

# **PUBLIC DISCLOSURE**

August 3, 2020

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

Cleo State Bank  
Certificate Number: 406

202 South Square Street  
Cleo Springs, Oklahoma 73729

Federal Deposit Insurance Corporation  
Division of Depositor and Consumer Protection  
Dallas Regional Office

1601 Bryan Street, Suite 1410  
Dallas, Texas 75201

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.

## TABLE OF CONTENTS

INSTITUTION RATING .....	1
DESCRIPTION OF INSTITUTION .....	2
DESCRIPTION OF ASSESSMENT AREA .....	3
SCOPE OF EVALUATION .....	5
CONCLUSIONS ON PERFORMANCE CRITERIA.....	6
DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES REVIEW.....	9
APPENDICES .....	10
SMALL BANK PERFORMANCE CRITERIA.....	10
GLOSSARY .....	11

## INSTITUTION RATING

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

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

Cleo State Bank's satisfactory Community Reinvestment Act (CRA) performance under the Lending Test supports the overall rating. The following points summarize the bank's Lending Test performance.

- The loan-to-deposit ratio is reasonable given the institution's size, financial condition, and the assessment area's credit needs.
- The institution originated a majority of the loans reviewed inside its assessment area.
- The assessment area does not include any low- or moderate-income geographies; therefore, this criterion was not evaluated.
- The distribution of borrowers reflects an excellent penetration of loans among farms and businesses of different sizes.
- The institution did not receive any CRA-related complaints since the previous evaluation; therefore, this factor did not affect the rating.

## DESCRIPTION OF INSTITUTION

### Background

Cleo State Bank (CSB) is an \$88 million community bank headquartered in Cleo Springs, Oklahoma. Cleo Bancshares, Inc., a one-bank holding company also located in Cleo Springs, wholly owns CSB. The institution received a “Satisfactory” rating at its July 14, 2014 FDIC CRA Performance Evaluation, based on Interagency Small Institution Examination Procedures.

### Operations

CSB is located in rural northwestern Oklahoma and operates from its main office in Cleo Springs and three branch offices in the following cities: Carmen, Jet, and Meno. The main office and Jet branch are located in upper-income census tracts in Major County, while the Carmen and Meno branches are located in middle-income census tracts in Alfalfa County. The Cleo Springs and Meno locations offer drive-through facilities. The bank did not open or close any offices and did not participate in any merger or acquisition activity, since the previous evaluation.

CSB offers consumer, commercial, and agricultural loans, primarily focusing on agricultural and commercial loans. The bank also offers an array of deposit products including checking, savings, money market, certificate of deposit, and individual retirement accounts. Alternative delivery services include telephone and online banking, and automated teller machines at the Meno and Jet offices.

### Ability and Capacity

As of March 31, 2020, assets totaled \$88 million and deposits totaled \$71 million. Since the prior evaluation, assets and deposits fluctuated with an overall decline in total assets of 4.4 percent, an increase in net loans of 2.6 percent, and a decrease in total deposits of 7.5 percent. The following table shows the complete asset distribution as of March 31, 2020.

Asset Distribution		
Category	\$(000s)	%
Cash	10,920	12.4
Securities	41,566	47.2
Federal Funds Sold	275	0.3
Net Loans & Leases	33,203	37.7
Bank Premises and Fixed Assets	357	0.4
Other Real Estate Owned	859	1.0
Other Assets	901	1.0
<b>Total Assets</b>	<b>88,081</b>	<b>100.0</b>
<i>Source: Report of Condition and Income (03/31/20)</i>		

The following table, which presents the outstanding loan portfolio as of March 31, 2020, demonstrates a similar loan distribution as discussed under the Scope of Evaluation section. Agricultural loans (secured by farmland and agricultural production) at 47.2 percent, represent the largest loan category, followed by commercial and industrial loans at 41.7 percent.

<b>Loan Portfolio Distribution as of 03/31/2020</b>		
<b>Loan Type</b>	<b>\$(000s)</b>	<b>%</b>
Construction and Land Development	-	0.0
Secured by Farmland	1,549	4.6
1-4 Family Residential	84	0.3
Non-farm Non-Residential (Commercial)	-	0.0
<b>Total Real Estate Loans</b>	<b>1,633</b>	<b>4.9</b>
Commercial and Industrial	14,053	41.7
Agricultural Production and Other Loans to Farmers	14,353	42.6
Consumer Purpose	3,380	10.0
Obligations of States and Political Subdivisions in the United States	270	0.8
<b>Total Loans</b>	<b>33,689</b>	<b>100.0</b>
<i>Source: Report of Condition and Income</i>		

Examiners did not identify any financial, legal, or other impediments that affect the bank’s ability to meet the credit needs of the assessment area (AA).

