

#### Lending Distribution by Borrowers' Income or Business Revenues

The bank's lending to borrowers of different income levels and to businesses and farms of different sizes reflects a good penetration. The following tables demonstrate the residential real estate, small business, and small farm loan distribution in the Oklahoma County and Bartlesville assessment areas.

*Home Mortgage Loans*

The bank has a good record of providing residential real estate lending to borrowers of different income levels. Table 5 illustrates the dispersion of HMDA loans to low- and moderate-income borrowers, and Table 6 compares the total number of HMDA loans originated to the percentage of assessment area families by level of income.

TABLE 5 DISTRIBUTION OF 1998 HMDA LOANS TO LOW- AND MODERATE-INCOME BORROWERS								
Loan Type	All Borrowers		Low-Income Borrowers			Moderate-Income Borrowers		
	Number of Loans	\$(000s)	Number of Loans	\$(000s)	Percent of Loans by Type	Number of Loans	\$(000s)	Percent of Loans by Type
Home Purchase	70	5,941	3	23	4	6	141	7
Refinances	112	3,409	5	34	5	12	135	11
Home Improvement	188	2,495	16	103	9	23	115	12
Total	370	\$11,845	24	\$160	7	41	\$391	11

Sources: 1998 HMDA Tables, Bank Records, 1990 U.S. Census

TABLE 6 DISTRIBUTION OF 1998 HMDA LOANS ORIGINATIONS BY INCOME LEVEL OF BORROWER			
Applicant Income Level	Percent of Families in Assessment Area <sup>1</sup>	1998	
		Number of Loans	Percent of Loans
Low	20.6	24	7
Moderate	17.8	41	11
Middle	21.8	66	18
Upper	39.8	221	59
Income Unavailable	NA	18	5
Total	100	370	100

<sup>1</sup> 11.2 percent of the assessment area families are below the poverty level.  
Source: Bank Records and U.S. Census Data

WestStar Bank's lending to borrowers of different income levels is reasonably comparable to the percentages of low- and moderate-income families in the Oklahoma County and Bartlesville assessment areas. The 1990 Census indicated that 11.2 percent of the families in the assessment area were living below the poverty level and, thus, are less likely to have sufficient economic viability to obtain the larger credit amounts that require more significant capital outlays and monthly payments generally associated with real estate purchases. Consequently, the effective loan demand for residential real estate loans by low-income borrowers is generally reduced by the percentage of families below the poverty level. A detailed analysis of the bank's level of lending by borrower income level and comparative market share data is presented in the individual evaluations for the Oklahoma County and Bartlesville assessment areas.

*Small Business Loans*

WestStar Bank's record of lending to small businesses, those with revenues of less than \$1MM, is very good. Approximately 42 percent of the bank's loan portfolio as of September 30, 1999, was in commercial lending. Although the CRA requires lenders to report loans of \$1 million or less made to businesses of any revenue size, more emphasis is placed on loans made to entities with revenues of \$1 million or less since they typically have more difficulty obtaining credit. As Table 7 indicates, the bank made a substantial majority of its commercial loans to small businesses.

TABLE 7 DISTRIBUTION OF 1998 BUSINESS ORIGINATIONS WITH IN THE ASSESSMENT AREAS BY SIZE OF BUSINESS					
Size of Business	Number		Dollar Volume		Percentage of Businesses in Assessment Area
	Number of Loans	% of Number of Loans	# Loaned	% of \$ Loaned	
Loans to Small Businesses (Revenues < = \$1 million)	431	86.0%	16,062	68.6%	88.2%
Loans to Large Businesses Revenues > \$1 million	70	14.0%	7,339	31.4%	11.8%
<b>Total</b>	501	100%	23,401	100%	100%

Source: Bank Records and 1998 Dunn and Bradstreet

Table 7 also indicates that the bank's level of lending to small businesses is similar to the percentage of small businesses in the combined assessment area, according to 1998 Dunn and Bradstreet data. The dollar volume percentage of loans to small businesses is also favorable, at 68.6 percent, considering that small businesses will generally require lower loan amounts when compared to large businesses. WestStar Bank's level of lending to businesses by loan amount is also good. The bank originated an overwhelming majority of business loans for amounts of \$100M or less, which are amounts typically required by the smallest businesses. Table 8 shows that for 1998, 94.1 percent of loans to small businesses were in amounts of \$100M or less, indicating the bank's willingness to serve the credit needs of very small businesses.

TABLE 8 DISTRIBUTION OF 1998 BUSINESS ORIGINATIONS WITHIN THE ASSESSMENT AREA BY LOAN SIZE								
Loan Size	All Loan Originations				Originations to Small Businesses			
	Number	Percent	\$ Loaned (000s)	Percent of \$ Loaned	Number	Percent	\$ Loaned (000s)	Percent of \$ Loaned
< \$100M	454	90.6	10,579	45.2	404	93.7	9,163	57.1
> \$100M to < \$250M	33	6.6	5,633	24.1	19	4.4	3,262	20.3
> \$250M to < \$1,000M	14	2.8	7,189	30.7	8	1.9	3,637	22.6
<b>Total</b>	501	100	23,401	100	431	100	16,062	100

Source: Bank Records

Small Business is defined as a business with revenues  $\leq$  \$1 million

### *Small Farm Loans*

Because WestStar Bank did not originate any farm loans in Oklahoma County during 1998, the bank's performance of lending to farms of different sizes will be discussed in detail in the Bartlesville assessment area evaluation. However, the bank ranked first in market share for lending to farms in the Bartlesville assessment area in which the bank's lending record is weighted significantly heavier than in the Oklahoma County assessment area.

### Geographic Distribution of Loans

#### *Home Mortgage Loans*

Residential real estate lending represented 32 percent of the bank's loan portfolio as of September 30, 1999, ranking it second behind commercial lending. The geographic distribution of home mortgage originations reflects an adequate penetration throughout the combined assessment areas. The percentage of loans originated in each geography

was compared to the percentage of owner-occupied housing units within geographies at each income level. Table 9 shows the distribution of loans by income level of geographies within the combined assessment area.

TABLE 9 DISTRIBUTION OF WESTSTAR'S HMDA LOANS BY INCOME LEVEL OF GEOGRAPHY									
Income Level of Geography	Percent of all Geographies	Owner-Occupied Housing Units		Home Purchase		Refinance		Home Improvement	
		Number of Units	Percent of Units	Number of Loans	Percent of Loans	Number of Loans	Percent of Loans	Number of Loans	Percent of Loans
Low (25)	10	5,254	3	1	1	1	1	3	2
Moderate (64)	26	37,533	21	6	9	6	5	24	13
Middle (103)	41	79,998	46	30	43	46	41	74	39
Upper (57)	23	52,606	30	33	47	59	53	87	46
Total	100	175,391	100	70	100	112	100	188	100

Source: Bank Records, U.S. Census Data, and HMDA Tables

The percentage of the bank's residential real estate lending was lower in the low- and moderate-income tracts than the percentage of assessment area owner-occupied housing units in those areas. However, only 4 percent of the assessment area families live in low-income tracts and 42 percent of those families live below the poverty level. Moderate-income tracts include a higher level of assessment area families at 23 percent, although 58 percent of the families in these geographies are low- or moderate-income, and 19 percent are below the poverty level. In addition, the number of multi-family, rental and vacant housing units account for 69 percent of the total units in low-income tracts and 56 percent of the total units in moderate-income tracts. These are other indications that the bank has less opportunity to lend in low- and moderate-income tracts than in middle- and upper-income tracts.

