



## **PUBLIC DISCLOSURE**

May 25, 2015

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

The Peoples National Bank of Checotah  
Charter Number 10051

300 West Gentry  
Checotah, OK 74426

Office of the Comptroller of the Currency

8282 South Memorial Drive  
Suite 300  
Tulsa, OK 74133

**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.



## General Information

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority, when examining financial institutions subject to its supervision, to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the CRA performance of The Peoples National Bank of Checotah (PNB), prepared by the Office of the Comptroller of the Currency, the institution's supervisory agency, as of May 25, 2015. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 C.F.R. Part 25.

**Institution's CRA Rating:** PNB has an *Outstanding* record of meeting the credit needs of its assessment area (AA). This rating is based on the following:

- The average quarterly loan to deposit (LTD) ratio is *reasonable* based on PNB's performance context and lending opportunities within their Assessment Area.
- PNB's distribution of residential real estate and consumer loans during the review period reflects *excellent penetration* of loans among borrowers of different income levels, for both Residential Real Estate loans and Consumer loans.
- A *substantial majority* of the number and dollar level of PNB's loans originated during the review period are inside their Assessment Area.
- The geographic distribution of residential real estate and consumer loans during the review period indicate *excellent dispersion* of loans throughout the bank's Assessment Area, including moderate-income census tracts.
- In conjunction with the Federal Home Loan Bank Board, PNB offers an affordable housing program, titled First Time Home Buyer Program, targeted to low-income and moderate-income families.

## SCOPE OF CRA EVALUATION

We evaluated PNB using the Small Bank standards for assessing performance, which includes a Lending Test, and covers loans originated from January 2, 2012, through December 31, 2013. We assessed performance under the Lending Test based on a review of PNB's primary loan products, which include consumer loans and residential real estate loans. Our sample included 20 residential real estate loans and 20 consumer loans, and is representative of the bank's business strategy since the last CRA Performance Evaluation (PE), which was completed as of April 20, 2009, and an *Outstanding* rating was assigned.



## DESCRIPTION OF INSTITUTION

PNB is a \$135 million community bank located in Checotah, Oklahoma, and a subsidiary of Peoples National Bancshares, a one-bank holding company located in Checotah. PNB is not required to report under the Home Mortgage Disclosure Act (HMDA). PNB has one subsidiary, Peoples Community Development Corporation, which was organized in 1997, and there was no merger or acquisition activity since the previous CRA PE. Other than strong competition from other banks and financial institutions in the Assessment Area, there are no known legal, financial, or other factors impeding the bank’s ability to meet the credit needs in the Assessment Area. Based on the June 30, 2014 Federal Deposit Insurance Corporation (FDIC) market Share Report, PNB’s presence in the Assessment Area is moderate, as they have 35 percent of the deposit market share in McIntosh County, an area that represents a substantial majority of the bank’s Assessment Area.

The main bank and limited service drive-thru branch are located in downtown Checotah. The Main bank is located at 300 West Gentry, Checotah, Oklahoma, and the limited service branch is located at 303 North Broadway, Checotah, Oklahoma. PNB has one full-service branch located in Walmart at 131 Paul Carr Drive, Checotah, Oklahoma. PNB issues automated teller machine (ATM) cards and four bank-owned ATMs are available throughout the Assessment Area. All banking facilities, including ATMs, are located in moderate-income census tracts inside the bank’s Assessment Area. The bank’s primary business strategy is to serve local consumer/retail customers in their Assessment Area, including Checotah and the surrounding areas. PNB offers a diverse line of loan and deposit products and services during reasonable hours, Monday through Saturday, depending on the location, and by telephone and the internet.

The following table illustrates the composition of the bank’s loan portfolio as of March 31, 2015, which represents 32 percent of total assets, based on the data presented in the Consolidated Reports of Condition and Income. Management does not anticipate any significant changes in the composition of the loan portfolio in the near future.

<b>Loan Category</b>	<b>Dollars (\$000's)</b>	<b>%</b>
Commercial Real Estate Loans	\$4,712	11
Commercial Loans	\$993	2
Residential Real Estate Loans	\$14,183	32
Farm Production Loans	\$3,689	8
Farm Real Estate Loans	\$3,324	8
Consumer Loans	\$16,823	38
Other Loans	\$199	1
<b>Total</b>	<b>\$43,923</b>	<b>100</b>

*Source: March 31, 2015 Consolidated Report of Condition*

**DESCRIPTION OF ASSESSMENT AREA**

PNB’s Assessment Area meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income areas. The Assessment Area consists of nine complete census tracts, including four moderate-income tracts and five middle-income tracts. The bank’s Assessment Area does not have any designated low- or upper-income tracts. The area includes all census tracts in McIntosh County, and three census tracts in Muskogee County, which are adjacent to McIntosh County. The following table provides key demographic and economic characteristics of the Assessment Area; based on 2010 United States Census and 2012 Geo-demographic data.

