

PUBLIC DISCLOSURE

January 18, 2000

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Family Security Bank
2670818
16271 Highway 101 South
Harbor, Oregon 97415**

**Federal Reserve Bank of San Francisco
101 Market Street
San Francisco, California 94105**

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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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 CRA performance for **Family Security Bank, Harbor, Oregon**, by the **Federal Reserve Bank of San Francisco**, the institution's supervisory agency, as of **January 18, 2000**. 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.

Family Security Bank's satisfactory performance under the Community Reinvestment Act is based on its record of addressing the credit needs of small business and low- and moderate-income borrowers within the community. This was the first assessment of the bank's CRA performance, and the results indicate that the bank is meeting the credit needs of its community in a manner consistent with its capacity and lending strategy. The bank's loan-to-deposit ratio continues to increase at a pace that indicates the bank is determinedly extending credit. Loan volume reflects the bank's steady growth. Its overall lending record demonstrates a majority of lending activity within the defined assessment area and the geographic distribution of lending shows a reasonable penetration throughout the assessment area. Consumer lending is distributed throughout the community in a manner that closely mirrors borrower income levels. Likewise, the bank's lending to small businesses of different sizes is reasonable based on assessment area demographics.

PERFORMANCE CONTEXT

Description of Institution

Family Security Bank, a wholly owned subsidiary of Security Bank Holding Company headquartered in Coos Bay, Oregon, operates a full-service unit bank in Harbor, Oregon, a coastal community approximately 100 miles south of Coos Bay. Formerly a branch of Security Bank, Family Security Bank opened as an independent bank on May 1, 1998, and converted to Federal Reserve System membership on October 26, 1998. In October 1999, the bank applied for regulatory approval to establish a limited service, deposit-taking branch in Brookings, Oregon. Approval was granted on January 4, 2000.

Since June 30, 1998, the bank has grown nearly 20 percent in total assets to approximately \$26 million as of September 30, 1999. Total loans for this same period increased 42 percent and comprise 46 percent of the bank's total assets, while deposits grew by 11.5 percent. The chart below illustrates the distribution of loans outstanding as of September 30, 1999:

LOAN TYPE	DOLLAR AMOUNT (000'S)	PERCENTAGE OF TOTAL
Commercial / Industrial & Non-Farm Non-Residential Real Estate	6,419	53.9
Consumer	2,772	23.3
Secured by 1-4 Family Residential Real Estate	1,639	13.8
Credit Cards	397	3.3
Farmland & Agriculture	262	2.2
Secured by 1-4 Family Residential – Revolving	241	2.0
Construction & Land Development	110	1.0
Multifamily Housing	70	0.5
All Other Loans	4	-
Total	11,914	100.0

As reflected, Family Security Bank is primarily a commercial lender, targeting small- to medium-sized businesses. Aside from business loans, the bank also offers a fully array of consumer-purpose loans. Commercial loan products offered by the bank include:

- real estate loans to purchase, construct, improve and refinance commercial buildings
- lines of credit
- loans for short and long term capital needs, equipment, working capital, accounts receivable inventory financing, and vehicles
- agriculture loans
- floor plan loans
- Small Business Administration guaranteed loans

- fishing vessels/industry loans
- participation loans with lead lenders.

Consumer loans offered by Family Security include:

- conventional and government guaranteed residential real estate loans for home improvement, new construction, and refinancing
- personal loans for automobiles, boats, recreational vehicles
- personal and equity lines of credit.

Guaranteed student loans and credit card products are available through referral to another banks.

Family Security Bank's local competitors for commercial and consumer lending include branch offices of a large national bank, two savings associations, and one savings bank. The Federal Deposit Insurance Corporation Market Share Report as of June 30, 1999 indicates that Family Security Bank holds a 10.88 percent market share of total deposits held by financial institutions operating in Curry County.

There are no apparent legal or financial impediments that would prevent the bank from meeting the community's credit needs consistent with its size, resources, financial capacity, and local economic conditions. This examination is the first evaluation under the Community Reinvestment Act for Family Security Bank.

Description of Assessment Area

The bank defines its assessment area as "the boundaries of the 97415 zip code area, encompassing the area from Pistol River to the California/Oregon border." The assessment area encompasses two census tracts, (9503.00 and 9504.00), both which are defined as middle-income as of the 1990 Census. Located within these two census tracts are the communities of Brookings and Harbor. The Brookings-Harbor area encompasses an estimated 169 square miles in the southwest corner of Oregon, and is approximately twenty-seven miles north of Crescent City, California, and twenty-six miles south of Gold Beach, Oregon.