## **DESCRIPTION OF ASSESSMENT AREA**

The CRA requires each financial institution to define one or more AAs within which its CRA performance will be evaluated. The bank designated a single AA consisting of Alfalfa and Major Counties (three census tracts each) in their entirety. The AA also includes portions of Blaine County (census tract 9587), Grant County (census tract 9564), and Woods County (census tract 9544). The AA has not changed since the prior evaluation and conforms to CRA regulatory requirements.

### **Economic and Demographic Data**

The AA includes nine census tracts in a non-Metropolitan Statistical Area of Oklahoma. According to 2015 American Community Survey (ACS) Data, these tracts reflect the following income designations: five middle- and four upper-income census tracts. The following table illustrates select demographic characteristics of the AA.

Demographic Information of the Assessment Area						
Assessment Area: CLEO SPRINGS AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	9	0.0	0.0	55.6	44.4	0.0
Population by Geography	18,439	0.0	0.0	47.4	52.6	0.0
Housing Units by Geography	9,354	0.0	0.0	50.2	49.8	0.0
Owner-Occupied Units by Geography	5,372	0.0	0.0	46.7	53.3	0.0
Occupied Rental Units by Geography	1,807	0.0	0.0	45.0	55.0	0.0
Vacant Units by Geography	2,175	0.0	0.0	63.1	36.9	0.0
Businesses by Geography	1,356	0.0	0.0	40.2	59.8	0.0
Farms by Geography	205	0.0	0.0	51.7	48.3	0.0
Family Distribution by Income Level	4,962	15.0	13.3	20.9	50.8	0.0
Household Distribution by Income Level	7,179	18.9	12.9	17.2	51.0	0.0
Median Family Income Non-MSAs - OK		\$51,491	Median Housing Value			\$76,766
			Median Gross Rent			\$569
			Families Below Poverty Level			9.6%
<i>Source: 2015 ACS and 2019 D&amp;B Data</i> <i>(*) The NA category consists of geographies that have not been assigned an income classification.</i>						

Service-related businesses represent the area’s primary industry and driving force of the economy. Other notable industries in the area include agriculture and retail trade. The area’s major employers include Northwestern Oklahoma State University, Okeene Milling, Alfalfa Electric, Mountain Country Foods, Seaboard Farms, as well as an array of medical facilities and school districts. According to 2019 D&B data, 87.8 percent of businesses operate from one location and 61.6 percent have four or fewer employees.

Data obtained from the U. S. Bureau of Labor Statistics indicates that Alfalfa, Grant, Major, and Woods Counties each reported an annual unemployment rate of 2.1 percent for 2019, while Blaine County reported an unemployment rate of 2.0 percent. The State of Oklahoma reported an unemployment rate of 3.4 percent for the same period.

### **Competition**

The AA reflects a moderate level of competition for financial services. According to FDIC Deposit Market Share data as of June 30, 2019, 22 financial institutions operated 33 full-service offices within the AA. Of these institutions, CSB ranked tenth with a 3.5 percent deposit market share.

## **Community Contact**

As part of the evaluation process, examiners contact third parties active in the AA to assist in identifying the credit and community needs. This information helps determine financial institutions' responsiveness to these needs and shows available credit opportunities.

Examiners referenced an existing community contact with an economic development organization that serves Major County. The contact stated that the area relies on oil production and agriculture. In addition, the contact noted a disconnect with the reported median income level of the county, as certain residents receive mineral right royalties, which increased the overall median income. However, a large portion of the population remains at the low- to moderate-income level. The contact identified affordable housing as a community need and small business loans as the primary credit need. The contact indicated that financial institutions are generally responsive to the credit and community needs of the AA.

## **Credit Needs**

Considering information obtained from the community contact, demographic data, and bank management, examiners determined that small business and small farm loans represent the primary credit needs of the AA.

# **SCOPE OF EVALUATION**

## **General Information**

This evaluation covers the period from July 14, 2014 through August 3, 2020, the date of the previous evaluation to this evaluation's date. To evaluate performance, examiners applied the CRA Small Bank Procedures, which include the Lending Test. The appendix lists the evaluation criteria for these procedures.