<i>Demographic Information – McIntosh County and Muskogee County</i>					
	#	% Low	% Moderate	% Middle	% Upper
Geographies (Census Tracts)	9	0	44	56	0
Population by Geography	34,724	0	36	64	0
Owner-Occupied Housing by Geography	19,118	0	37	63	0
Businesses by Geography	1,862	0	53	47	0
Farms by Geography	180	0	26	74	0
Family Distribution by Income Level	8,501	27	21	19	33
Household Distribution by Income Level	12,464	30	19	18	33
Weighted average of Median Family Income (MFI)	\$40,259	Median Housing Value 2012			\$75,784
Weighted average of HUD updated MFI: 2013	\$49,900	Households Below the Poverty Level			21%

Source: 2012 Geo-demographic Data; 2010 United States Census Data

**Community Contact**

During our Performance Evaluation, we contacted a local community leader within the Assessment Area to get a better understanding of the general community credit and development needs, and discuss local economic conditions. The contact specifically referenced PNB as a leader in the local communities by helping schools, civic organizations, and local businesses. The contact indicated a need within the Assessment Area for more, better employment opportunities, and money in the form of low interest loans or grants for startup small business, and funding for infrastructure improvements. The contact stated he was not aware of any discriminatory practices by local financial institutions.

**CONCLUSIONS ABOUT PERFORMANCE CRITERIA**

**Loan-to-Deposit Ratio**

The average quarterly loan to deposit (LTD) ratio is *reasonable* based on PNB’s performance context and lending opportunities within their Assessment Area. Since the previous CRA PE, the bank’s quarterly average LTD ratio averaged 48 percent, compared to the same percentage



for banks in the Assessment Area during the same period, that bank management consider primary competitors of PNB.

## Lending in Assessment Area

Our loan sample reveals that a *substantial majority* of loans originated during the review period are inside the bank’s Assessment Area. The following table provides a more specific identification of loan originations for the bank’s primary loan types:

Lending in the Assessment Area										
Loan Type	Number of Loans					Dollars of Loans (\$000's)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Residential Real Estate Loans	18	90	2	10	20	\$679	87	\$106	13	\$785
Consumer Loans	20	100	0	0	20	\$239	100	0	0	\$239
Totals	38	95	2	5	40	\$918	90	\$106	10	\$1,024

Source: Loan Sample.

## Lending to Borrowers of Different Incomes

PNB’s residential and consumer lending patterns during the review period indicate *excellent penetration* of loan originations among borrowers of different income levels, particularly low- and moderate-income borrowers. PNB faces strong competition from numerous local and regional financial institutions, including Bank of Oklahoma and Armstrong Bank. Bank management attributes the low percentage of consumer loans to low-income borrowers to the general inability of borrowers in that income category to meet the bank’s consumer credit standards, consistent with prudent lending. The following tables present a more specific identification of loan penetration patterns among borrowers inside the Assessment Area.

Borrower Distribution of Residential Real Estate Loans in Assessment Area								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Residential Real Estate Loans	27	28	21	28	19	11	33	33

Source: Loan Sample; United States Census Data



Borrower Distribution of Consumer Loans in Assessment Area								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	30	20	19	30	18	10	33	40

Source: Loan Sample; United States Census Data

## Geographic Distribution of Loans

PNB’s residential and consumer lending patterns during the review period indicate *excellent dispersion* of loan originations inside the bank’s Assessment Area, particularly the four moderate-income census tracts. The following tables present a more specific identification of the geographic distribution patterns of residential real estate loans and consumer loans, relative to the income level of the census tracts inside the Assessment Area.

Geographic Distribution of Residential Real Estate Loans in the Assessment Area								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Residential Real Estate Loans	0	0	37	50	63	50	0	0

Source: Loan Sample and 2010 United States census data

Geographic Distribution of Consumer Loans in the Assessment Area								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	0	0	51	65	49	35	0	0

Source: Loan Sample and 2010 United States census data

## Responses to Complaints

There have been no consumer complaints regarding PNB’s performance under the Community Reinvestment Act (CRA) during the evaluation period. The bank’s CRA Public File contains all of the required information.

## Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. § 25.28(c), or 12 C.F.R. § 195.28(c), in determining a national bank’s (bank) or Federal savings association’s (FSA) CRA rating, respectively, the OCC considers



evidence of discriminatory or other illegal credit practices in any geography by the bank or FSA, or in any assessment area by an affiliate whose loans have been considered as part of the bank's or FSA's lending performance. We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.