Demographics

Brookings, the largest city in Curry County, had a population of 5,220 according to the 1995 local census¹. With a population of 13,500 people, the area of Brookings-Harbor in Curry County is the most populous region for 100 miles in every direction. Even so, population density is low with only 13.5 persons per square mile.

The estimated 1998 Curry County population was 22,000 compared to the 1990 census population of 19,327. Without an increase of older individuals migrating to Curry County between 1990 and 1997, the area would have seen an overall drop in population. According to the *1999 Oregon In-migration Survey* conducted by the Portland State University's Center for Population Research and Census, between 1990 and 1997, older in-migrants (those aged 65 or over) accounted for nearly 8 percent of Oregon's population growth. The contribution of net in-migrants aged 65+ to overall population growth over this period for Curry County was 30 percent. According to a local community contact, the average age of residents in Brookings-Harbor is about 55 years of age.

Economic Indicators

The 1998 local unemployment rate was 8.9 percent compared to Oregon's jobless rate of 5.6 percent and the national unemployment rate of 4.9 percent for the same time period. Although the local 1998 unemployment rate is below the 1997 figure of 9.4 percent, the decline is not due to any strong growth in the economy, but rather from unemployed persons leaving the area to look for work.²

In 1997, government transfer payments (social security and medicare) represented 29.7 percent of total personal income in Curry County, exceeding the state average of 16.5 percent and ranking second highest in the state. Since 1980, transfer payment increases have almost tripled. With only 39.8 percent of the income derived from wage earnings, Curry County is one of only a few counties in Oregon with earnings below the 50 percent mark. The remainder of income is derived from annuities, investments, and transfer payments – which for the most part is insulated from local economic distress.³ According to the Census Bureau's model-based intercensal estimates, poverty rates for the county have increase between 1989 and 1995 from 12.4 percent to 15.1 percent, and compared unfavorably to the 1995 state estimate of 12.5 percent. In 1998, the HUD adjusted median family income for the assessment area was \$28,154, just slightly higher than the county figure of \$26,711.

Community contacts also believe that in-migration has driven up housing prices. Although property values are dropping, the median price of a home in 1999, was \$145,000 and the average was \$177,000, according to one source. Second and 3rd generation residents cannot afford to purchase homes at this price with salaries from the lower paying service jobs that are available. One community contact stated that people who were able to adapt to changes

¹ 1997-98 Chamber of Commerce Community Profile and Business Directory, Brookings/Harbor, Oregon

² Oregon Employment Department Regional Economic Profile, Region 7, page 11.

³ Oregon Employment Department Regional Economic Profile, Region 7, page 40.

brought about by the increases in home prices at a time when the timber industry was decimated did so, and those who could not moved.

Area Industries

Timber production and related industries as well as commercial and sport fishing have historically provided a large portion of the area's economic base; however, both industries have been hit hard by environmental constraints. As a result, lumber mills closed and left high paying workers to seek lower paying service jobs. One local exception is Brookings' largest employer, South Coast Timber Mill, a small family-owned timber production plant that owns its land for harvesting and employs 450 workers. According to a community contact, the Port of Harbor has one of the largest commercial fishing fleets on the Oregon Coast capable of accommodating 281 commercial boats and 800 recreational boats. The impact of these recent environmental controls may be significant.

Other development efforts are hampered due to 80 percent of the land being owned by The Bureau of Land Management, U.S. Forest Service, or State Parks, leaving a small percentage of available land to establish business parks and recruit new industry. Stringent land development codes, such as the prohibition to subdivide 40 acres have also hampered development efforts.

