



PUBLIC DISCLOSURE

DECEMBER 11, 2017

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**AMERISTATE BANK
RSSD# 508355**

**113 SOUTH PENNSYLVANIA AVENUE
ATOKA, OKLAHOMA 74525**

**Federal Reserve Bank of Kansas City
1 Memorial Drive
Kansas City, Missouri 64198**

NOTE: This document is an evaluation of this 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. 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 CRA RATING: *This institution is rated **Satisfactory**.*

AmeriState Bank (the bank) has a satisfactory record of meeting the credit needs of its assessment areas (AAs) pursuant to the Community Reinvestment Act (CRA), in a manner consistent with its resources and operating philosophy.

The bank's average net loan-to-deposit (NLTD) ratio is reasonable when compared to the ratios of other similarly situated financial institutions. A majority of the loans subject to this review were originated inside the bank's AAs. The bank's lending reflects a reasonable dispersion of loans throughout its AA geographies. In addition, the bank's distribution of loans to borrowers of different income levels and to businesses of different revenue sizes is also reasonable throughout the AAs.

SCOPE OF EXAMINATION

The bank's CRA performance was reviewed using the Federal Financial Institutions Examination Council's (FFIEC's) *Interagency Examination Procedures for Small Institutions*. Four of the five criteria utilized in the evaluation of a small bank's lending performance were relevant to this review and are as follows:

- NLTD Ratio
- Lending Inside the AA
- Distribution of Loans by Income Levels of Geography
- Lending to Borrowers of Different Income Levels and Businesses of Different Revenue Sizes

The fifth criterion used to assess a small bank's CRA performance, the bank's responsiveness to complaints under the CRA, was not evaluated, as neither the bank nor the Federal Reserve Bank of Kansas City has received any CRA-related complaints since the previous evaluation.

The evaluation included two full-scope reviews of the bank's lending performance in the Rural Oklahoma AA and Sherman-Denison Texas Metropolitan Statistical Area (MSA) AA. Conclusions regarding the four performance criteria were based on the bank's major product lines using data compiled from a statistically derived sample of motor vehicle, residential real estate, and small business loans. The major product lines were determined through discussions with bank management, a review of the bank's Reports of Condition and Income as of June 30, 2017, and a review of the number of outstanding loan originations since the bank's previous CRA examination dated November 18, 2013. The CRA evaluation included a statistical sample of 105 consumer motor vehicle loans from a universe of 218 loans, 50 residential real estate loans from a universe of 67 loans, and 73 small business loans from a universe of 114 loans all originated between July 1, 2016 and December 31, 2016. As defined under the CRA, small business loans are those with loan amounts of \$1 million (MM) or less.

For evaluative purposes, the bank's NLTD ratio was calculated based on the 15-quarter average since the previous evaluation, and compared to similarly-situated financial institutions that operate within the bank's AAs. The geographic distribution analysis was based on the bank's lending among the various geographies of the AAs, particularly moderate-income geographies, as neither of the bank's AAs includes any low-income census tracts. Geographies were classified based on the 2016 FFIEC's census tract designations. The borrower distribution analysis was based on the bank's lending to borrowers of different income levels and to businesses of different revenue sizes, with an emphasis on low- and moderate-income (LMI) borrowers, and businesses with gross annual revenues of \$1MM or less. For borrower characteristics, income levels were calculated using the 2016 FFIEC's median family income listing. The evaluation of the bank's performance focused on the number of loans originated for each product as well as the dollar volume of those originations.

For evaluative purposes, the bank's small business lending was compared to 2016 Dun & Bradstreet (D&B) demographic data, while the bank's motor vehicle and residential real estate lending was compared to the 2006-2010 five-year estimate American Community Survey (2010 ACS) data.

To augment the evaluation, interviews were conducted with two members of the local community to determine specific credit needs of the AAs, the responsiveness of area banks to those credit needs, and local economic conditions. One contact represented a small business development organization promoting small business success through counseling, training, and education to small businesses. A second contact is a tenured real estate broker with perspective on the local housing market.

DESCRIPTION OF INSTITUTION

The bank is a \$241.5MM institution wholly owned by the Atoka State Bancorporation, Inc. (the company), a single-bank holding company. Both the bank and holding company are located in Atoka, Oklahoma. Atoka is located in the southeast corner of the state near the Texas border and approximately 130 miles from Oklahoma City, Oklahoma. The bank maintains an additional branch in Atoka; one full-service branch in Antlers, Oklahoma, located 32 miles east of Atoka; and one full-service branch in Sherman, Texas, located 62 miles southwest of Atoka.

The bank operates in two AAs, the Rural Oklahoma AA and the Sherman-Denison Texas MSA AA. In the June 30, 2017 Federal Deposit Insurance Corporation (FDIC) Market Share Report, the bank ranked second out of three FDIC-insured institutions in the Rural Oklahoma AA, with a 45.4 percent market share. Within the Sherman-Denison Texas MSA AA, the bank ranked 9th out of the 13 FDIC-insured institutions present in the MSA, with a market share of 1.4 percent. The Sherman-Denison Texas MSA AA is very competitive with the presence of several national and regional lenders accounting for a majority of the market share within the MSA.

The bank is primarily a commercial and residential real estate lender but offers a broad range

of credit and deposit products to serve the needs of the community. Table 1 illustrates the composition of the bank's loan portfolio by product type.

