



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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## **PUBLIC DISCLOSURE**

**December 22, 2003**

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

**Security State Bank, National Association  
Charter Number 23867**

**220 East Main  
Ore City, TX 75683**

**Comptroller of the Currency  
ADC-Longview (NE Texas & NW Louisiana)  
1800 West Loop 281  
Suite 306  
Longview, TX 75604**

**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.**

Security State Bank, N.A., Ore City, Texas has a satisfactory record of meeting community credit needs. This rating is based on the following:

- The bank's loan-to-deposit ratio is satisfactory based on its size and complexity.
- A majority of the bank's loans are extended within its assessment area.
- Credit activity is reasonably distributed to borrowers of different income levels.
- The geographic distribution of loans reflects reasonable dispersion throughout the assessment area.

## DESCRIPTION OF INSTITUTION

Security State Bank is a \$42 million bank wholly owned by First Gilmer Bankshares, Inc. The bank is located at 220 East Main, Ore City, Texas. The bank also has a full service branch located in Diana, Texas, seven miles south of the main office. In addition, the bank operates four Automated Teller Machines (ATM's), located at the main office, the branch location, a grocery store across from the main office, and at a convenience store located next to the branch. The institution is consumer oriented and offers full service banking. As of September 30, 2003, gross loans totaled \$23 million and represented approximately 52% of the bank's total assets. The following chart reflects the distribution of the bank's loan portfolio:

<b>Loan Category</b>	<b>\$ (000)</b>	<b>%</b>
Consumer Loans	9,335	41.47
Residential Real Estate Loans	7,957	35.35
Commercial Loans	2,208	9.81
Commercial Real Estate Loans	2,172	9.64
Other Loans	463	2.06
Ag Loans	375	1.67
<b>Total</b>	<b>22,510</b>	<b>100%</b>

There are no legal impediments or other factors which inhibit the bank's ability to meet the credit needs of the community. The bank was rated satisfactory during the prior CRA Examination dated May 10, 1999.

## DESCRIPTION OF ASSESSMENT AREA

The Board has designated two assessment areas for CRA purposes. Block Numbering Areas (BNAs) 9501 and 9502 in Upshur County, Census Tract (CT) 101.00 in Gregg County and CT 202.98 in Harrison County have been designated as one assessment area. This area is part of the Longview/Marshall Metropolitan Statistical Area (MSA). The other assessment area includes BNAs 9502, 9503, and 9504 in Marion County. These assessment areas meet the requirements of the Community Reinvestment Act and do not arbitrarily exclude low- and moderate-income geographies.

### LONGVIEW/MARSHALL MSA - TRACTS 9501, 9502, 101.00, AND 202.98

The designated CTs and BNAs in this assessment area are mainly rural and located just North of the City of Longview. Ore City and Diana are located centrally within the designated assessment area. There are no low- or moderate-income tracts located within the assessment area; however, there are three middle- and one upper-income tracts. The following table provides a description of the bank's assessment area based on 1990 census data and 2002 Department of Housing and Urban Development (HUD) information:

<b>DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA</b>	
<i>Population</i>	
Number of Families	5,430
Number of Households	6,672
<i>Geographies</i>	
Number of Census Tracts/BNA	4
% Low-Income Census Tracts/BNA	0%
% Moderate-Income Census Tracts/BNA	0%
% Middle-Income Census Tracts/BNA	75.00%
% Upper-Income Census Tracts/BNA	25.00%
<i>Median Family Income (MFI)</i>	
1990 MFI for AA	\$28,627
2002 HUD-Adjusted MFI	\$25,397
<i>Economic Indicators</i>	
Unemployment Rate	3.00%
2002 Median Housing Value	\$48,914
% of Households Below Poverty Level	16%

The geographies comprising this assessment area contain a total population of 18,884. The distribution of families by income levels, regardless of census tract location, consists of the following: 22.36% low-income, 16.13% moderate-income, 20.85% middle-income, and 40.66% upper-income. Major employers within the assessment area include Lone Star Steel, Peebles Lumber, Team Carriers, Etex Telephone, and local area school districts. Competition in Ore City is considered moderate, as there is only one bank branch from another institution, and minimal in Diana, as the bank is the only institution located within that community.

Contacts with a local realtor in Longview indicated the primary community credit needs for the assessment area are residential mortgages and consumer loans.

### **MARION COUNTY - TRACTS 9502, 9503, AND 9504**

Census tracts 9502, 9503, and 9504 are located in the Northern part of Marion County and are not within a Metropolitan Statistical Area. These tracts include the communities of Jefferson and Lake O’ the Pines. The assessment area includes two moderate-income tracts and one middle-income tract. The following table provides a description of the bank's assessment area based on 1990 census data and 2002 Department of Housing and Urban Development (HUD) information:

<b>DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA</b>	
<i>Population</i>	
Number of Families	2,236
Number of Households	3,158
<i>Geographies</i>	
Number of Census Tracts/BNA	3
% Low-Income Census Tracts/BNA	0%
% Moderate-Income Census Tracts/BNA	66.67%
% Middle-Income Census Tracts/BNA	33.33%
% Upper-Income Census Tracts/BNA	0%
<i>Median Family Income (MFI)</i>	
1990 MFI for AA	\$24,585
2002 HUD-Adjusted MFI	\$36,100
<i>Economic Indicators</i>	
Unemployment Rate	5%
2002 Median Housing Value	\$33,591
% of Households Below Poverty Level	29%

These three BNAs have a total population of 7,702, based on 1990 census data. The distribution of families by income level, regardless of BNA location, consists of the following: 32.33% low-income, 20.21% moderate-income, 18.29% middle-income, and 29.16% upper-income. A majority of the residents in the assessment area commute to work in surrounding cities such as Longview and Gilmer. The area located around the Lake O’ the Pines is primarily residential, while Jefferson is primarily tourist related and has a heavy concentration of bed and breakfast establishments. Major employers in the assessment area include International Paper and local

area school districts. Competition within this assessment area is strong with numerous banks, bank branches, and credit unions, primarily within Jefferson.