As an alternative, community leaders have focused energies toward creating a "high-tech" industry, which appears to have the best potential for a high growth industry in this area. In 1999, income produced from this industry was \$19 million and projections for the year 2000 range from \$25 to \$30 million. Overall, there are strong endeavors to create the required momentum, networking and commitment to build the required infrastructure.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Scope of Examination

To evaluate the bank's performance under the Community Reinvestment Act, examiners reviewed the bank based upon four of the five performance criteria. These include the following:

- The bank's loan volume in comparison to its deposits (Loan-to-Deposit Ratio)
- The bank's lending inside and outside its assessment area (Lending in Assessment Area)
- The dispersion of lending throughout the census tracts or geographic areas within the assessment area (Geographic Distribution of Loans)
- The distribution of lending to businesses of different sizes and borrowers with different income levels (Lending by Borrower Income and Business Revenue)

The bank's performance in responding to consumer complaints was not evaluated because the bank has not received any CRA-related complaints since becoming a state member bank.

Although the bank is primarily a commercial lender, in terms of number of loans, retail credit activity is also significant. Therefore, consumer as well as small business loans were used as the basis for this evaluation. The review included a total of 126 loans extended during the period beginning May 1998 through September 1999, consisting of 54 business and 72 consumer loans. The entire loan sample was used to determine the bank's volume of lending inside its assessment area. However, only those loans extended inside the assessment area were included in the evaluation of the geographic distribution and borrower distribution. With respect to these two categories, examiners focused on the bank's record of meeting the credit needs within its designated community.

Loan-to-Deposit Ratio

Family Security Bank's loan-to-deposit ratio is considered reasonable and meets the standards for satisfactory performance. This conclusion is based upon an analysis of the bank's level of lending activity in comparison to its deposit base. The bank's net loans are measured against its total deposits over time with the result being evaluated within the bank's performance context.

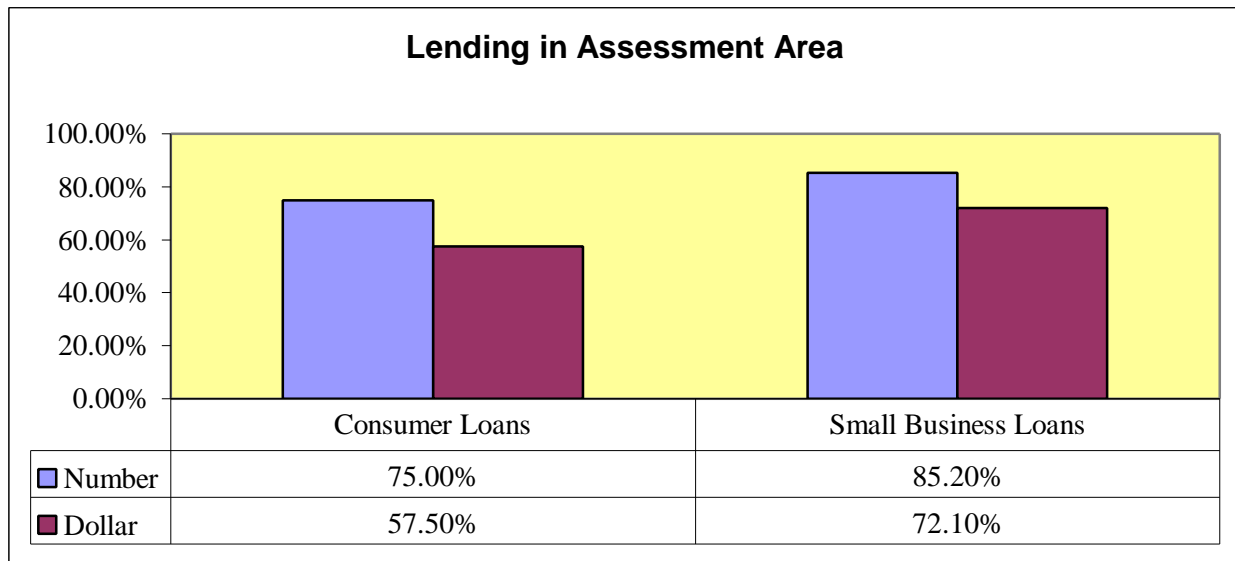
Two recently established de novo banks were selected as peers for this institution based on their comparable asset size and number of banking facilities. A comparison of the average loan-to-deposit ratios for these institutions shows that the average loan-to-deposit ratio for the peer banks was 40.88 and 55.69, while Family Security Bank's average ratio was 44.51 percent. All three banks were also well below the state and national peer bank rates of 74.78 and 72.39, respectively. However, Family Security's ratio has increased steadily in each of the six quarters since June 1998 from 41.46 percent to 52.61 percent as of September 30, 1999, with an increase of

7.7 percent noted for the last quarter between June and September 1999. A review of the bank's loan growth also revealed a steady increase over this period, with significant growth for this last quarter at 19 percent. Based on steady loan growth and a loan-to-deposit ratio comparable to local peers, Family Security Bank's loan-to-deposit ratio is considered reasonable.