TABLE 1 AMERISTATE BANK'S LOAN PORTFOLIO AS OF JUNE 30, 2017		
Loan Type	Amount \$(000)	Percent of Total
Commercial	92,889	47.9
Residential Real Estate	46,949	24.2
Agriculture	31,458	16.2
Consumer	21,965	11.3
Other	616	0.4
Gross Loans	193,877	100.0

The analysis of the bank's CRA performance considered the bank's financial capacity, local economic conditions, AA demographics, and the bank's competitive operating environment. The CRA analysis did not identify any legal or financial impediments that would prevent the bank from fulfilling its responsibilities under the CRA. The bank received a Satisfactory rating at its previous CRA evaluation conducted by the Federal Reserve Bank of Kansas City on November 18, 2013.

DESCRIPTION OF THE BANK'S AA

The bank is an interstate bank that serves two separate delineated AAs, which also represent the bank's primary market areas. The first AA is the Rural Oklahoma AA, which includes all of Atoka and Pushmataha Counties in Oklahoma. The bank revised the AA in August 2017 to include whole geographies (entire counties). This AA is comprised of four moderate- and three middle-income tracts; there are no low- or upper-income tracts.

The Sherman-Denison Texas MSA AA encompasses all of Grayson County, Texas. The bank also revised this AA in August 2017 to include the entire county. The AA is comprised of 8 moderate-, 15 middle-, and 3 upper-income tracts; there are no low-income tracts.

OVERALL CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

The bank's performance under the CRA is considered Satisfactory. The overall rating is based on its performance in each state and each individual AA. Performance was weighted according to relative loan and deposit volumes, market shares in the AAs, the number of branch locations, and relative materiality of residential real estate, consumer, and small business lending.

The greatest weight was placed on the Rural OK AA, which accounted for approximately 74.0 percent of all loans subject to review at this evaluation. The Sherman-Denison TX MSA AA accounted for approximately 26.0 percent of all loans.

The performance evaluation first discusses the bank's overall performance followed by a more in-depth discussion of the bank's record of lending in each state and individual AA.

Net Loan-to-Deposit Ratio

This performance criterion utilizes the bank's average NLTD ratio to evaluate the reasonableness of lending in light of performance context regarding the bank's capacity to lend, availability of lending opportunities, and demographic and economic factors present in the AAs.

The bank's NLTD ratio reflects a reasonable effort to extend credit based on its size, financial condition, credit needs of the AAs, and the NLTD ratios of similarly situated banks. The bank's NLTD ratio averaged 82.3 percent over the most recent 15 quarters ending June 30, 2017. The bank's NLTD ratio was compared to the ratios of three other similarly situated banks within or around the AAs, with ratios ranging from 67.5 percent to 97.5 percent over the same time period.

AA Concentration

This performance criterion evaluates the bank's lending inside and outside of its AAs. The evaluation analyzes both the number and dollar volume of originations. Table 2 illustrates that a majority of the bank's motor vehicle, residential real estate, and small business loans by both number and dollar volume were originated within its delineated AAs. The bank originated 83.8 percent (78.4 percent by dollar) of its motor vehicle loans, 72.0 percent (64.1 percent by dollar) of its residential real estate loans, and 84.9 percent (82.6 percent by dollar) of its small business loans, within the AAs. This performance indicates a reasonable effort by the bank to serve the credit needs of the communities in which it operates.

TABLE 2 LENDING INSIDE AND OUTSIDE THE BANK'S AAs								
Bank Loans	Inside				Outside			
	#	\$(000)	#%	\$%	#	\$(000)	#%	\$%
Motor Vehicle	88	1,057	83.8	78.4	17	292	16.2	21.6
Residential Loans	36	4,082	72.0	64.1	14	2,284	28.0	35.9
Small Business	62	3,665	84.9	82.6	11	774	15.1	17.4
Total Loans	186	8,804	81.6	72.4	42	3,350	18.4	27.6

The remaining conclusions are based solely on the loans originated inside the AAs.

Geographic and Borrower Distribution

The geographic distribution criterion evaluates the bank's distribution of loans among geographies of various income levels, with emphasis placed on lending in the LMI geographies. Overall, the bank's distribution of loans demonstrated a reasonable dispersion throughout the AAs. This criterion will be discussed for each AA later in this review.

The borrower distribution criterion evaluates the bank's distribution of lending to borrowers of different income levels and businesses of different revenue sizes, primarily LMI borrowers and businesses with gross annual revenues of less than \$1MM. Based on the demographic factors and economic conditions of the AAs, the bank's overall distribution of loans to LMI borrowers and small businesses with gross annual revenues of \$1MM or less was reasonable. This criterion will be discussed for each AA later in this review.

FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

An evaluation of the bank's fair lending activities was conducted during the examination to determine compliance with the substantive provisions of anti-discrimination laws and regulations, including the Equal Credit Opportunity Act and the Fair Housing Act. No evidence of discriminatory or illegal credit practices inconsistent with helping to meet community credit needs was identified.