## **Activities Reviewed**

Small Bank procedures require examiners to determine the bank's major product lines for review. Based on the number and dollar volume of lending in 2019 and management's business strategy, examiners determined that the bank's major product lines include agricultural loans at 51.1 percent and commercial and industrial loans at 30.0 percent by dollar volume of loans originated. None of the other loan types by dollar volume, including home mortgage and consumer loans, represent major product lines and thus would not materially affect any conclusions or the rating. Therefore, this evaluation does not include a review of them. The following table shows loan origination activity for the most recent full calendar year.

<b>Loans Originated</b>				
<b>Loan Category</b>	<b>#</b>	<b>%</b>	<b>\$(000)</b>	<b>%</b>
Construction & Land Development	0	0	0	0
Secured by Farmland	0	0	0	0
1-4 Family Residential	0	0	0	0
Commercial Real Estate	0	0	0	0
Agricultural Production	29	16.1	3,359	51.1
Commercial & Industrial	35	19.4	1,973	30.0
Consumer	116	64.5	1,240	18.9
Other Loans	0	0	0	0
<b>Gross Loans</b>	<b>180</b>	<b>100.0</b>	<b>6,572</b>	<b>100.0</b>
<i>Source: 2019 Bank Records Due to rounding, totals may not equal 100.0</i>				

Examiners reviewed the universe of 29 small farm loans totaling \$3.3 million, originated in 2019. In addition, examiners reviewed the universe of 35 small business loans totaling \$2.0 million, also originated in 2019. D&B data for 2019 provided the standard of comparison for the small farm and small business loans reviewed. The bank’s record of originating small farms loans contributed more weight to overall conclusions.

While examiners analyzed the full universe of loans for the institution’s AA concentration performance, only the loans identified as within the bank’s AA were used to arrive at conclusions regarding the borrower profile.

## **CONCLUSIONS ON PERFORMANCE CRITERIA**

### **LENDING TEST**

CSB demonstrated a satisfactory record regarding the Lending Test. The bank exhibited a reasonable record regarding its loan-to-deposit (LTD) ratio and originated a majority of the loans reviewed within its AA. In addition, the bank exhibited excellent borrower profile performance.

### **Loan-to-Deposit Ratio**

CSB exhibited a reasonable record regarding its LTD ratio given its size, financial condition, and AA credit needs. The LTD ratio, calculated from Call Report data, averaged 40.6 percent over the past 23 calendar quarters from September 30, 2014 to March 31, 2020, representing an increase from the 35.5 percent average net LTD ratio reflected at the prior evaluation. The ratio ranged from a low of 31.4 percent as of September 30, 2014, to a high of 46.5 percent as of March 31, 2020.

The bank’s average net LTD ratio is similar to one of the comparable institution’s ratio and falls within reasonable range of the other institution’s ratio. Examiners selected comparable institutions based on their asset size, lending focus, and geographic location.

Loan-to-Deposit Ratio Comparison		
Bank	Total Assets as of 03/31/2020 (\$000s)	Average Net LTD Ratio (%)
Cleo State Bank, Cleo Springs, OK	88,081	40.6
First State Bank, Watonga OK	76,203	56.8
Community Bank, Alva, OK	106,897	42.8
<i>Source: Reports of Condition and Income (09/30/14 through 03/31/20)</i>		

### **Assessment Area Concentration**

CSB originated a majority of the loans reviewed inside its AA. A majority of the small farm and small business loans originated inside the AA primarily support this conclusion. Examiners considered the bank’s asset size and office structure, as well as the loan categories reviewed relative to the AA’s size and economy when arriving at this conclusion.

#### ***Small Farm Loans***

The following table shows that the bank originated a majority of the small farm loans reviewed, by number and dollar volume, within its AA. Weighing both measures equally, the bank originated a majority of its small farms loans inside the AA.

#### ***Small Business Loans***

The table further shows that the bank originated a majority of the small business loans reviewed, by number and dollar volume, within its AA. Weighing both measures equally, the bank originated a majority of its small business loans inside the AA.

Lending Inside and Outside of the Assessment Area										
Loan Category	Number of Loans				Total	Dollar Amount of Loans \$(000s)				Total \$(000s)
	Inside		Outside			Inside		Outside		
	#	%	#	%	#	\$	%	\$	%	
Small Farm	26	89.7	3	10.3	29	2,929	87.2	430	12.8	3,359
Small Business	30	85.7	5	14.3	35	1,765	89.5	208	10.5	1,973
<i>Source: 2019 Bank Data</i>										

### **Geographic Distribution**

The AA does not include any low- or moderate-income geographies, as such a review of the geographic distribution criterion would not result in meaningful conclusions. Therefore, examiners did not evaluate this criterion.