Lending in Assessment Area

Family Security Bank's distribution of loans inside and outside of their assessment area meets the standard for satisfactory performance.

An analysis of loans extended shows that the majority of the bank's loans were originated inside its assessment area. Of the total number of loans sampled, 79.4 percent were inside the market. When broken down by loan type, this concentration is still apparent as illustrated in the chart below.



With respect to both consumer and commercial loans, although the local dollar concentration is lower, the majority of the bank's lending investment is still within the local community.

Geographic Distribution

Family Security Bank's overall geographic distribution of lending exhibits a reasonable penetration among the assessment area geographies. The bank's assessment area is comprised entirely of two middle-income census tracts. In reviewing the bank's lending dispersion for both loan products, examiners noted a good dispersion throughout the assessment area and no indications of conspicuous gaps evidencing disinvestment.

Lending by Borrower Income and By Business Revenue

Family Security Bank's distribution of loans to businesses of different sizes and to borrowers of different income levels meets the standards for satisfactory performance.

The following table shows the percentages of consumer loans to borrowers of different income for Family Security Bank compared to the distribution of families by income category.

DISTRIBUTION OF CONSUMER LOANS BY BORROWER INCOME			
BORROWER INCOME LEVEL	PERCENTAGE OF TOTAL FAMILIES	PERCENTAGE OF LOANS (by number)	PERCENTAGE OF LOANS (by dollar)
Low-Income	18.7%	18.5%	11.3%
Moderate-Income	18.5%	22.2%	21.7%
Middle-Income	26.3%	27.8%	27.2%
Upper-Income	36.5%	31.5%	39.8%
<i>TOTAL</i>	<i>100%</i>	<i>100%</i>	<i>100%</i>

The bank's consumer loan distribution by borrower income demonstrates a good penetration in light of assessment area characteristics related to family poverty levels and identified credit needs. Despite the absence of low- and moderate-income tracts within the bank's assessment area, low- and moderate-income families represent 18.7 and 18.5 percent of the assessment area's family population, respectively. As illustrated in the table above, 40.7 percent in number and 33 percent in dollar amount of consumer loans were extended to low- and moderate-income borrowers. These amounts are comparable to those groups' populations in the assessment area and thus, are considered reasonable.

Data provided by Dun & Bradstreet indicates that 93.7 percent of the businesses in the assessment area are small business, that is, businesses with gross annual revenues less than \$1 million. Of the commercial loans sampled, 73.9 percent of the number and 57.2 percent of the dollar amount went to small businesses. The percentage of commercial loans originated to small businesses is considered adequate given the recent entry of the bank into the market. Moreover, of those loans to small businesses, 88.2 percent were in amounts less than \$100,000, and 11.2 percent were between \$100,000 and \$250,000. No loans over \$250,000 were extended to small businesses. The majority of the bank's commercial loans are in small dollar amounts to meet the identified credit needs of small businesses.

Response to Complaints

Since its formation, the bank has not received any complaints relating to its CRA performance. Therefore, the bank's performance under this criterion could not be evaluated.

Compliance with Fair Lending Laws and Regulations

Family Security Bank is in compliance with the substantive provisions of the antidiscrimination laws and regulations. Additionally, Family Security Bank does not engage in any type of discriminatory practices or discouragement in its lending activities.