STATE OF OKLAHOMA / RURAL OKLAHOMA ASSESSMENT AREA
(Full Review)

CRA RATING FOR OKLAHOMA: “Satisfactory”

CRA RATING FOR RURAL OKLAHOMA AA: “Satisfactory”

Major factors supporting the rating include:

- The bank’s geographic distribution of consumer motor vehicle, residential, and small business loans reflects a reasonable dispersion of lending throughout the Rural Oklahoma AA.
- The distribution of consumer motor vehicle, residential and small business loans reflects a reasonable dispersion to individuals of different income levels and to businesses of different revenue sizes within the Rural Oklahoma AA.

SCOPE OF EXAMINATION

The state of Oklahoma rating was based on a full-scope review of the bank’s performance in the Rural Oklahoma AA. The methodology used for the state of Oklahoma review was consistent with the scope of the overall examination. Additionally, the bank’s statewide performance is discussed concurrently with the assessment of its lending record for the Rural Oklahoma AA as this is the sole AA for this state.

The bank’s performance in the Rural Oklahoma AA was given more weight when determining the bank’s overall rating as a majority (74.0 percent) of the bank’s lending activity is concentrated in the AA, and three of the bank’s four locations are within this AA.

In addition, the evaluation utilized information gathered from an interview with a member of the Atoka, Oklahoma community.

DESCRIPTION OF THE BANK’S OPERATIONS IN THE RURAL OKLAHOMA AA

The Rural Oklahoma AA includes the contiguous counties of Atoka and Pushmataha. The bank is headquartered in Atoka and operates three branches, all with automated cash-dispensing teller machines, within the AA.

The AA is comprised of four moderate- and three middle-income census tracts. All three branches are located in moderate-income census tracts. Two of the bank’s three branches are located in the city of Atoka and one is located approximately 33 miles east in Antlers, Oklahoma. According to the June 30, 2017 FDIC Market Share Report, the bank held deposits of \$180.7MM, which represents a market share of 45.4 percent, ranking the bank second out

of three financial institutions in the Rural Oklahoma AA.

Population Trends and Characteristics

According to the 2016 U.S. Census data estimates, the AA's population equaled 24,867, representing a slight decrease of 3.4 percent since the 2010 Census population of 25,754. The 2016 Census estimates Pushmataha County has a population of 11,057, representing 44.5 percent of the AA's total population; Atoka County has a population of 13,810, representing 55.5 percent of the AA's total population. The AA has 23.1 percent of the population age 17 years and younger, which is comparable to the state and statewide rural figures; typically, this younger population does not have the ability to borrow. Additionally, the population of residents age 65 years and older, at 18.0 percent, is higher than the state and statewide rural figures of 13.5 percent and 15.8 percent, respectively. Typically the population aged 65 years and older has reduced credit needs, impacting the demand for credit within the AA.

Economic and Employment Characteristics

Exhibit 1 provides a listing of the unemployment rates for Atoka and Pushmataha Counties, the state of Oklahoma, and the United States. In 2016, the AA had a higher unemployment rate when compared to Oklahoma and the Nation. The unemployment rate of Atoka County has slightly increased over the

EXHIBIT 1 ANNUAL UNEMPLOYMENT RATES (Source: BLS; Not Seasonally Adjusted)			
Area	2014	2015	2016
Atoka County	6.2	6.5	6.7
Pushmataha County	7.5	7.7	7.6
Oklahoma	4.5	4.4	4.9
United States	6.2	5.3	4.9

past few years, while the unemployment rate of Pushmataha County has remained mostly stagnant. The largest industries in both Atoka and Pushmataha Counties are healthcare and retail. A community contact stated that the Atoka area has a limited number of industries, resulting in many residents commuting outside the area for employment.

Income Characteristics

Overall, the AA is less affluent when compared to the state of Oklahoma. In 2010, the estimated median family income for the Rural Oklahoma AA was \$39,803, which is well-below the state of Oklahoma and statewide rural figures of \$53,607 and \$47,749, respectively. Accordingly, the percentage of families in the AA classified as LMI, 48.0 percent, was above the percentage for the state of Oklahoma, at 39.1 percent, and the statewide rural figure, at 39.0 percent. The percentage of families below poverty in the AA, at 17.1 percent, exceeded both the state, at 11.9 percent, and the statewide rural figure, at 13.6 percent.

Housing Characteristics

The AA contains 12,276 housing units, of which 61.6 percent are owner-occupied, 20.1 percent are rental properties, and 18.3 percent are vacant properties. The percentages of

owner-occupied, rental, and vacant units in rural statewide areas are comparable to the AA at 58.2 percent, 23.8 percent, and 18.0 percent, respectively.

The median housing value in the AA is \$68,736 which is significantly below the state of Oklahoma value, at \$104,300, and is also lower than the statewide rural value, at \$81,740. The housing affordability ratio¹ in the AA is 42.7 percent, compared to the affordability ratios for the state and statewide rural areas, at 41.2 percent and 46.0 percent, respectively. Given the lower levels of income in the area, the AA is only slightly more affordable than the state of Oklahoma, and is less affordable than the statewide rural areas as a whole. The median age of housing stock in the AA, at 34 years, is comparable to both the state of Oklahoma and statewide rural ages, at 34 years and 33 years, respectively.

¹ The housing affordability ratio is calculated by dividing the median household income by the median household value. A lower ratio reflects less affordable homes.

Table 3 summarizes the demographic and economic characteristics of the Rural Oklahoma AA based on 2010 ACS data and 2016 D&B data.