Contact with a local real estate broker in Jefferson indicated the primary community credit needs for the assessment area are residential consumer and residential loans. .

## CONCLUSIONS ABOUT PERFORMANCE CRITERIA

### LOAN-TO-DEPOSIT RATIO

The loan-to-deposit ratio of Security State Bank, N.A. is reasonable given the bank's size, financial condition, and assessment area credit needs. The bank's quarterly loan-to-deposit ratio has averaged 62.35% since the prior CRA examination in May 1999. The average loan-to-deposit ratio of banks in the area and of similar size and characteristics, for the same time period, was 62.62%.

<b>Institution</b>	<b>Assets (000s) (as of 9/30/03)</b>	<b>Average LTD Ratio</b>
Gladewater National Bank	26,571	75.75
Lone Star State Bank, Lone Star	33,138	75.28
National Bank of Daingerfield	71,422	67.11
First State Bank, Avinger	19,662	66.05
<b>Security State Bank, N.A.</b>	<b>43,007</b>	<b>62.35</b>
First National Bank, Linden	53,256	47.81
First State Bank, Hallsville	29,680	43.99

### LENDING IN ASSESSMENT AREA

A majority of the bank's lending activity is located within its assessment area. We reviewed a sample of 130 residential loans, which were all mortgages originated in 2001 and 2002, and 51 consumer loans, which were originated subsequent to May 1999. The breakdown by loan category is illustrated in the following table:

TOTAL LOANS REVIEWED								
LOAN TYPE	IN ASSESSMENT AREA				OUT OF ASSESSMENT AREA			
	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Residential	97	74.62	3,722	74.32	33	25.38	1,286	25.68
Consumer	40	78.43	411	84.92	11	21.57	74	15.29
Total Reviewed	137	75.69	4,133	75.24	44	24.31	1,360	24.76

## LENDING TO BORROWERS OF DIFFERENT INCOME LEVELS

### LONGVIEW/MARSHALL MSA - TRACTS 9501, 9502, 101.00, AND 202.98

The distribution of loans within the assessment area reflects a reasonable penetration among borrowers of different income levels. The distribution of home loans generally approximates the income characteristics of the assessment area. While home purchase loans to low-income families are at a low level compared to the demographics of the assessment area, consumer loans exceed the percentage of low- and moderate-income households. Borrowing for home purchases by low-income individuals is limited, as approximately 29% of the households in this assessment area are below poverty level.

RESIDENTIAL REAL ESTATE								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Families	24.68		17.50		20.37		37.44	
LOANS BY YEAR	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
	14.29	4.14	14.29	11.73	32.14	17.62	39.29	66.50

CONSUMER								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households	29.6		14.6		15.8		40.0	
LOANS BY YEAR	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
	45.83	47.19	16.67	8.02	12.50	12.21	25.00	32.59

### MARION COUNTY - TRACTS 9502, 9503, AND 9504

The distribution of loans within the assessment area reflects a reasonable penetration among borrowers of different income levels. The distribution of home and consumer loans generally approximates the income characteristics of the assessment area. While penetration was somewhat low for home loans, the bank's lending activities for consumer loans to low- to moderate-income individuals is good.

RESIDENTIAL REAL ESTATE								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Families	32.33		20.21		18.29		29.16	
LOANS BY YEAR	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
	5	25.00	3	15.00	4	20.00	8	40.00

CONSUMER								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households	35.6		16.8		15.5		32.1	
LOANS BY YEAR	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
	8	40.00	3.	15.00	3	15.00	6	30.00

## **GEOGRAPHIC DISTRIBUTION OF LOANS**

### **LONGVIEW/MARSHALL MSA - TRACTS 9501, 9502, 101.00, AND 202.98**

A geographic analysis of lending activity in the designated CTs of the Longview/Marshall MSA assessment area was not performed. There are no low- or moderate-income geographies located within this assessment area; therefore, an analysis would not be meaningful.

### **MARION COUNTY - TRACTS 9502, 9503, AND 9504**

The distribution of loans reflects a reasonable penetration throughout the assessment area. The distribution of home loans far exceeds the demographics of the assessment area. Our initial sample of consumer loans indicated a low penetration in the moderate-income tracts. An addition sample of twelve loans was reviewed and resulted in a reasonable penetration in these tracts.



RESIDENTIAL REAL ESTATE								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Owner Occupied	0		71.52		28.48		0	
LOANS BY YEAR	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
	0	0	95.00	95.05	5.00	7.95	0	0

CONSUMER								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households	0		68.65		31.35		0	
LOANS BY YEAR	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
	0	0	56.75	52.23	43.25	47.77	0	0

## RESPONSES TO COMPLAINTS

Management has not received any written complaints related to CRA performance since the prior CRA Examination dated August 9, 1999.

## FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

We found no evidence of illegal discrimination or other illegal credit practices.