Furthermore, all of the low-income tracts and 59 of the 64 moderate-income tracts were located in Oklahoma County, where the bank had only one branch competing against some of Oklahoma's largest financial institutions. When comparing total deposits inside Oklahoma County for all FDIC-insured institutions, WestStar ranked 26<sup>th</sup> out of 43 institutions for a market share percentage of 0.52 percent, or approximately one-half of 1 percent. The Oklahoma City branch was somewhat constrained by the bank's limited presence in a highly competitive market area, more than 150 miles away from its main location and other branches.

### *Small Business Loans*

The geographic distribution of small business loans reflected a reasonable penetration in low- and moderate-income areas within the combined assessment area. As previously mentioned, all low-income tracts and a substantial majority of moderate-income tracts



were located in Oklahoma County, where the bank had a small market share. Table 10 compares the bank's percentage of small business originations to the percentage of small businesses located within each of the four income categories of tracts.

TABLE 10 DISTRIBUTION OF 1998 SMALL BUSINESS LOAN ORIGINATIONS BY INCOME LEVEL OF GEOGRAPHY					
Income Level of Census Tract	Number of Tracts	Percent of All Tracts	Percent of Businesses in Census Tracts	1998	
				Number	Percent
Low :	25	10	9	7	1
Moderate :	64	26	24	46	9
Middle :	103	41	42	330	66
Upper :	57	23	25	118	24
Total	249	100	100	501	100

Source: Bank Records, U.S. Census Data, and 1998 Dunn and Bradstreet Data

Table 10 indicates that 9 percent of all small businesses in the combined assessment area are located in low-income tracts and 24 percent are in moderate-income tracts. The bank's loan penetration in low- and moderate-income tracts was significantly lower than the percentage of businesses operating within these tracts. However, the penetration is considered reasonable in view of the bank's slight presence in Oklahoma County where 94 percent of the low- and moderate-income tracts are located.

#### *Small Farm Loans*

Due to the urban characteristics of Oklahoma County, WestStar Bank had no agricultural loans in the Oklahoma County assessment area. The majority of the bank's agricultural lending occurred in Osage County where many of the farms in the Bartlesville assessment area are located. In 1998, nearly 15 percent of the farm loans were made in moderate-income tracts, which contained 18 percent of the Bartlesville assessment area population. A detailed discussion of the bank's lending to farms may be found in the Bartlesville assessment area evaluation.

### **Responsiveness to Credit Needs and Product Innovation**

WestStar Bank has an adequate record of serving the credit needs of its assessment areas, including low- and moderate-income individuals and neighborhoods. The bank is also a market leader in lending to small businesses and small farms in its primary assessment area. The bank does not have a minimum loan amount and is willing to make small-dollar loans to creditworthy applicants.

The bank's lending products are similar to those offered by other financial institutions in the bank's assessment areas. The bank is a certified SBA lender and currently has four SBA loans in its lending portfolio. The demand for SBA loans in the Bartlesville assessment area is limited; most of the SBA lending was done by the branch in Oklahoma County until it was sold. However, the bank is actively seeking out opportunities to originate more SBA loans for qualified borrowers.

A community contact indicated that many of Bartlesville's low-income residents rely on finance and payday loan companies for credit. In many instances, these potential borrowers are reportedly intimidated by the application and interview process, and pay a premium for the credit they receive from alternative sources. WestStar Bank has instituted or participated in a number of community outreach programs designed to educate applicants about the credit process and introduce them to the bank's staff. Several of the programs have also provided instruction on the steps necessary to improve a negative credit history.

WestStar Bank's mortgage department actively sells loans to the secondary market. The number and dollar volume of these loans are not reflected on the bank's balance sheet. During 1998 and 1999, the bank originated and sold 370 home purchase and refinance loans totaling \$36.2 million. The bank's lending on the secondary market for 1998 and 1999 included 10 VA loans totaling \$667M and one Farmers Home Administration (FmHA) loan totaling \$26M.

### **Community Development Loans**

The bank had no loans that qualified as "community development loans" according to the requirements of the regulation. However, the bank made a small number of loans which had community development as their primary purpose. Despite a primary purpose of "community development", small business and HMDA loans that are reportable loans under Section 228.12(l) of the CRA cannot be considered as community development loans by definition, except for multifamily housing. Therefore, such loans are required to be evaluated under the bank's lending activity factor.

## INVESTMENT TEST

To assess WestStar Bank's performance under the Investment Test, a review was conducted of its investment and grant activity; responsiveness to credit and community development needs; and, its initiatives regarding community development.

### CONCLUSIONS

- WestStar Bank's performance under the Investment Test is in need of improvement.
- Opportunities for qualified investments are limited, and the bank has a low level of community development related investments.
- The bank's level of qualifying grants is not sufficient to warrant an overall "satisfactory" rating under the Investment Test.

### Investment and Grant Activity

The bank's investments were limited to 15 qualifying grants totaling \$36,344 since the previous examination. All of the grants were made in the Bartlesville assessment area for the benefit of low- and moderate-income geographies or individuals.

### Responsive to Community Development Needs

The bank's current opportunities to respond to community development initiatives are limited. Although the bank has a minimal level of qualified grants, future opportunities for community development investments in the Bartlesville assessment area may allow for improvement.

## SERVICE TEST

Included in the assessment of WestStar Bank's performance under the Service Test was an evaluation of the accessibility of the bank's delivery systems; reasonableness of business hours and services in meeting the needs of its assessment areas; changes in branch locations; and, the level of community development services.

### CONCLUSIONS

- WestStar Bank's performance under the Service Test is considered to be "high satisfactory".
- The bank's delivery systems are generally accessible to all portions of its assessment area.
- Services do not vary in a way that inconveniences certain portions of the areas, particularly low- and moderate-income neighborhoods or individuals.
- The bank opened one branch in Nowata, Oklahoma in August 1998. At that time, Nowata County was added to the Bartlesville assessment area.
- The bank sold the Oklahoma City branch in March 1999 to an affiliate bank operating in Oklahoma County and eliminated Oklahoma County as one of its assessment areas.

### Accessibility of Delivery Systems

The bank's main office and four full-service branch locations are reasonably accessible to the Bartlesville assessment area. WestStar does not have a branch or ATM facility in Osage County, although the bank has extended hours on Saturday at the Dewey and Nowata branches, and the Eastside branch in Bartlesville for customers unable to handle their banking needs on weekdays. WestStar has also been using Fannie Mae Desktop Underwriter to reduce loan approval time. In addition to the full-service locations, the bank provides 24-hour banking through its 14 ATMs in the Bartlesville area, including ATMs located at the bank's offices, convenience stores, a shopping mall, and the Jane Phillips Hospital.

Access to additional banking services and information is available through the bank's affiliate, Arvest Bank Group, Inc. WestStar customers have no-cost access to over 100 ATMs in Tulsa and Northwest Arkansas. ATM access is offered through the use of the Arvest network, along with Shazam, which are available to customers for account deposits and withdrawals and transfers between checking and savings accounts.