TABLE 3 RURAL OKLAHOMA AA 2016 DEMOGRAPHICS								
Income Categories	Tract Distribution		Families by Tract Income		Families < Poverty Level as % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low	0	0.0	0	0.0	0	0.0	1,839	28.3
Moderate	4	57.1	4,240	65.3	834	19.7	1,276	19.6
Middle	3	42.9	2,254	34.7	275	12.2	1,263	19.4
Upper	0	0.0	0	0.0	0	0.0	2,116	32.6
Unknown	0	0.0	0	0.0	0	0.0	0	0.0
Total AA	7	100.0	6,494	100.0	1,109	17.1	6,494	100.0
	Housing Units by Tract	Housing Type by Tract						
		Owner-occupied			Rental		Vacant	
		#	% by tract	% by unit	#	% by unit	#	% by unit
Low	0	0	0.0	0.0	0	0.0	0	0.0
Moderate	8,308	4,891	64.7	58.9	1,977	23.8	1,440	17.3
Middle	3,968	2,669	35.3	67.3	490	12.3	809	20.4
Upper	0	0	0.0	0.0	0	0.0	0	0.0
Unknown	0	0	0.0	0.0	0	0.0	0	0.0
Total AA	12,276	7,560	100.0	61.6	2,467	20.1	2,249	18.3
	Total Businesses by Tract		Businesses by Tract & Revenue Size					
			Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported	
	#	%	#	%	#	%	#	%
Low	0	0.0	0	0.0	0	0.0	0	0.0
Moderate	677	81.8	602	82.1	49	81.7	26	74.3
Middle	151	18.2	131	17.9	11	18.3	9	25.7
Upper	0	0.0	0	0.0	0	0.0	0	0.0
Unknown	0	0.0	0	0.0	0	0.0	0	0.0
Total AA	828	100.0	733	100.0	60	100.0	35	100.0
Percentage of Total Businesses:			88.5		7.2		4.2	
	Total Farms by Tract		Farms by Tract & Revenue Size					
			Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported	
	#	%	#	%	#	%	#	%
Low	0	0.0	0	0.0	0	0.0	0	0.0
Moderate	45	58.4	45	58.4	0	0.0	0	0.0
Middle	32	41.6	32	41.6	0	0.0	0	0.0
Upper	0	0.0	0	0.0	0	0.0	0	0.0
Unknown	0	0.0	0	0.0	0	0.0	0	0.0
Total AA	77	100.0	77	100.0	0	0.0	0	0.0
Percentage of Total Farms:			100.0		0.0		0.0	
Based on 2010 ACS five-year estimate data, 2016 FFIEC's census tract definitions, and 2016 D&B data. (NOTE: Total percentages shown may vary by 0.1 percent due to automated rounding differences.)								

Community Contacts

One member of the community was contacted to gain a perspective of the area economic conditions and possible credit needs. This contact, affiliated with the real estate industry within the AA, stated borrowers in the area seek residential real estate financing through either local financial institutions or alternate sources such as builder financing, the Choctaw Nation, or online lenders. Additionally, the contact stated that the Atoka area does not have a great number of industries, and many residents commute elsewhere for employment. It was noted the housing availability in the Atoka area has been improving and that several new home construction developments have recently been built.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA IN THE RURAL OKLAHOMA AA

The bank's CRA performance in the state of Oklahoma is Satisfactory. The distribution of loans among AA geographies of different income levels is reasonable. Additionally, the distribution of loans among borrowers of different income levels and to businesses of different revenue sizes is reasonable.

Distribution by Income Level of Geographies

This performance criterion evaluates the bank's distribution of loans among AA geographies of different income levels. As previously mentioned, the bank's AA does not contain any low-income tracts; therefore, emphasis was placed on the bank's lending in the AA's four moderate-income tracts.

The bank's motor vehicle loans were compared to the percentage of households located in the AA by census tract income, while the bank's residential real estate loans were compared to the percentage of owner-occupied units located in each census tract. Similarly, the bank's small business lending was compared to the percentage of businesses located in each AA census tract.

Overall, the bank's geographic distribution of motor vehicle, residential real estate, and small business loans is reasonable.

TABLE 4
DISTRIBUTION BY INCOME LEVEL OF GEOGRAPHIES
RURAL OKLAHOMA AA

Census Tract Income Level	Motor Vehicle Loans				% of Households ¹
	#	\$(000)	#%	\$%	
Low	0	0	0.0	0.0	0.0
Moderate	64	832	79.0	81.8	68.5
Middle	17	185	21.0	18.2	31.5
Upper	0	0	0.0	0.0	0.0
Unknown ³	0	0	0.0	0.0	0.0
Census Tract Income Level	Residential Loans				% of Owner- Occupied Units ¹
	#	\$(000)	#%	\$%	
Low	0	0	0.0	0.0	0.0
Moderate	24	2,617	72.7	70.7	64.7
Middle	9	1,086	27.3	29.3	35.3
Upper	0	0	0.0	0.0	0.0
Unknown ³	0	0	0.0	0.0	0.0
Census Tract Income Level	Small Business Loans				% of Businesses ²
	#	\$(000)	#%	\$%	
Low	0	0	0.0	0.0	0.0
Moderate	36	2,143	76.6	82.6	81.8
Middle	11	450	23.4	17.4	18.2
Upper	0	0	0.0	0.0	0.0
Unknown ³	0	0	0.0	0.0	0.0

¹ Based on 2010 ACS five-year estimate data and 2016 FFIEC's census tract definitions.
² Based on 2016 D&B data.
³ Does not include tracts where the income level is unknown. Only includes tract locations not known.
(NOTE: Total percentages shown may vary by 0.1 percent due to automated rounding differences.)

