

PUBLIC DISCLOSURE

August 24, 1998

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Secured Trust Bank
Certificate Number: 34412
Post Office Box 6950
1909 Broadway
Tyler, Texas 75711**

Federal Deposit Insurance Corporation

**Division of Compliance and Consumer Affairs
1910 Pacific Ave, 20th Floor
Dallas, Texas 75201**

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.

TABLE OF CONTENTS

I.	General Information	1
II.	Institution Rating	1
III.	Description of Institution	2
IV.	Description of Assessment Area	3
V.	Conclusions	5

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 **Secured Trust Bank** prepared by the Federal Deposit Insurance Corporation, the institution's supervisory agency, as of **August 24, 1998**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 345.*

INSTITUTION RATING

INSTITUTION'S CRA RATING: This institution is rated Satisfactory.

Considering the bank's unique position as a newly chartered bank, CRA performance depicts a satisfactory practice of providing for the credit needs of the assessment area. This rating is supported by the following:

- The loan-to-deposit ratio experienced reasonable growth since the bank's inception.
- A majority of loans reviewed were extended within the bank's assessment area.
- The loans sampled were reasonably dispersed throughout the assessment area.
- Loans have been extended to businesses of varying size.

DESCRIPTION OF INSTITUTION

Secured Trust Bank was formed on January 24, 1997 and is an independent bank. The company operated a trust company for eleven years prior to obtaining a bank charter. Originally, the bank's balance sheet included purchased loans secured by certificates of deposits of \$100,000 and \$23,750,000 in deposits. The bank has grown to \$40,990,000 in total assets as reported on the June 30, 1998 Report of Condition. Secured Trust Bank has consistently increased the loan portfolio. The asset composition and loan portfolio mix as of June 30, 1998 are displayed in Tables 1 and 2:

Table 1

Asset	Amount (000)	Percentage of Total Assets
Securities	\$33,387	81
Net Loans	3,608	9
Cash and Federal Funds Sold	1,840	4
Premises and Fixed Assets	852	2
Intangible Assets	637	2
Other Assets	666	2

Table 2

Loan Type	Amount (000)	Percentage of Gross Loans
Commercial	\$1,362	38
Consumer	923	26
Farmland	239	6
Agricultural	148	4
Other	941	26

Secured Trust Bank operates one location near downtown Tyler. The bank offers a wide range of deposit products and loan products; however, it has not yet extended each type of credit offered. Loan products include commercial loans, commercial real estate loans, agricultural loans, consumer loans, residential real estate loans, and interim construction loans. The bank also makes

long-term residential home purchase loans available to its customers through a referral program with a mortgage company named TIMCO. Three of these loans have been extended.

Lobby hours are Monday through Thursday from 9:00 a.m. to 4:00 p.m., and Friday from 9:00 a.m. to 5:30 p.m. Motor bank hours are Monday through Friday from 9:00 a.m. through 6:00 p.m., and Saturday from 9:00 a.m. through noon. One ATM is operated at the main bank location.

DESCRIPTION OF ASSESSMENT AREA

Secured Trust Bank is located in the City of Tyler and has designated an assessment area that encompasses the city. The assessment area is composed of 28 census tracts¹ and is part of the Tyler Metropolitan Statistical Area (MSA)². The assessment area population is estimated at 105,552. The geographical areas comprising the assessment area include all income levels³. Census tract income levels are based on the 1990 median family income⁴ for the Tyler MSA of \$31,042. The bank is located in census tract 0011.01 which is an upper-income level geography. Table 3 provides a list of the assessment area census tracts by income level:

¹ *Census Tracts* are small statistical subdivisions of a Metropolitan Statistical Area. State agencies and the United States Census Bureau delineated census tracts from the 1990 census. Census tracts do not cross any county or state lines.

²*Metropolitan Statistical Areas* are determined by the decennial census. Usually consisting of contiguous census tract and block numbering areas comprising one or more counties including a large population nucleus and nearby communities that have a high degree of interaction and which usually have a combined population of greater than 50,000.

³Income Levels:

Low-income - an income that is less than 50 percent of the MFI

Moderate-income - an income that is at least 50 percent and less than 80 percent of the MFI

Middle-income - an income that is at least 80 percent and less than 120 percent of the MFI

Upper-income - an income that is 120 percent or more of the MFI

⁴*Median Family Income (MFI)* is determined by the decennial census for the most recent year's Department of Housing and Urban Development's (HUD) estimate.

Table 3

Low-income	Moderate-income	Middle-income	Upper-income
0002.02	0002.01	0001.00	0010.00
0005.00	0003.00	0008.00	0011.01
0007.00	0004.00	0009.00	0011.02
	0006.00	0012.00	0013.00
		0016.01	0016.02
		0017.00	0018.03
		0018.02	0019.01
		0020.03	0019.03
		0020.07	0020.04
			0020.05
			0020.06
			0020.08

Tyler has a competitive market for financial services. Secured Trust Bank has numerous competitors including other banks, savings associations, credit unions and non-bank lenders.

Interviews with people in the community who are knowledgeable of its credit needs revealed the following credit needs in Tyler: business start-up loans, micro-business loans, and affordable housing loans. The interviewees indicated that the economy of Tyler is strong, and that banks generally have made credit available. Secured Trust Bank does offer loan products for the needs identified; however, it is too early in the banks operations to determine how effectively the products will meet identified credit needs.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Sampling Information

To determine the bank's lending performance in the assessment area, all loans extended from December 31, 1997 through June 30, 1998 were reviewed.