WestStar's "WHAT'S Line" provides banking information to customers over the telephone. Arvest also offers an Internet web site that provides banking information for all Arvest-owned banks, including WestStar. In addition, members of the community may pay their electric, gas service, water and telephone bills at any WestStar Bank teller location. As an added convenience, utility payments may be automatically drafted from WestStar checking or savings accounts.

### **Changes in Branch Locations**

Effective August 28, 1998, WestStar purchased a building in Nowata, Oklahoma, for use as a branch bank. After the purchase was made, the bank added Nowata County to the Bartlesville assessment area, which consisted of Osage and Washington Counties. Several months later, on March 25, 1999, WestStar Bank transferred ownership of its Oklahoma City branch to an affiliate bank based in Oklahoma City that had been recently acquired by the parent company. This transfer reduced WestStar's total assets by approximately \$50 million. Once the divestiture was completed, WestStar eliminated Oklahoma County as one of its assessment areas. The changes in the bank's branching structure have reportedly improved operating efficiencies and allowed the bank to narrow its focus to a more homogeneous trade area. Prior to the sale and acquisition, the bank operated in assessment areas more than 150 miles apart from one another with significantly different demographic characteristics.

### **Community Development Services**

WestStar Bank provides a high level of community development services in the Bartlesville assessment area. These services involve providing technical assistance on financial matters to nonprofit organizations which serve low- and moderate-income areas, individuals, and families and to small businesses which promote community revitalization and development. The bank also offers deposit products specifically targeted to low- and moderate-income persons. The bank provides financial counseling and planning through a media program primarily focused on low- and moderate-income groups and small businesses. All of the services benefited the Bartlesville assessment area. The following are examples of these services.

- *Citizens for a Quality Education* - The bank's president is the chairman of this organization which oversees fundraising efforts to implement the "Success for All" Program at Jane Phillips School. The program consists of volunteers who teach children attending the school to read or how to improve their reading skills. The school, located in a low-income area, was going to be closed because of low scores on standardized tests administered to the children. A year after the program was developed, the scores improved by over 40 percent.

- *Bartlesville United Way* - The bank's president was the 1999 United Way fundraising chairman for the Bartlesville community. Approximately 85 percent of the United Way funds are targeted to low- and moderate-income individuals or geographies.
- *DH S Savings Accounts* - The bank offers special low balance savings accounts through the Department of Human Services, on which the service charges are waived to help facilitate savings among people in regular need of DHS assistance.
- *Looney Tunes Savings Accounts* - This account was established to encourage savings among young people in low-income areas of Bartlesville by instilling a sense of fun to the concept.
- *Oklahoma Access Cards* - Cards are issued by the Oklahoma Department of Human Services to their clients for access to monthly benefits. WestStar Bank has ATMs programmed to accept the cards for disbursements with 24-hour accessibility at no cost to the holder.
- *Government Check Cashing* - Government checks are cashed free of charge at all lobby and drive-in locations.
- *Bartlesville Coalition* - A bank officer serves as the treasurer to this organization which was originally formed to administer a technical assistance grant in partnership with the Oklahoma Office of Environmental Quality. The Coalition addresses the cleanup and remediation of environmental contamination resulting from former zinc smelting sites on the west side of Bartlesville. The sites present a widespread health hazard to area residents, the majority of which are low- and moderate-income.
- *Project Challenge* - Bank employees host educational seminars on credit and deposit matters and financial counseling. The program is designed to train individuals receiving public assistance as an initial step in moving them into the work force. The program also introduces the trainees to the banking environment, as many of them have never been to a bank.
- *Committee for City Progress* - The president co-chaired this committee that focuses on economic development by attracting new businesses to the area through a quarter cents sales tax.
- *Big Brothers and Big Sisters of Bartlesville* - A bank loan officer sits on the finance committee of this organization that targets children living in low- and moderate-income households.

- *FYI Money Talks* - This is a credit counseling program on local cable television that is designed to offer information to low- and moderate-income individuals and small businesses owners about budgeting, obtaining credit, savings plans, working with bankers to obtain financial services, and credit records.
- *Westside Alliance for Revitalization* - This organization's mission is to secure employment for low-income residents on the west side of Bartlesville and to attract new businesses to the area. A bank officer serves as the alliance's treasurer and provides financial expertise.
- *Free Checking Accounts* - These accounts are intended to enable low- and moderate-income individuals to use banking services with no minimum balance requirement, no service charge, and unlimited transactions.
- *OK Leap* - This Local Entrepreneurial Assistance Program was created by the Oklahoma Department of Commerce. It is a low-interest lending program that uses state and city funds for lending to small businesses in order to create jobs for low- and moderate-income individuals. Serving as the program's required lending partner to the city of Bartlesville, the bank is responsible for financial analysis, preparing loan documentation, and administering all loans granted.

## **COMPLIANCE WITH THE ANTIDISCRIMINATION LAWS AND REGULATIONS**

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

**PERFORMANCE IN INDIVIDUALASSESSMENT AREAS**

The following evaluations are of the bank's performance in the state nonmetropolitan area (non-MSA) within the bank's Bartlesville assessment area and in the portion of the Oklahoma City Metropolitan Statistical Area (MSA) within the bank's Oklahoma County assessment area.

I. Bartlesville Assessment Area ..... 22  
II. Oklahoma County Assessment Area .....35

The individual analyses focus on the distribution of lending by borrower income, among businesses and farms of different sizes, and among geographies of different income levels in the MSA and non-MSA portions of the bank's assessment areas. The level of lending inside the assessment area was also performed as part of the Bartlesville analysis. In addition, a review was conducted of the investments and services considered under the Investment and Service Tests.



**I. STATE NONMETROPOLITAN AREA**  
**(BARTLESVILLE ASSESSMENT AREA)**

## I. BARTLESVILLE ASSESSMENT AREA

### DESCRIPTION OF THE ASSESSMENT AREA

The bank's assessment area was revised after the last CRA evaluation to reflect changes to its branching structure. The revision resulted when the bank acquired a branch in Nowata, Oklahoma on August 28, 1998 and sold its branch in Oklahoma City on March 25, 1999. Oklahoma County was eliminated as one of the assessment areas and Nowata County was added to the Bartlesville assessment area, which consisted of Osage and Washington Counties. Washington County rests between Osage County to the west and Nowata County to the east. Osage County is the northernmost county of the five-county Tulsa Metropolitan Statistical Area (MSA) and is predominantly rural. The main bank and branches are all located in Washington and Nowata Counties; there are no branches in Osage County.

In 1990, the assessment area population was 99,703. Estimates by the Census Bureau indicate that the area's population was 100,326 in 1998. The 0.6 percent growth was minimal when compared to the statewide population increase of 6.4 percent over the same time period. Washington and Nowata Counties decreased in population from 1990 to 1998, primarily due to migration out of the counties. Osage County's population grew, but only by 2.9 percent.

Oklahoma Department of Commerce data revealed a 9.6 percent population increase in the Tulsa MSA from 1990 to 1998. Rogers County experienced the highest rate of population growth in the state from 1990 to 1998, increasing by 23.5 percent. The 2.9 percent growth in Osage County was the lowest of the five Tulsa MSA counties.