Motor Vehicle

The bank's distribution of consumer motor vehicle loans reflects an excellent dispersion throughout the AA. As noted in Table 4, the bank originated 79.0 percent (81.8 percent by dollar) of consumer motor vehicle loans within the moderate-income tracts, which is above the percent of AA households located in the moderate-income tracts, at 68.5 percent. Consumer motor vehicle lending in middle-income census tracts, at 21.0 percent by number (18.2 percent by dollar), is below the percentage of households, at 31.5 percent.

Residential Real Estate

The bank's distribution of residential real estate loans reflects a reasonable dispersion throughout the AA. As noted in Table 4, the bank originated 72.7 percent (70.7 percent by dollar) of residential real estate loans within the moderate-income tracts, which is above the percent of owner-occupied units located in the moderate-income tracts, at 64.7 percent. Residential real estate lending in middle-income census tracts, at 27.3 percent by number (29.3 percent by dollar), is below the percentage of owner-occupied units, at 35.3 percent.

Small Business Loans

The bank's distribution of small business loans reflects a reasonable dispersion throughout the AA. As noted in Table 4, the bank originated 76.6 percent of small business loans (82.6 percent by dollar) within the moderate-income tracts, which is just below the percent of businesses located in the moderate-income tracts, at 81.8 percent. Small business lending in middle-income census tracts, at 23.4 percent by number (17.4 percent by dollar), is above the percentage of businesses, at 18.2 percent.

Distribution by Borrower Income and Revenue Size of Businesses

This performance criterion evaluates the bank's level of lending to borrowers of different income levels, particularly LMI individuals. Lending to businesses of different revenue sizes is also evaluated, emphasizing lending to those with gross annual revenues of \$1MM or less.

The bank's consumer motor vehicle loans were compared to the percentage of low-, moderate-, middle-, and upper-income households located in the bank's AA. The bank's residential loans were compared to the percentage of families classified as low-, moderate-, middle-, and upper-income residing in the AA. The bank's small business loans were compared to the percentage of businesses operating in the bank's AA by revenue size.

Overall, the bank's borrower distribution of loans represented a reasonable penetration among individuals of different income levels and businesses of different revenue sizes.

TABLE 5
DISTRIBUTION BY INCOME LEVEL OF BORROWER AND
REVENUE SIZE OF BUSINESSES
RURAL OKLAHOMA AA

Borrower Income Level	Motor Vehicle Loans				% of Households ¹
	#	\$(000)	#%	\$%	
Low	27	214	33.3	21.0	32.8
Moderate	19	185	23.5	18.2	18.4
Middle	16	206	19.8	20.2	17.6
Upper	19	413	23.5	40.6	31.2
Unknown	0	0	0.0	0.0	0.0
Borrower Income Level	Residential Loans				% of Families ¹
	#	\$(000)	#%	\$%	
Low	11	575	33.3	15.5	28.3
Moderate	4	165	12.1	4.5	19.6
Middle	6	897	18.2	24.2	19.4
Upper	12	2,067	36.4	55.8	32.6
Unknown	0	0	0.0	0.0	0.0
Business Revenue	Small Business Loans				% of Businesses by Revenue ²
	#	\$(000)	#%	\$%	
\$1MM or Less	45	2,180	95.7	84.1	88.5
Over \$1MM	2	414	4.3	16.0	7.2
Income Not Known	0	0	0.0	0.0	4.2

¹ Based on 2010 ACS five-year estimate data.

² Based on 2016 D&B data.

(Note: Total percentages shown may vary by 0.1 percent due to automated rounding differences.)

Motor Vehicle

The bank's distribution of consumer motor vehicle loans to borrowers of different income levels is reasonable. The bank's lending to low-income borrowers is 33.3 percent by number (21.0 percent by dollar), which is comparable to the percentage of low-income households, at 32.8 percent. The bank's lending to moderate-income borrowers is 23.5 percent by number (18.2 percent by dollar), which exceeds the percentage of moderate-income households in the AA, at 18.4 percent. Lending performance to middle-income borrowers, at 19.8 percent by number (20.2 percent by dollar), was above AA demographics, at 17.6 percent, while lending to upper-income borrowers, at 23.5 percent by number (40.6 percent by dollar), was below the demographic figure of 31.2 percent.

Residential Real Estate

The bank's distribution of residential real estate loans to borrowers of different income levels is reasonable. The bank's lending to low-income borrowers is 33.3 percent by number (15.5 percent by dollar), which exceeds the percentage of low-income families, at 28.3 percent. The bank's lending to moderate-income borrowers is 12.1 percent by number (4.5 percent by dollar), which is below the percentage of moderate-income families in the AA, at 19.6 percent. The overall lending to LMI borrowers, at 45.4 percent by number, is just below the percentage

of LMI families, at 47.9 percent, resulting in an overall reasonable lending performance. Lending to middle-income borrowers, at 18.2 percent by number (24.2 percent by dollar), is comparable to AA demographics, at 19.4 percent. Lending to upper-income borrowers, at 36.4 percent by number (55.8 percent by dollar), is above the demographic figure of 32.6 percent.