## **Borrower Profile**

The distribution of loans reflects excellent distribution among farms and businesses of different sizes. Examiners considered the loan categories reviewed relative to available comparative data and any performance context issues. Examiners focused on the percentage by number of small farm and small business loans to farms and businesses with GARs of \$1 million or less.

### ***Small Farm Loans***

The distribution of small farm loans reflects excellent penetration among farms of different sizes. The following table shows that the bank originated all of its small farm loans to farms with GARs of \$1 million or less, reflecting excellent performance.

<b>Detailed Distribution of Small Farm Loans by Gross Annual Revenues</b>					
<b>Gross Revenue Level</b>	<b>% of Farms</b>	<b>#</b>	<b>%</b>	<b>\$(000s)</b>	<b>%</b>
< \$100,000	62.9	5	19.2	166	5.7
\$100,000 - \$249,999	29.3	11	42.3	1,006	34.3
\$250,000 - \$499,999	3.9	10	38.5	1,757	60.0
\$500,000 - \$1,000,000	1.5	0	0.0	0	0.0
<b>Subtotal &lt;= \$1,000,000</b>	<b>97.6</b>	<b>26</b>	<b>100.0</b>	<b>2,929</b>	<b>100.0</b>
>\$1,000,000	1.4	0	0.0	0	0.0
Revenue Not Available	1.0	0	0.0	0	0.0
<b>Total</b>	<b>100.0</b>	<b>26</b>	<b>100.0</b>	<b>2,929</b>	<b>100.0</b>

*Source: 2019 D&B Data and 2019 Bank Data*

### ***Small Business Loans***

The distribution of small business loans reflects excellent penetration among businesses of different sizes. As illustrated in the following table, the bank originated over 95.0 percent of its small business loans to businesses with GARs of \$1 million or less, reflecting excellent performance.

<b>Detailed Distribution of Small Business Loans by Gross Annual Revenues</b>					
<b>Gross Revenue Level</b>	<b>% of Businesses</b>	<b>#</b>	<b>%</b>	<b>\$(000s)</b>	<b>%</b>
< \$100,000	49.3	22	73.4	389	22.0
\$100,000 - \$249,999	20.3	4	13.3	184	10.4
\$250,000 - \$499,999	6.3	2	6.7	1,076	61.0
\$500,000 - \$1,000,000	3.0	1	3.3	100	5.7
<b>Subtotal &lt;= \$1,000,000</b>	<b>78.9</b>	<b>29</b>	<b>96.7</b>	<b>1,749</b>	<b>99.1</b>
>\$1,000,000	6.3	0	0	0	0
Revenue Not Available	14.8	1	3.3	16	0.9
<b>Total</b>	<b>100.0</b>	<b>30</b>	<b>100.0</b>	<b>1,765</b>	<b>100.0</b>

*Source: 2019 D&B Data and 2019 Bank Data*

## **Response to Complaints**

The bank did not receive any CRA-related complaints since the previous evaluation. Therefore, this performance factor did not affect the Lending Test conclusion.

## **DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES REVIEW**

Examiners did not identify any evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs. Therefore, this consideration did not affect the institution's overall CRA rating.

## APPENDICES

### SMALL BANK PERFORMANCE CRITERIA

#### **Lending Test**

The Lending Test evaluates the bank's record of helping to meet the credit needs of its assessment area(s) by considering the following criteria:

- 1) The bank's loan-to-deposit ratio, adjusted for seasonal variation, and, as appropriate, other lending-related activities, such as loan originations for sale to the secondary markets, community development loans, or qualified investments;
- 2) The percentage of loans, and as appropriate, other lending-related activities located in the bank's assessment area(s);
- 3) The bank's record of lending to and, as appropriate, engaging in other lending-related activities for borrowers of different income levels and businesses and farms of different sizes;
- 4) The geographic distribution of the bank's loans; and
- 5) The bank's record of taking action, if warranted, in response to written complaints about its performance in helping to meet credit needs in its assessment area(s).

## GLOSSARY

**Aggregate Lending:** The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

**Area Median Income:** The median family income for the 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 delineated by the bank under the requirements of the Community Reinvestment Act.

**Census Tract:** A small, relatively permanent statistical subdivision of a county or equivalent entity. The primary purpose of census tracts is to provide a stable set of geographic units for the presentation of statistical data. Census tracts generally have a population size between 1,200 and 8,000 people, with an optimum size of 4,000 people. Census tract boundaries generally follow visible and identifiable features, but they may follow nonvisible legal boundaries in some instances. State and county boundaries always are census tract boundaries.