Employment data published by the state of Oklahoma for 1997 indicates that Washington County had the lowest unemployment rate (3.3 percent), followed by Osage County (3.7 percent) and Nowata County (4.2 percent). Employment opportunities are abundant in the assessment area and generally mirror the strong national economy, according to a community contact. Information published in 1997 by the Oklahoma Department of Commerce shows the top employers in the assessment area as Phillips Petroleum Company, employing 3,252; the Bartlesville Educational System, employing 825; Jane Phillips Medical Center, employing 800. Applied Automation, a producer of flow meter and control systems, employs 348. All of the area's major employers are located in or near Bartlesville.

The Bartlesville assessment area includes 28 Block Numbering Areas (BNAs) or Census Tracts (CTs). Census tracts refer to geographies located in MSAs, while BNAs are located in nonmetropolitan areas. For purposes of consistency, only the term "tracts" or "census tracts" will be used throughout this evaluation. The assessment area is comprised of 18 percent moderate-income, 53 percent middle-income and 29 percent

upper-income tracts. All of the bank's locations are in the middle- and upper-income tracts. Census data indicates that there are no low-income tracts in the Bartlesville assessment area and all but one of the moderate-income tracts are located in Osage County. Overall, the assessment area in 1990 was upper-income with a median family income of \$31,012, which represents 128.5 percent of the median family income of statewide rural areas (\$24,139).

Most of the assessment area's wealth was concentrated in Washington County due to the large percentage of higher paying jobs brought into the area by the Phillips Petroleum Company. According to BEA Regional Facts, Washington County had one of the highest personal income levels in the state. In 1990, the county's median family income of \$34,803 was 144.2 percent of that of statewide rural areas. In 1997, Washington County's per capita personal income (PCPI) of \$24,803 ranked second highest in the state and was 143.4 percent of the median family income of statewide rural areas (\$17,298). Osage and Nowata Counties were middle-income areas in 1990; however, in 1997 the counties had PCPIs that ranked 52<sup>nd</sup> and 66<sup>th</sup>, respectively, of the state's 77 counties. The concentration of upper-income families in the assessment area was much higher than in the Tulsa MSA or statewide areas. The majority of the upper-income population lives in the Washington County tracts, while low- and moderate-income households and families are more concentrated in the rural Osage County census tracts.

Table 1 details the general demographic and economic characteristics of the Bartlesville assessment area as of the 1990 Census.

**TABLE 1  
BARTLESVILLE ASSESSMENT AREA CHARACTERISTICS**

<i>Tract Summary</i>		
Total Number of Tracts		28
Number of Moderate-Income Tracts		5
Number of Middle-Income Tracts		15
Number of Upper-Income Tracts		8
<i>Income Summary</i>		
	Assessment Area	State
Median Family Income	\$31,012	\$28,554
Percent Below Poverty Families	10.9	13.0
Percent Low-Income Families	18.1	21.0
Percent Moderate-Income Families	15.4	17.6
Percent Middle-Income Families	20.0	21.5
Percent Upper-Income Families	46.5	39.9
<i>Business Summary*</i>		
Total Number of Businesses		1,715
Percent in Moderate-Income Tracts		20.2
Percent in Middle-Income Tracts		55.4
Percent in Upper-Income Tracts		24.4
<i>Unemployment Summary</i>		
Labor Force Population (Assessment Area)		45,239
Percent Unemployment (Assessment Area)		5.6
Percent Unemployment (State)		6.7
<i>Miscellaneous Assessment Area Information</i>		
Total Population		99,703
Percentage of Households Below Poverty		14.8
Total Housing Units		44,437
Percentage Owner-Occupied Units to Total Units		66.5
Percentage Rental Units to Total Units		20.4
Percentage Vacant Units to Total Units		13.1
Median Housing Value: Assessment Area		\$45,438
State		\$47,643
Statewide Nonmetropolitan Areas		\$36,373

\*Dun and Bradstreet Business Summary Report

Approximately 82 percent of the assessment area population lives in the middle- and upper-income tracts. The percentage of families living below the poverty level was higher at 10.9 percent in the assessment area than the 10.1 percent figure in the Tulsa MSA; however, the percentage is lower than the state's 13 percent figure or 16.4 percent for rural areas statewide.

Housing starts in Washington County have been increasing, according to a realtor in Bartlesville. The majority of new homes are being built in middle- and upper-income neighborhoods in the southeastern part of Bartlesville. The homes in this area range in price from \$180M to \$750M. The realtor reported a recent downturn in the sales volume for older homes, but indicated that the declining market might be partially due to seasonal variations that typically occur in the winter months.

In 1990, the assessment area contained a higher concentration of owner-occupied housing units (66.5 percent) than the state (58.4 percent) or statewide rural areas (60.8 percent). In addition, the percentage of vacant housing units was less in the assessment area (13.1 percent), when compared to the state (14.2 percent) or statewide rural areas (16.5 percent), although the percentage of boarded-up units was similar for the three areas. The assessment area's affordability ratio<sup>1</sup> of .57 was higher than the state ratio of .49 and the statewide rural area ratio of .54. A higher ratio generally indicates greater housing affordability. The assessment area's high affordability ratio primarily resulted from its high median household income, which in 1990 was 130.8 percent of that of statewide rural areas. Finally, the median age of housing stock (36 years) was slightly less than that of the state (37 years) and identical to statewide rural areas.

The composition and value of 1990 housing stock varied greatly within the assessment area. Nowata and Osage County households relied heavily on mobile homes for housing stock, as over 18 percent of the housing stock in each county consisted of mobile homes. In contrast, only 7 percent of the housing stock in Washington County was mobile homes. A high concentration of mobile homes generally indicates a need for affordable housing. The median housing value of Washington County housing stock was high, at \$51,385, compared to \$26,231 in Nowata County and \$43,173 in Osage County.

The majority of the low-income housing in Bartlesville is located on the west side of the town, which has been adversely affected by lead contamination from local zinc and smelting plants. This contamination required environmental cleanup, and development efforts in the area have been hampered due to potential health concerns and increased costs related to environmental inspections. Community contacts stated that a number of dilapidated homes in this area had been demolished by the city, although new structures were not being built to replace them, leaving a number of vacant lots. Apparently, the capital outlay necessary to refurbish the homes to comply with city building codes was cost prohibitive. Furthermore, most of the residents living in the area could not afford the cost of building a new structure on the empty lots.

There were indications that the moderate-income tracts contained large concentrations of dilapidated housing units. In 1990, housing units in the moderate-income tracts had a 20.1 percent vacancy rate and a 0.9 percent boarded-up rate, compared to a 13.1 percent vacancy rate and 0.4 percent boarded-up rate for the entire assessment area.

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<sup>1</sup> Affordability Ratio is calculated by dividing the Median Housing Income by Median Household Value.

The median age of housing stock in the moderate-income tracts (46 years) was much older when compared to the middle-income tracts (37 years) and upper-income tracts (38 years).

There is a defined credit need for home improvement loans for low- and moderate-income persons living in Bartlesville. No multifamily housing construction targeting low- and moderate-income persons is occurring, although several subdivisions have been developed that include 2-to-4 unit structures in the town's more affluent areas.