Small Business Loans

The bank's distribution of lending to businesses of different revenue sizes is reasonable. As shown in Table 5, the bank's level of lending to small businesses, or those with gross annual revenues of \$1MM or less, at 95.7 percent by number (84.1 percent by dollar), is above the percent of small businesses in the AA, at 88.5 percent. The bank's lending to businesses with revenues over \$1MM was 4.3 percent by number (16.0 percent by dollar), which is slightly below the demographic figure of 7.2 percent.

STATE OF TEXAS/SHERMAN-DENISON MSA
(Full Review)

CRA RATING FOR TEXAS: ***"Satisfactory"***

CRA RATING FOR SHERMAN-DENISON MSA AA: ***"Satisfactory"***

Major factors supporting the rating include:

- The bank's geographic distribution of consumer motor vehicle and small business loans reflects a reasonable dispersion of lending throughout the Sherman-Denison Texas MSA AA.
- The distribution of consumer motor vehicle and small business loans reflects a reasonable dispersion to individuals of different income levels and to businesses of different revenue sizes within the Sherman-Denison Texas MSA AA.

SCOPE OF EXAMINATION

The state of Texas rating was based on a full-scope review of the bank's performance in the Sherman-Denison Texas MSA AA. The methodology used for the state of Texas review was generally consistent with the scope of the overall examination. Additionally, the bank's statewide performance is discussed concurrently with the assessment of its lending record for the Sherman-Denison Texas MSA AA as this is the sole AA for this state.

The bank's performance in the Sherman-Denison Texas MSA AA was not weighted as heavily in determining the overall rating, as the bank only has one of its four locations in this AA. Further, this AA comprises a lower concentration of the bank's overall loan volume (26.0 percent). Given the low volume of residential real estate loans originated in this market, there was an insufficient amount of information to provide a meaningful analysis of the bank's lending performance for this product for the geographic and borrower distributions within the AA.

In addition, the evaluation utilized information gathered from an interview with a member of the Grayson County community.

DESCRIPTION OF THE BANK'S OPERATIONS IN THE SHERMAN-DENISON TEXAS MSA AA

The Sherman-Denison Texas MSA AA, which is comprised of Grayson County in its entirety, has a total of 26 census tracts: 8 moderate-, 15 middle-, and 3 upper-income census tracts. These tracts are sporadically located throughout the AA. The bank's branch in Sherman, the

county seat, is located in a middle-income tract, near the center of the county. According to the June 30, 2017 FDIC Market Share Report, the bank held deposits of \$32.4MM, which represents a market share of 1.4 percent, ranking the bank 9th of 13 financial institutions in the Sherman-Denison Texas MSA AA.

Population Characteristics

Grayson County ranks 35th out of the 254 counties within the state of Texas in terms of population. According to the U.S. Census Bureau 2016 data estimates, the AA's population equaled 128,235, representing an increase of 6.1 percent since the 2010 Census population of 120,877. In the AA, approximately 69.8 percent of the households in the AA are families, compared to 70.2 percent for the state of Texas. At 15.5 percent, the AA has a higher percentage of individuals aged 65 years and over compared to the state of Texas at 10.4 percent. In contrast, the AA has a lower percent of the population age 17 years and under (24.1 percent) compared to the state of Texas at 27.3 percent.

Economic and Employment Characteristics

The AA's economy is well-diversified. Major employers in the area include Texoma Medical Center, Tyson Fresh Meats, Texas Instruments, Ruiz Foods, and CIGNA as well as the Denison and Sherman Independent School Districts. Located approximately 60 miles from Dallas, Texas, some residents commute outside the AA for employment as well.

According to the Bureau of Labor Statistics, the 2016 unemployment rate in the Sherman-Denison Texas MSA AA was 3.8 percent, which was below the state of Texas' unemployment rate, at 4.6 percent. The unemployment rate in the AA has steadily declined over the years, reported at 4.8 percent and 4.0 percent for 2014 and 2015, respectively. A member of the community stated that the area has grown more rapidly than expected in recent years. Many national retailers have established locations in the area resulting in more jobs and a larger retail sector.

Income Characteristics

The estimated median household income in 2010 for the Sherman-Denison Texas MSA AA overall was \$46,875, which is below the median household income for the state of Texas, at \$49,646. The AA has a slightly lower percentage of low-income households, at 23.2 percent, compared to the state of Texas, at 24.1 percent, and 16.5 percent of households within the AA are considered moderate-income, compared to 16.3 percent in the state. Additionally, the percent of middle- and upper-income households residing in the AA, at 60.3 percent, was comparable to the state average, at 59.6 percent. The AA had an average of 13.3 percent of households below the poverty rate, which is lower than the state of Texas, at 15.1 percent.

Housing Characteristics

The AA contains 53,103 housing units, of which 60.4 percent are owner-occupied, 25.4 percent are rental units, and 14.2 percent are vacant properties. These numbers are comparable to the state figures designating approximately 57.0 percent of total housing units as owner-occupied units, 30.9 percent as rental units, and 12.1 percent as vacancies. The median housing value in the AA is \$99,582, which was below the state of Texas value, at \$123,500. Although incomes in the AA are comparable to the state, the lower median housing values in the AA result in a higher housing affordability ratio², at 47.1 percent, showing the AA is more affordable than the state of Texas, at 40.2 percent. The AA has a median age of housing stock that is older, at 36 years, compared to the state of Texas average age of 27 years. Additionally, the AA has approximately 15.7 percent of the housing units that were built prior to 1950, whereas the state has approximately 8.9 percent.