GLOSSARY OF FREQUENTLY USED TERMS

AREA MEDIAN INCOME (MEDIAN INCOME)	The median family income for the Metropolitan Statistical Area (MSA) if a person or geography is located in an MSA, or the statewide nonmetropolitan median family income, if a person or geography is located outside an MSA.
ASSESSMENT AREA	A geographic area which generally consists of one or more MSAs or one or more contiguous subdivisions, such as counties, cities or towns. Assessment areas also include geographies in which the bank has its main office, its branches and its deposit taking ATMs, as well as the surrounding geographies in which the bank has originated or purchased a substantial portion of its loans (including home mortgage loans, small business loans, small farm loans, and any other loans the bank chooses, such as those consumer loans on which the bank elects to have its performance assessed).
COMMUNITY DEVELOPMENT	<ol style="list-style-type: none">(1) Affordable housing (including multifamily rental housing) for low- or moderate-income individuals.(2) Community services targeted to low- or moderate-income individuals.(3) Activities that promote economic development by financing business or farms which have gross annual revenues of \$1 million or less or that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs.(4) Activities that revitalize or stabilize low- or moderate-income geographies.
COMMUNITY DEVELOPMENT LOAN	A loan that has as its primary purpose community development; and, except in the case of a wholesale or limited purpose bank: <ol style="list-style-type: none">(1) Has not been reported or collected by the bank or an affiliate for consideration in the bank's assessment as a home mortgage, small business, small farm, or consumer loan, unless it is a multifamily dwelling loan; and(2) Benefits the bank's assessment area(s) or a broader statewide or regional area that includes the bank's assessment area(s).

COMMUNITY DEVELOPMENT SERVICE	A service that has as its primary purpose community development, is related to the provision of financial services, and has not been considered in the evaluation of the bank's retail banking services under CRA.
CONSUMER LOANS	Loans to one or more individuals for household, family or other personal expenditures. A consumer loan does not include a home mortgage, small business or small farm loan. Examples of consumer loans are: Motor Vehicle Loans, Credit Card Loans, Home-Equity Loans, Secured Consumer Loans and Unsecured Consumer Loans.
FAMILIES	Defined by the U.S. Bureau of Census as all persons occupying a housing unit related to the householder by birth, marriage or adoption. A single person living alone or two or more unrelated individuals occupying the same household are not considered to be a family.
GEOGRAPHIES	Census tracts or numbering area blocks delineated by the U.S. Bureau of Census in the most recent decennial census.
HOUSEHOLDS	Defined by the U.S. Bureau of Census as all persons occupying a housing unit.
HUD ADJUSTED MEDIAN INCOME	Based initially on the area median income derived from the most recent decennial census, the Department of Housing and Urban Development adjusts the figure annually for inflation.
INCOME LEVEL	Includes low-income, moderate-income, middle-income and upper-income.
LOW-INCOME	An individual income that is less than 50 percent of the HUD- adjusted median income or a census tract or block numbering area with a median family income that is less than 50% of the area median income.
MEDIAN INCOME	See Area Median Income and HUD Adjusted Median Income
METROPOLITAN STATISTICAL AREA (MSA)	An area qualifies as an MSA if it contains a city with a population of at least 50,000 or is defined by the Bureau of the Census as an urbanized area and has a population of 50,000 or more and a total metropolitan population of 100,000.

MIDDLE-INCOME	An individual income that is at least 80 percent and less than 120 percent of the HUD-adjusted median income, or a census tract or block numbering area with a median family income that is at least 80 and less than 120 percent of the area median income.
MODERATE-INCOME	An individual income that is at least 50 percent and less than 80 percent of the HUD-adjusted median income, or a census tract or block numbering area with a median family income that is at least 50 and less than 80 percent of the area median income.
QUALIFIED INVESTMENT	A lawful investment, deposit, membership share, or grant that has as its primary purpose community development.
REAL ESTATE MORTGAGE LOAN	Defined by the Home Mortgage Disclosure Act (HMDA) as a home purchase loan, home improvement loan or the refinancings for both. A home purchase loan is any loan secured by and made for the purpose of purchasing a dwelling. A home improvement loan is for the purpose, in whole or part, of repairing, rehabilitating, remodeling, or improving a dwelling or the real property on which it is located and is classified by the financial institution as a home improvement loan.
SMALL BANK	A bank that, as of December 31 of either of the prior two calendar years, had total assets of less than \$250 million and was independent or an affiliate of a holding company that, as of December 31 of the prior two calendar years, had total banking and thrift assets of less than \$1 billion.
SMALL BUSINESS	Businesses with gross annual revenues of \$1 million or less as defined by the Community Reinvestment Act.
SMALL BUSINESS LOAN	Business purpose loans with original amounts of \$1 million or less as defined by the instructions for the Consolidated Reports of Condition and Income (CALL Report) for entry on schedule RC-C, part II "Loans to Small Businesses."
UPPER-INCOME	An individual income that is 120 percent or more of the HUD-adjusted median income, or a census tract or block numbering area with a median family income that is 120 percent or more of the area median income.