Business development in the assessment area has been limited, despite recruiting efforts by the area's larger towns. Dunn and Bradstreet (D & B) data from July 1998 suggests that no widespread business development has occurred in the assessment area over the past few years. The assessment area contains a high concentration of industries in business at least 25 years (25.9 percent), when compared to similar establishments statewide (20.6 percent). According to the 1998 D & B data, close to 94 percent of the assessment area businesses have revenues of less than \$1 million and are considered small businesses. In addition, the assessment area has a concentration of business establishments with gross revenues under \$100M. This is reflected in the 43.2 percent of assessment area establishments with under \$100M in gross sales compared to 36.5 percent of establishments statewide.

## **CONCLUSIONS WITH RESPECT TO THE LENDING TEST**

In 1998, WestStar's main bank and branches in the Bartlesville assessment area (Nowata, Osage, and Washington Counties) competed with 13 other FDIC-insured financial institutions operating out of 23 offices. For total deposits inside of the Bartlesville assessment area, WestStar ranked 1<sup>st</sup> among 14 FDIC-insured financial institutions, with a market share percentage of 43 percent. Adding the deposits of a major credit union headquartered in Bartlesville to those of the 14 FDIC-insured financial institutions dilutes WestStar's market share percentage to 34 percent. However, even including the credit union, WestStar remains 1<sup>st</sup> in the market, followed by the credit union with 22 percent of the deposits.

### **Assessment Area Concentration**

A substantial majority of the number and dollar amount of the bank's total lending occurs within the Bartlesville assessment area. The analysis was based on WestStar's HMDA loans reported from January 1, 1998 through November 2, 1999, and all CRA business and farm loans reported from January 1, 1998 to November 4, 1999. To accurately reflect the bank's concentration of lending in the Bartlesville assessment area, loans originated in Oklahoma County by the Oklahoma City branch were eliminated. Table 2 demonstrates by product type the percentage and dollar amount of sampled loans that were originated within the bank's assessment area.

TABLE 2 TOTAL LENDING VOLUME INSIDE BARTLESVILLE ASSESSMENT AREA Loans Originated in 1998 and YTD 1999						
Products	Total Originations		Within The Assessment Area			
	Number	\$(000s)	Number	Percent	\$(000s)	Percent
Home Purchase	107	7,160	101	94.4	6,290	87.9
Refinance	178	6,303	156	87.6	3,960	62.8
Home Improvement	281	3,821	273	97.2	3,783	99.0
Multifamily	0	N/A	N/A	N/A	N/A	N/A
Total HMDA	566	17,284	530	93.6	14,033	81.2
Small Business	863	35,353	742	86.0	25,728	72.8
Small Farm	283	7,610	259	91.5	6,887	90.5
Grand Totals	1,712	60,247	1,531	89.4%	46,648	77.4%

As the table above indicates, 89.4 percent of the bank's total number and 77.4 percent of the bank's total dollar volume of sampled loans were located within the Bartlesville assessment area. The level of originations within this assessment area is excellent and reflects a high responsiveness to the assessment area's credit needs.

### Lending Distribution by Borrowers' Income or Business Revenues

The bank's lending to borrowers of different income levels and to businesses and farms of different sizes is very good and reflects a reasonable penetration. The following tables demonstrate the residential real estate, small business, and small farm loan distribution in the Bartlesville assessment area.

#### *Home Mortgage Loans*

The bank has a good record of residential real estate lending to borrowers of different income levels. The distribution of loans to low-income borrowers is reasonable considering the low demand for low-income homes in the assessment area. Several factors contribute to the lack of demand for low-income homes, especially in Bartlesville. Health concerns resulting from environmental contamination and increased costs associated with upgrading homes to meet city building standards inhibit the sale of many homes on the west side of Bartlesville, where the majority of the low-income homes are located. Community contacts indicated that the sales price of the majority of homes in this area would range between \$12M and \$28M due to their location, environmental concerns, and either dilapidated or substandard condition.

Many of the homes on the west side of Bartlesville require extensive electrical, plumbing and structural repairs to comply with the city's building codes. The expense of

renovating low-income homes often extends their cost beyond the affordable price range of most low-income borrowers. Furthermore, environmental inspections, which range from \$125 to \$250, are recommended by the EPA and increase the costs of homeownership. The local government in Bartlesville has demolished close to 100 homes that were considered beyond repair, leaving a number of vacant lots. Rebuilding homes on the lots is rarely an option since most low-income borrowers cannot afford the price of a newly built home.

Another factor impacting the level of lending to low-income borrowers is the poverty rate in the assessment area. According to 1990 Census data, 10.9 percent of the families in the area fall below the poverty level and account for a majority of the families in the low-income category. Therefore, when adjusted for those families below the poverty level, only 7.2 percent of the area's low-income families are considered economically viable to afford the required down payment and higher mortgage payments than typical rent payments. As a result of the above factors, a lower percentage of home loan originations is generally expected for low-income borrowers.

The bank has originated an adequate level of residential loans to moderate-income individuals, although the percentage of originations was lower than the percentage of moderate-income families in the assessment area. Several factors account for the level of lending to moderate-income borrowers. In 1990, the affordability ratio for the assessment area was .57, compared to .46 for the Tulsa MSA and .54 for rural areas statewide. The higher ratio for the assessment area results from the area's high median income level and relatively low value of owner-occupied housing units. According to a local realtor in Bartlesville, the majority of homes being built in the city are sold for prices ranging between \$250M and \$750M. The realtor also indicated that the turnover rate for a lower priced home is typically slower than the rate for more costly structures.

Table 3 illustrates the distribution of HMDA loans by income level of the borrowers compared to the representation of assessment area families within each income category.



TABLE 3 Percentage Distribution of MDA Loans Reviewed By Income Level of Borrower				
Tulsa MSA Median Family Income *				\$40,900
Income Level of Borrower	Percentage Of Purchase Loans	Percentage of Refinance Loans	Percentage of Home Improvement Loans	Percentage of Families with in Assessment Area **
Low (Less Than 50 Percent Of Median Income)	5	6	8	18
Moderate (50 To 80 Percent Of Median Income)	10	9	14	15
Middle (80 To 120 Percent Of Median Income)	22	17	18	20
Upper (Greater Than 120 Percent Of Median Income)	63	59	53	47
Income Unknown	N/A	9	6	N/A

\* 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.

Table 3 indicates that the bank's levels of lending to low-income borrowers is adequate, considering the poverty level, environmental factors, and prohibitive renovation costs associated with many of the area's low-income homes. The bank's performance was strongest for home improvement loans to both low- and moderate-income borrowers. FFIEC aggregate market share data for home improvement loans in 1997 and 1998 revealed that WestStar Bank ranked first in market share to low- and moderate-income borrowers for both years. This is particularly significant given the need for home improvement financing to upgrade the condition of a substantial amount of affordable housing in the assessment area. In 1998, WestStar's market share for home improvement loans was 47 percent; the market share for home improvement loans to low- and moderate-income borrowers was 44 percent and 36 percent, respectively. In 1998, the bank ranked first in market share for refinance loans (19 percent) and second in market share for refinance loans to low- and moderate-income borrowers at 10 percent in each borrower income category.