² The housing affordability ratio is calculated by dividing the median household income by the median household value. A lower ratio reflects less affordable homes.

Table 6 summarizes the demographic and economic characteristics of the Sherman-Denison Texas MSA AA based on 2010 ACS data and 2016 D&B data.

TABLE 6 SHERMAN-DENISON TEXAS MSA AA DEMOGRAPHICS								
Income Categories	Tract Distribution		Families by Tract Income		Families < Poverty Level as % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low	0	0.0	0	0.0	0	0.0	6,614	20.8
Moderate	8	30.8	7,345	23.1	1,417	19.3	5,763	18.1
Middle	15	57.7	18,417	58.0	1,538	8.4	6,754	21.3
Upper	3	11.5	6,006	18.9	283	4.7	12,637	39.8
Unknown	0	0.0	0	0.0	0	0.0	0	0.0
Total AA	26	100.0	31,768	100.0	3,238	10.2	31,768	100.0
	Housing Units by Tract	Housing Type by Tract						
		Owner-occupied			Rental		Vacant	
		#	% by tract	% by unit	#	% by unit	#	% by unit
Low	0	0	0.0	0.0	0	0.0	0	0.0
Moderate	13,709	7,383	23.0	53.9	3,713	27.1	2,613	19.1
Middle	31,007	18,394	57.3	59.3	8,588	27.7	4,025	13.0
Upper	8,387	6,299	19.6	75.1	1,168	13.9	920	11.0
Unknown	0	0	0.0	0.0	0	0.0	0	0.0
Total AA	53,103	32,076	100.0	60.4	13,469	25.4	7,558	14.2
	Total Businesses by Tract		Businesses by Tract & Revenue Size					
			Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported	
	#	%	#	%	#	%	#	%
Low	0	0.0	0	0.0	0	0.0	0	0.0
Moderate	1,267	25.0	1,160	24.9	97	28.0	10	15.6
Middle	2,997	59.1	2,758	59.2	201	57.9	38	59.4
Upper	806	15.9	741	15.9	49	14.1	16	25.0
Unknown	0	0.0	0	0.0	0	0.0	0	0.0
Total AA	5,070	100.0	4,659	100.0	347	100.0	64	100.0
Percentage of Total Businesses:			91.9		6.8		1.3	
	Total Farms by Tract		Farms by Tract & Revenue Size					
			Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported	
	#	%	#	%	#	%	#	%
Low	0	0.0	0	0.0	0	0.0	0	0.0
Moderate	9	3.8	9	3.8	0	0.0	0	0.0
Middle	158	66.7	158	66.7	0	0.0	0	0.0
Upper	70	29.5	70	29.5	0	0.0	0	0.0
Unknown	0	0.0	0	0.0	0	0.0	0	0.0
Total AA	237	100.0	237	100.0	1	0.0	0	0.0
Percentage of Total Farms:			100.0		0.0		0.0	
Based on 2010 ACS five-year estimate data, 2016 FFIEC's census tract definitions, and 2016 D&B data. (NOTE: Total percentages shown may vary by 0.1 percent due to automated rounding differences.)								

Community Contacts

A member of the community was contacted to gain a perspective of the area economic conditions and possible credit needs. This person, affiliated with a small business development organization, stated that Grayson County has grown, both in population and number of businesses, more rapidly than expected over the past few years. More national retailers have a presence, resulting in additional jobs and a larger retail industry. As a result of the population growth, there has been a shortage of housing, particularly entry-level, single-family homes. However, the area does have a good supply of low-income housing, particularly in the form of apartment complexes. Nonetheless, homes on the market are often selling immediately, and for prices above the asking price, causing housing to become less attainable for LMI residents.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA IN THE SHERMAN-DENISON TEXAS MSA AA

The bank's CRA performance in the state of Texas is Satisfactory. The distribution of loans among the AA's geographies of different income levels is reasonable. Additionally, the distribution of loans amongst borrowers of different income levels and to businesses of different revenue sizes is reasonable.

Distribution by Income Level of Geographies

This performance criterion evaluates the bank's distribution of loans amongst the AA's geographies of different income levels. As previously mentioned, the bank's AA does not contain any low-income tracts; therefore, emphasis was placed on the bank's lending in the AA's eight moderate-income tracts.

The bank's motor vehicle loans were compared to the percentage of households located in the AA by census tract income, while the bank's small business lending was compared to the percentage of businesses located in each AA census tract.

Overall, the bank's geographic distribution of motor vehicle and small business loans is reasonable.