**Combined Statistical Area (CSA):** A combination of several adjacent metropolitan statistical areas or micropolitan statistical areas or a mix of the two, which are linked by economic ties.

**Consumer Loan(s):** A loan(s) 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. This definition includes the following categories: motor vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

**Core Based Statistical Area (CBSA):** The county or counties or equivalent entities associated with at least one core (urbanized area or urban cluster) of at least 10,000 population, plus adjacent counties having a high degree of social and economic integration with the core as measured through commuting ties with the counties associated with the core. Metropolitan and Micropolitan Statistical Areas are the two categories of CBSAs.

**Family:** Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family. Other family is further classified into “male householder” (a family with a male householder and no wife present) or “female householder” (a family with a female householder and no husband present).

**FFIEC-Estimated Income Data:** The Federal Financial Institutions Examination Council (FFIEC) issues annual estimates which update median family income from the metropolitan and nonmetropolitan areas. The FFIEC uses American Community Survey data and factors in

information from other sources to arrive at an annual estimate that more closely reflects current economic conditions.

**Full-Scope Review:** A full-scope review is accomplished when examiners complete all applicable interagency examination procedures for an assessment area. Performance under applicable tests is analyzed considering performance context, quantitative factors (e.g., geographic distribution, borrower profile, and total number and dollar amount of investments), and qualitative factors (e.g., innovativeness, complexity, and responsiveness).

**Geography:** A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

**Home Mortgage Disclosure Act (HMDA):** The statute that requires certain mortgage lenders that do business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applicants; the amount of loan requested; and the disposition of the application (approved, denied, and withdrawn).

**Home Mortgage Loans:** Includes closed-end mortgage loans or open-end line of credits as defined in the HMDA regulation that are not an excluded transaction per the HMDA regulation.

**Housing Unit:** Includes a house, an apartment, a mobile home, a group of rooms, or a single room that is occupied as separate living quarters.

**Limited-Scope Review:** A limited scope review is accomplished when examiners do not complete all applicable interagency examination procedures for an assessment area. Performance under applicable tests is often analyzed using only quantitative factors (e.g., geographic distribution, borrower profile, total number and dollar amount of investments, and branch distribution).

**Low-Income:** Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent in the case of a geography.

**Market Share:** The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

**Median Income:** The median income divides the income distribution into two equal parts, one having incomes above the median and other having incomes below the median.

**Metropolitan Division (MD):** A county or group of counties within a CBSA that contain(s) an urbanized area with a population of at least 2.5 million. A MD is one or more main/secondary counties representing an employment center or centers, plus adjacent counties associated with the main/secondary county or counties through commuting ties.

**Metropolitan Statistical Area (MSA):** CBSA associated with at least one urbanized area having a population of at least 50,000. The MSA comprises the central county or counties or equivalent entities containing the core, plus adjacent outlying counties having a high degree of social and economic integration with the central county or counties as measured through commuting.

**Middle-Income:** Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 and less than 120 percent in the case of a geography.

**Moderate-Income:** Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 and less than 80 percent in the case of a geography.

**Multi-family:** Refers to a residential structure that contains five or more units.

**Nonmetropolitan Area** (also known as **non-MSA**): All areas outside of metropolitan areas. The definition of nonmetropolitan area is not consistent with the definition of rural areas. Urban and rural classifications cut across the other hierarchies. For example, there is generally urban and rural territory within metropolitan and nonmetropolitan areas.

**Owner-Occupied Units:** Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

**Rated Area:** A rated area is a state or multistate metropolitan area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multistate metropolitan area, the institution will receive a rating for the multistate metropolitan area.

**Rural Area:** Territories, populations, and housing units that are not classified as urban.

**Small Business Loan:** A loan included in "loans to small businesses" as defined in the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$1 million or less and are either secured by nonfarm nonresidential properties or are classified as commercial and industrial loans.

**Small Farm Loan:** A loan included in "loans to small farms" as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, including farm residential and other improvements, or are classified as loans to finance agricultural production and other loans to farmers.

**Upper-Income:** Individual income that is 120 percent or more of the area median income, or a median family income that is 120 percent or more in the case of a geography.

**Urban Area:** All territories, populations, and housing units in urbanized areas and in places of 2,500 or more persons outside urbanized areas. More specifically, “urban” consists of territory, persons, and housing units in places of 2,500 or more persons incorporated as cities, villages, boroughs (except in Alaska and New York), and towns (except in the New England states, New York, and Wisconsin).

“Urban” excludes the rural portions of “extended cities”; census designated place of 2,500 or more persons; and other territory, incorporated or unincorporated, including in urbanized areas.