### Small Business Loans

With the exception of a few large businesses, the assessment area primarily has businesses and farms with gross annual revenues of less than \$1 million. For 1998 and for 1999 through November 4, 1999, the bank originated 88.3 percent of the number and 76 percent of the dollar amount of its businesses loans to small businesses. Table 4

shows the distribution of loans within the assessment area to large and small businesses. The table indicates that the bank's level of lending to small businesses is similar to the percentage of small businesses in the assessment area, according to 1998 Dunn and Bradstreet data. The dollar volume percentage of loans to small businesses is also favorable, at 76 percent, considering that small businesses will generally require lower loan amounts when compared to large businesses.

TABLE 4 DISTRIBUTION OF BUSINESS ORIGINATIONS WITH IN THE ASSESSMENT AREA BY SIZE OF BUSINESS					
Size of Business	Number		Dollar Volume		Percentage of Businesses in Assessment Area
	Number of Loans	% of Number of Loans	\$ Loaned	% of \$ Loaned	
Loans to Small Businesses (Revenues < = \$1 million)	654	88.3%	19,380	76.0%	94%
Loans to Large Businesses (Revenues > \$1 million)	87	11.7%	6,125	24.0%	6%
Total	741	100%	25,505	100%	100%

Source: Bank Records and 1998 Dunn and Bradstreet

WestStar Bank's distribution of lending to businesses by loan amount is also very good. The bank originated an overwhelming majority of business loans for amounts of \$100M or less, which are amounts typically required by smaller businesses. Table 5 shows that for 1998 and for 1999 through November 4, 1999, 96 percent of loans to small businesses were in amounts of \$100M or less, indicating the bank's willingness to serve the credit needs of very small businesses. In addition, FFIEC aggregate market share data indicates that WestStar Bank ranked first among all lenders in 1998 in having originated 61 percent of the small businesses loans in the assessment area.

TABLE 5 DISTRIBUTION OF BUSINESS ORIGINATIONS WITH IN THE ASSESSMENT AREA BY LOAN SIZE				
Loan Size	Originations to Small Businesses			
	Number of Loans	% of Number of Loans	\$ Loaned (000s)	Percent of \$ Loaned
\$0 to \$100M	625	96	12,676	65
> \$100M to ≤ \$250M	20	3	3,370	18
> \$250M to ≤ \$1MM	9	1	3,334	17
Total	654	100	19,380	100

Source: Bank Records

Small Business is defined as a business with revenues < = \$1 million

### Small Farm Loans

WestStar Bank is also a major agricultural lender in the Bartlesville assessment area. Although the bank does not have a physical presence in Osage County, it originates a significant number of its agricultural loans to farms and ranches located there. Agricultural loans made up approximately 9 percent of the bank's loan portfolio as of September 30, 1999. Table 6 details the bank's agricultural lending by size of farm. As Table 6 indicates, 98 percent of the number and 95 percent of the dollar amount of farm loans were to small farms.

TABLE 6 DISTRIBUTION OF FARM ORIGINATIONS WITH IN THE ASSESSMENT AREA BY SIZE OF FARM				
Size of Farm	Number		Dollar Volume	
	Number	Percent	\$(000s)	Percent
Loans to Small Farms (Revenues < = \$1 million)	254	98	\$6,567	95
Loans to Large Farms (Revenues > \$1 million)	5	2	\$320	5
Grand Total	259	100	\$6,887	100%

Source: Bank Records and 1998 Dunn and Bradstreet

The bank's distribution of lending to small farms by loan amount is also very good. The bank originated a substantial majority of agricultural loans for amounts of \$100M or less, which are amounts typically required by smaller farming operations. Table 7 shows that for 1998 and 1999 through November 4, 1999, 96 percent of loans to small farms were in amounts of \$100M or less, indicating the bank's willingness to serve the credit needs of smaller farms. In addition, FFIEC aggregate market share data indicates that WestStar

Bank ranks first among all lenders, having originated 79 percent of the small farm loans in the Bartlesville assessment area in 1998.

TABLE 7 DISTRIBUTION OF FARM ORIGINATIONS WITH IN THE ASSESSMENT AREA BY LOAN SIZE				
Loan Size	Originations to Small Farms			
	Number	Percent	\$ Loaned (000s)	Percent of \$ Loaned
\$0 to \$100M	243	96	4,093	62
> \$100M to < \$250M	8	3	1,313	20
> \$250M to < \$1MM	3	1	1,161	18
Total	254	100	6,567	100

Source: Bank Records

Small Business is defined as a business with revenues < = \$1 million.

### Geographic Distribution of Loans

#### *Home Mortgage Loans*

WestStar Bank's geographic distribution of home mortgage originations for 1998 and 1999 through August 2, 1999, reflects a good penetration throughout the Bartlesville assessment area. The percentage of loans originated in each geography was compared to the percentage of owner-occupied housing units within each income category of geography. Table 8 shows the distribution of loans by income level of geographies within the assessment area.

TABLE 8 DISTRIBUTION OF HMDA LOANS BY INCOME LEVEL OF GEOGRAPHY									
Income Level of Tract	Percent of All Tracts	Owner-Occupied Housing Units		Home Purchase		Refinance		Home Improvement	
		Number of Units	Percent of Units	Number	Percent	Number	Percent	Number	Percent
Moderate (5)	18	5,175	18	8	8	5	3	12	4
Middle (15)	54	14,627	49	45	45	86	55	137	50
Upper (8)	28	9,742	33	48	47	65	42	124	46
Total	100	29,544	100	101	100	156	100	273	100

Source: Bank Records, U.S. Census Data, and HMDA Tables

The bank's lending in moderate-income tracts is lower than the percentage of owner-occupied housing units in those tracts. However, the bank does not have any branches in Osage County, where 4 of the 5 moderate-income tracts are located. In addition, only 16 percent of the assessment area families live in the moderate-income tracts and 19 percent of those families live below the poverty level. Approximately 60 percent of housing units in the moderate-income tracts are owner-occupied, compared to 65 percent

in middle-income and 73 percent in upper-income tracts. Accordingly, the bank has less opportunity to lend in moderate-income tracts than in middle- and upper-income tracts. FFIEC aggregate market share data for 1998 indicates that the bank ranked first in market share of home improvement loans to the moderate-income tracts.

*Small Business Loans*

The geographic distribution of small business loans reflected a good penetration in the assessment area's moderate-income tracts. As previously mentioned, all of the bank's locations are in middle- and upper-income tracts. With the exception of one small moderate-income tract in Bartlesville, the remaining four moderate-income areas are located in Osage County where WestStar does not have a branch office. Because a majority of the bank's tracts are middle- and upper-income, it is expected that a larger share of the bank's loans would be in these areas. Table 9 displays data that affirms this expectation.

<b>TABLE 9</b>					
<b>DISTRIBUTION OF SMALL BUSINESS LOANS</b>					
<b>BY INCOME LEVEL OF GEOGRAPHY</b>					
<b>Income Level of Tract</b>	<b>Number of Tracts</b>	<b>Percent of Tracts</b>	<b>Percent of Businesses in Tracts</b>	<b>Number of Loans</b>	<b>Percent of Loans</b>
Moderate	5	18	20	40	5
Middle	15	54	56	506	69
Upper	8	28	24	195	26
<b>Total</b>	<b>28</b>	<b>100</b>	<b>100</b>	<b>741</b>	<b>100</b>

Source: Bank Records, U.S. Census data and 1998 Dunn and Bradstreet data

WestStar's has a favorable lending record in the moderate-income geographies, despite their more remote location from the bank's offices. Compared to its competitors, FFIEC aggregate market share data for 1998 revealed that WestStar Bank ranked first with a market share of 36 percent for loans originated in moderate-income tracts. Approximately 11 percent of the loans made by all reporting financial institutions in the assessment area were in moderate-income tracts. Although the bank's lending in these tracts appears low, it is noteworthy when compared to other lenders.