TABLE 7
DISTRIBUTION BY INCOME LEVEL OF GEOGRAPHIES
SHERMAN-DENISON TEXAS MSA AA

Census Tract Income Level	Motor Vehicle Loans				% of Households ¹
	#	\$(000)	#%	\$%	
Low	0	0	0.0	0.0	0.0
Moderate	4	12	57.1	30.8	24.4
Middle	3	27	42.9	69.2	59.2
Upper	0	0	0.0	0.0	16.4
Unknown ³	0	0	0.0	0.0	0.0
Census Tract Income Level	Residential Loans				% of Owner- Occupied Units ¹
	#	\$(000)	#%	\$%	
Low	0	0	0.0	0.0	0.0
Moderate	0	0	0.0	0.0	23.0
Middle	1	165	33.3	43.5	57.3
Upper	2	214	66.7	56.5	19.6
Unknown ³	0	0	0.0	0.0	0.0
Census Tract Income Level	Small Business Loans				% of Businesses ²
	#	\$(000)	#%	\$%	
Low	0	0	0.0	0.0	0.0
Moderate	5	555	33.3	51.8	25.0
Middle	9	499	60.0	46.5	59.1
Upper	1	18	6.7	1.7	15.9
Unknown ³	0	0	0.0	0.0	0.0

¹ Based on 2010 ACS five-year estimate data and 2016 FFIEC's census tract definitions.
² Based on 2016 D&B data.
³ Does not include tracts where the income level is unknown. Only includes tract locations not known.
NOTE: Total percentages shown may vary by 0.1 percent due to automated rounding differences.)

Motor Vehicle

The bank's distribution of consumer motor vehicle loans reflects a reasonable dispersion throughout the AA. As noted in Table 7, the bank's lending in the moderate-income census tracts, at 57.1 percent by number (30.8 percent by dollar), is well above the percentage of households located in these tracts, at 24.4 percent. The bank's performance in middle-income census tracts is below the demographic figure, at 42.9 percent by number (69.2 percent by dollar), when compared to the 59.2 percent of households located in these census tracts. The bank did not originate any motor vehicle loans within the upper-income census tracts, while 16.4 percent of households are located in these tracts.

Small Business Loans

The bank's distribution of small business loans reflects a reasonable dispersion throughout the AA. As noted in Table 7, the bank originated 33.3 percent (51.8 percent by dollar volume) of small business loans within the moderate-income tracts, which is above the demographic figure, or percent of businesses located in the moderate-income tracts, at 25.0 percent. Small business lending in middle-income census tracts, at 60.0 percent by number (46.5 percent by dollar), is in line with the percentage of businesses, at 59.1 percent. Lending in the upper-

income census tracts, at 6.7 percent by number (1.7 percent by dollar volume), is below the demographic figure of 15.9 percent.

Distribution by Borrower Income and Revenue Size of Businesses

This performance criterion evaluates the bank's level of lending to borrowers of different income levels, particularly LMI individuals. Lending to businesses of different revenue sizes is also evaluated, emphasizing lending to those with gross annual revenues of \$1MM or less.

The bank's consumer motor vehicle loans were compared to the percentage of low-, moderate-, middle-, and upper-income households located in the bank's AA. The bank's small business loans were compared to the percentage of businesses operating in the bank's AA by revenue size.

Overall, the bank's borrower distribution of loans represented a reasonable penetration among individuals of different income levels and businesses of different revenue sizes.

TABLE 8
DISTRIBUTION BY INCOME LEVEL OF BORROWER AND
REVENUE SIZE OF BUSINESSES
SHERMAN-DENISON TEXAS MSA AA

Borrower Income Level	Motor Vehicle Loans				% of Households ¹
	#	\$(000)	#%	\$%	
Low	3	7	42.9	17.9	23.2
Moderate	2	10	28.6	25.6	16.5
Middle	1	4	14.3	10.3	18.6
Upper	1	18	14.3	46.2	41.8
Unknown	0	0	0.0	0.0	0.0
Borrower Income Level	Residential Loans				% of Families ¹
	#	\$(000)	#%	\$%	
Low	0	0	0.0	0.0	20.8
Moderate	0	0	0.0	0.0	18.1
Middle	0	0	0.0	0.0	21.3
Upper	3	379	100.0	100.0	39.8
Unknown	0	0	0.0	0.0	0.0
Business Revenue	Small Business Loans				% of Businesses by Revenue ²
	#	\$(000)	#%	\$%	
\$1MM or Less	14	1,042	93.3	97.2	91.9
Over \$1MM	1	30	6.7	2.8	6.8
Income Not Known	0	0	0.0	0.0	1.3

¹ Based on 2010 ACS five-year estimate data.

² Based on 2016 D&B data.

(Note: Total percentages shown may vary by 0.1 percent due to automated rounding differences.)

Motor Vehicle

The bank's distribution of consumer motor vehicle loans to borrowers of different income levels is reasonable. The bank's lending to low-income borrowers is 42.9 percent by number (17.9 percent by dollar), which exceeds the percentage of low-income households, at 23.2 percent. The bank's lending to moderate-income borrowers is 28.6 percent by number (25.6 percent by dollar) and also exceeds the demographic figure of 16.5 percent. By number volume, lending to middle- and upper-income borrowers is below the demographic figures. While the majority of loans by dollar-volume were originated to upper-income borrowers at 46.2 percent, this is considered reasonable as these types of borrowers are typically more affluent and can afford higher priced vehicles.

Small Business Loans

The bank's distribution of lending to businesses of different revenue sizes is reasonable. As shown in Table 8, the bank's level of lending to small businesses, or those with gross annual revenues of \$1MM or less, at 93.3 percent by number (97.2 percent by dollar), is comparable to the percent of small businesses in the bank's AA, at 91.9 percent. The bank's lending to businesses with revenues over \$1MM was 6.7 percent by number (2.8 percent by dollar), which is in line with the demographic figure of 6.8 percent.