LOAN-TO-DEPOSIT RATIO

The bank has a low loan-to-deposit ratio since it is a newly chartered bank. The average loan-to-deposit ratio for the six quarters since inception is 4.66 percent. The growth of the loan portfolio displays the bank's commitment to extend credit. Loan growth since inception has been substantial. The annual growth from June of 1997 through June of 1998 was 332 percent. The growth trends of the loan portfolio are displayed in Table 4:

Table 4

Date	Loan-to-Deposit Ratio	Total Loans (000)	Loan Growth Since Bank Inception	Annual Loan Growth
6-30-98	9.92%	\$3,613	3,513%	332%
3-31-98	6.31%	2,418	2,318%	1,035%
12-31-97	3.90%	1,438	1,338%	NA
9-30-97	3.67%	1,234	1,134%	NA
6-30-97	3.33%	837	737%	NA
3-31-97	0.83%	213	113%	NA

Secured Trust Bank is not similar to other institutions within its assessment area as a result of its unique position as a newly chartered bank. The bank's loan performance was compared with 17 other banks chartered since 1996 in Texas, Colorado, New Mexico, and Oklahoma. The 17 other banks had an average annual loan growth rate of 284 percent, and their loan growth rates ranged from 29 percent to 1,281 percent. While each bank is unique and operates in different markets, Secured Trust Bank's growth compares favorably with other newly chartered banks.

Secured Trust Bank's loan growth has exceeded projections made by bank management at the bank's inception. Total loans were projected to be \$3,500,000 by December 31, 1998. Loans passed this level during June 1998. The growth trend continued during July; total loans were \$4,492,680 as of July 31, 1998, and the loan-to-deposit ratio was 12.17 percent.

The bank's lending level is considered satisfactory, it has experienced consistent growth since the bank's inception, the loan growth is in line with other newly chartered banks, and the loan portfolio size has exceeded 1998 projections.

LENDING IN THE ASSESSMENT AREA

The bank extended 49 loans between December 1997, and June 1998. Of these, 37 loans totaling \$3,315,284 were made within the bank's assessment area. This equates to 76 percent of the number of loans and 79 percent of the amount of loans being extended within the assessment area. This performance meets standards.

GEOGRAPHIC DISPERSION

The geographic analysis was performed based on the 37 loans extended within the bank's assessment area between December 1997 and June 1998. Table 5 provides a breakdown of the bank's loan distribution and compares it to characteristics of the assessment area.

Table 5

Income Level of Census Tracts	Number of Loans	Amount of Loans (000)	% of Assessment Area Census Tracts
Low	11%	7%	11%
Moderate	8%	1%	14%
Middle	43%	62%	32%
Upper	38%	30%	43%

The dispersion of loans is reasonable. The bank's penetration of loans to low-income census tracts is similar to the percentage of low-income geographies in the bank's assessment area. The penetration to moderate-income geographies is lower than the percentage of assessment area geographies, but reflects a willingness to lend in moderate-income geographies.

Loans were extended in 15 different census tracts. Loans were located in two of three low-income census tracts, and two of four moderate-income census tracts. The largest concentration of loans was in census tract 0009.00, a middle-income geography, with ten loans. Five loans were extended in upper-income census tract 20.08. The remaining 13 census tracts had between one and three loans.

The distribution reflects the bank's willingness to extend credit throughout its assessment area and is considered reasonable.

LENDING TO BUSINESSES OF DIFFERENT SIZES AND BORROWERS OF DIFFERENT INCOMES

The 37 loans extended in the bank's assessment area between December 1997, and July 1998 were reviewed. Of these loans, 11 loans were made to commercial entities. Table 6 displays the bank's lending performance to these businesses based on business asset size.

Table 6

Total Assets of Business	Number of Loans	Amount of Loans (000)
Less than \$100,000	1	\$ 25
\$101,000 - \$500,000	4	57
\$501,000 - \$1,000,000	1	40
Greater than \$1,000,000	5	1,199

The distribution reflects the bank's willingness to lend to businesses of different sizes. Although, the amount lent reflects a large concentration of loans to large companies.

During the period under review, 26 loans were extended to individuals for consumer purposes to finance investments. Income information was available for each borrower and is displayed in Table 7. Income levels are based on the 1998 HUD adjusted MFI for the Tyler MSA of \$41,200.

Table 7

Income Level	Number of Loans		Amount of Loans (000)	
Low	5	19%	\$ 173	9%
Moderate	2	8%	20	1%
Middle	0	0%	0	0%
Upper	19	73%	1,801	90%

The dispersion can be compared with the number of assessment area families in each income level as reported in the 1990 United States Census. This distribution is displayed in Table 8:

Table 8

Income Level	Percentage of Assessment Area Families
Low	23%
Moderate	17%
Middle	21%
Upper	39%

The distribution of loans to borrowers of different incomes indicates that substantially all of the loans were made to upper-income borrowers. This distribution does not reflect strong performance in meeting the credit needs of the entire assessment area. The concentration is a result of the bank's history as a trust company. Most of the bank's original borrowers have been customers of its trust department and tend to be upper-income individuals. As the bank continues to enlarge its loan portfolio, this concentration of loans to upper-income borrowers is expected to decline.

The bank's performance reveals a large proportion of its loans have been extended to upper-income individuals. Loans have been made to businesses of varying sizes, but the bulk of the funds were extended to large businesses. Performance for this criterion does not meet standards.

RESPONSE TO COMPLAINTS

The institution has not received any complaints regarding its community reinvestment activities.

FAIR LENDING PRACTICES

An examination of compliance with fair lending regulations identified no violations of the substantive provisions of antidiscrimination laws and regulations.