*Small Farm Loans*

A majority of the bank's agricultural lending occurred in Osage County, where many of the farms in the Bartlesville assessment area are located. Approximately 10 percent of the farm loans were made in moderate-income tracts, which contained 18 percent of the Bartlesville assessment area population. The bank's agricultural lending comprises 9

percent of its total loan portfolio. FFIEC aggregate market share data for 1998 indicates that WestStar Bank's market share for agricultural lending in all assessment areas tracts ranked first, at 76 percent, compared to 5 percent for the bank with the next highest market share. WestStar Bank also ranked first in market share for small farm loans inside the assessment area's moderate-income tracts, making 62 percent of the loans in those areas, compared to its next highest competitor which made 15 percent. The bank is a market leader in the number of agricultural loans it makes in the assessment area and in the moderate-income tracts. Table 10 details the bank's geographic distribution of farm loans by the income level of census tract.

<b>TABLE 10</b>				
<b>DISTRIBUTION OF SMALL FARM ORIGINATIONS</b>				
<b>Income Level of Tract</b>	<b>Number of Tracts</b>	<b>Percent of All Tracts</b>	<b>1998</b>	
			<b>Number</b>	<b>Percent</b>
Moderate	5	18%	27	10
Middle	15	54%	185	71
Upper	8	28%	47	19
<b>Total</b>	<b>28</b>	<b>100%</b>	<b>259</b>	<b>100</b>

**II. METROPOLITAN STATISTICAL AREA  
(OKLAHOMA COUNTY ASSESSMENT AREA)**

## I. OKLAHOMA COUNTY ASSESSMENT AREA (MSA)

### DESCRIPTION OF THE ASSESSMENT AREA

The Oklahoma County assessment area consisted of the central population and industrial center of the Oklahoma City MSA. The county was eliminated from the bank's assessment area after WestStar Bank sold the Oklahoma City branch to an affiliate on March 25, 1999. The county has the largest population and one of the most diverse economies in the state. Service, government, and manufacturing industries are the area's primary employers. However, the county's economy remains tied to regional agribusiness and mining industries.

In 1990, the assessment area population represented 63 percent of the total Oklahoma City MSA population. The county had a population of 599,611, making it the most populous county in the state. Census Bureau population estimates suggested that from 1990 to 1998 the area population increased by 5.6 percent and was 632,988 in 1998. This was a relatively small increase compared to the statewide population increase of 6.4 percent over the same time period. Census Bureau data attributed the area's population increase more to natural growth than migration into the county.

Families comprise a smaller portion of the assessment area's household population than in the state-wide or MSA-wide area. In 1990, the families in the assessment area comprised 67.6 percent of households, compared to 69.9 percent in the MSA and 71.6 percent statewide. However, there was not a significant portion of county residents living in institutions or other apparent explanations as to why there were relatively fewer families. In addition, the age of county residents was generally comparable to that in statewide areas.

In 1990, the assessment area was a middle-income area with a median family income (\$31,758) representing 111.2 percent of the statewide median family income (\$28,554). Bureau of Economic Analysis (BEA) data indicated that Oklahoma County had one of the highest income levels in the state. In 1997, the county's per capita personal income (PCPI) level was the 4<sup>th</sup> highest of the 77 counties in the state, and its PCPI was 114.4 percent of the statewide PCPI. Thus, the area remained a middle- to upper-income area.

In 1990, the assessment area contained a wide range of housing stock quality and housing costs with a need for affordable housing development. Some of the older housing stock in the low- and moderate-income areas was dilapidated and unusable. Compared to statewide areas, the assessment area had a large concentration of nonowner-occupied, multifamily housing units. In 1990, 52.2 percent of the housing stock was owner-occupied, compared to 58.4 percent statewide. Over 20 percent of the assessment area housing stock consisted of multifamily units (five or more units), compared to 11.1 percent statewide. Owner occupancy was low in the low- and



moderate-income tracts and there was more deteriorated housing than in other parts of the assessment area. Only 30.6 percent of the housing stock in low-income tracts and 41.2 percent of the moderate-income tract housing stock was owner-occupied.

Oklahoma Resources Integrated General Information Network Systems (ORIGINS) construction data shows that the assessment area had near record numbers of single-family residential permits issued in 1998 and in the first three months of 1999. In March 1999, Oklahoma County recorded 493 single-family residential permits, which was higher than any single month since 1996.

Dunn and Bradstreet (D & B) 1999 data indicated that 10.2 percent of assessment area business establishments were in low-income tracts and 24.7 percent were in moderate-income tracts. The low- and moderate-income tracts also had concentrations of mining and wholesale trade industries compared to other low- and moderate-income tracts within the state. Otherwise, the size and age of businesses in these tracts was comparable to that in other low- and moderate-income areas of the state.

The assessment area enjoyed low unemployment and an increasing labor force through the first half of 1999. Preliminary September 1999 unemployment data from the Oklahoma Employment Security Commission (OESC) showed a 2.6 percent assessment area unemployment rate. This was lower than the 3.8 percent unemployment rate in September 1998. BEA Regional Economic Information System (REIS) data confirmed the county's labor force trends and showed a decrease of 58.7 percent in the county's per capita unemployment insurance from 1993 to 1997.

Table 1 details the general demographic and economic characteristics of the Oklahoma County assessment area as of the 1990 Census.

<b>TABLE 1</b>		
<b>OKLAHOMA COUNTY ASSESSMENT AREA CHARACTERISTICS</b>		
<i>Tract Summary</i>		
Total Number of Tracts		221
Number of Low -Income Tracts		25
Number of Moderate -Income Tracts		59
Number of Middle -Income Tracts		88
Number of Upper -Income Tracts		49
<i>Income Summary</i>		
	Assessment Area	State
Median Family Income	\$31,758	\$28,554
Percent Below Poverty Families	11.3	13.0
Percent Low -Income Families	21.0	21.0
Percent Moderate -Income Families	18.3	17.6
Percent Middle -Income Families	22.1	21.5
Percent Upper -Income Families	38.6	39.9
<i>Business Summary*</i>		
Total Number of Businesses		16,566
Percent in Low -Income Tracts		10.2
Percent in Moderate -Income Tracts		24.7
Percent in Middle -Income Tracts		40.0
Percent in Upper -Income Tracts		25.1
<i>Unemployment Summary</i>		
Labor Force Population (Assessment Area)		307,756
Percent Unemployment (Assessment Area)		6.8
Percent Unemployment (State)		6.7
<i>Miscellaneous Assessment Area Information</i>		
Total Population		599,611
Percentage of Households Below Poverty		13.9
Total Housing Units		279,340
Percentage Owner-Occupied Units to Total Units		52.2
Percentage Rental Units to Total Units		32.9
Percentage Vacant Units to Total Units		14.8
Median Housing Value: Assessment Area		\$52,510
	State	\$47,643
	Oklahoma City MSA	\$53,871

\*Dun and Bradstreet Business Summary Report

## CONCLUSIONS WITH RESPECT TO THE LENDING TEST

According to data published by the FDIC for June 30, 1998, WestStar's branch bank in the Oklahoma County assessment area competed with 42 other FDIC-insured financial institutions operating out of 183 offices. For total deposits inside of Oklahoma County by FDIC-insured financial institutions, WestStar ranked 26<sup>th</sup> of 43, with a market share percentage of 0.52 percent. The bank's involvement in the Oklahoma County assessment area was constrained by the bank's limited presence. Due to the sale of the Oklahoma County branch in March 1999, the analysis for the Oklahoma County assessment area will only focus on 1998 lending data.

### Lending Distribution by Borrowers' Income or Business Revenues

The bank's lending to borrowers of different income levels and to businesses of different sizes is good and reflects a reasonable penetration. As previously mentioned, the bank had no farm loans in the Oklahoma County due to the urban characteristics of the area. The branch was located approximately four miles from downtown Oklahoma City and served a portion of Oklahoma County comprised mainly of businesses, government, and a university. Residential housing is limited in the areas close to the bank location.

#### *Home Mortgage Loans*

The bank has a good record of residential real estate lending to borrowers of different income levels. The distribution of loans to low- and moderate-income borrowers is reasonable considering the bank's asset size and limited presence in the county. The bank originated 10.7 percent and 13.3 percent, respectively, of its residential real estate loans to low- and moderate-income borrowers. This compares to the percentage of low- and moderate-income families in the assessment area, at 21 percent and 18.3 percent, respectively. Over 11 percent of the families in the assessment area live below the poverty level, which may preclude them from affording home mortgage loans. Of the 75 residential real estate loans originated by the bank in 1998, 39 were home improvement loans, of which 15.4 percent were to low-income and 12.8 percent were to moderate-income borrowers. This distribution appears reasonable, particularly when the representation of low-income families in the assessment area is adjusted downward by the percentage of families living below the poverty level.

#### *Small Business Loans*

The bank's lending to small businesses is reasonable. In 1998, WestStar Bank originated 83.6 percent of its 73 business loans to businesses with revenues of less than \$1 million. According to D & B data, 87.6 percent of the businesses in the assessment area were small businesses in 1998. In addition, 86.9 percent of the bank's loans to small businesses were in amounts of \$100M or less, which are the loan amounts typically needed by smaller businesses.

## Geographic Distribution of Loans

### *Home Mortgage Loans*

WestStar Bank's geographic distribution of home mortgage originations for 1998 reflects a good penetration in the Oklahoma County assessment area. The percentage of loans originated in each geography was compared to the percentage of owner-occupied housing units within each income category of census tract. Table 2 shows the distribution of loans by income category of census tracts within the assessment area. The bank's performance is very good considering it has a single location and relatively small asset size, in comparison to the significant size of the Oklahoma County market.

TABLE 2 DISTRIBUTION OF HMDA LOANS BY INCOME LEVEL OF CENSUS TRACT									
Income Level of Census Tract	Percent of All Tracts	Owner-Occupied Housing Units		Home Purchase		Refinance		Home Improvement	
		Number of Units	Percent of Units	Number	Percent	Number	Percent	Number	Percent
Low (25)	11	5,254	4	1	14	1	3	3	8
Moderate (59)	27	32,358	22	0	N/A	4	14	14	36
Middle (88)	40	65,371	45	2	29	10	35	11	28
Upper (49)	22	42,864	29	4	57	14	48	11	28
Total	100	145,847	100	7	100	29	100	39	100

Source: Bank Records, U.S. Census Data, and HMDA Tables

### *Small Business Loans*

The geographic distribution of small business loans reflected a good penetration in the assessment area's low- and moderate-income tracts. Table 3 shows the distribution of small business lending by income category of census tract.

TABLE 3 DISTRIBUTION OF SMALL BUSINESS ORIGINATIONS					
Income Level of Census Tract	Number of Census Tracts	Percent of All Tracts	Percent of Businesses in Tracts	1998	
				Number of Loans	Percent of Loans
Low	25	11	10.2%	7	9.6%
Moderate	59	27	24.7%	14	19.2%
Middle	88	40	40.0%	35	48.0%
Upper:	49	22	25.1%	17	23.3%
Total	221	100	100%	73	100%

Source: Bank Records, U.S. Census Data and 1998 Dunn and Bradstreet Data

SCOPE OF EXAMINATION	
TIME PERIOD REVIEWED	02/02/98 to 01/31/00
FINANCIAL INSTITUTION	
NAME	PRODUCTS REVIEWED
WestStar Bank, Bartlesville, Oklahoma	Residential Real Estate Loans Small Business Loans Small Farm Loans

AFFILIATE(S)	AFFILIATE RELATIONSHIP	PRODUCTS REVIEWED
Arvest Bank Group, Inc., Bentonville, AR	Bank Holding Company	None
First Bankshares, Inc., Bartlesville, OK P & W Bankshares, Inc, Little Rock, AR Delaware Bancshares, Inc., Jay, OK Ameribank Corporation, Shawnee, OK United Oklahoma Bankshares, Del City, OK TRH Bank Group, Inc., Norman, OK Siloam Springs Bankshares, Inc., AR	Subsidiary Bank Holding Companies	None
Arvest Bank, Tulsa, OK Arvest Bank, Joplin, MO First National Bank & Trust, Rogers, AR Springdale Bank & Trust, AR Farmers and Merchants Bank, AR McIlroy Bank & Trust, Fayetteville, AR Bank of Bentonville, Bentonville, AR	Bank Subsidiaries of Bank Holding Company	None
Oklahoma National Bank, Duncan, OK Security National Bank & Trust, Norman, OK First Arvest Bank, Siloam Springs, AR State Bank & Trust, Tulsa, Oklahoma Central Bank & Trust Co., Little Rock, AR Arvest United Bank, Oklahoma City, OK American National Bank & Trust Co., Shawnee, OK Delaware County Bank, Jay, OK	Bank Subsidiaries of Subsidiary Bank Holding Companies	None
Arvest Trust Co., Rogers, AR	Nonbank Subsidiaries of Subsidiary Bank Holding Companies	None
Arvest Mortgage Company, Lowell, AR Arvest Insurance, Lowell, AR Arvest Investments, Inc., Rogers, AR Arvest Bank Operations, Lowell, AR First Place on the Creeks, LLC, Rogers, AR Security Bank Card Center Inc, Norman, OK Central Mortgage Co., Little Rock, AR Eagle Property Holding Corp, Shawnee, OK AWAC Company, Springdale, AR	Nonbank subsidiaries of subsidiary banks	WestStar HMDA Loans  None None

<b>LIST OF ASSESSMENT AREAS AND TYPE OF EXAMINATION</b>			
<i><b>Assessment Area</b></i>	<i><b>Type of Examination</b></i>	<i><b>Branches Visited</b></i>	<i><b>Other Information</b></i>
Bartlesville	Onsite	Main Bank	N/A
Oklahoma County	Offsite	N/A	N/A

**WestStar Bank**  
January 31, 2000