



## PUBLIC DISCLOSURE

February 23, 2015

## COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First National Bank & Trust  
Charter Number 9952

2714 West Third Street  
Elk City, OK 73644-4320

Office of the Comptroller of the Currency

The Harvey Parkway Building  
301 NW 63rd Street, Suite 490  
Oklahoma City, OK 73116-7908

**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.

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

**The Lending Test is rated: Satisfactory.**

**The Community Development Test is rated: Satisfactory.**

The major factors that support this rating include the following:

- The First National Bank and Trust's (FNB) loan-to-deposit ratio (LTD) is reasonable and meets the standard for satisfactory performance.
- A substantial majority of the bank's loans are originated within the assessment area (AA).
- The bank's distribution of loans reflects a reasonable penetration to individuals and businesses of different income levels and meets the standard for satisfactory performance.
- An analysis of the geographic distribution of loans sampled would not be meaningful since there are no low- or moderate-income census tracts (CTs) in FNB's AA.
- FNB's level of community development (CD) activities demonstrates reasonable responsiveness to the AA served. CD activities were focused on providing affordable housing and creating low- to moderate-income (LMI) jobs.

## **Scope of Examination**

We evaluated FNB using the Intermediate Small Bank (ISB) CRA procedures, which comprises the Lending Test and the Community Development Test. This is the first time for FNB to be evaluated as an ISB bank. The Lending Test evaluates the bank's record of meeting the credit needs of its AA through its lending activities. The Community Development Test evaluates the bank's responsiveness to the identified needs in its AA through CD lending, qualified investing, and services.

A Data Integrity examination was conducted September 15, 2014. Because FNB is not a HMDA reporter, our focus was to review the level of the bank's CD activities and to ensure that the activities met the definition of the regulation.

We commenced a review of the 2015 CRA review of FNB on February 23, 2015. The review included an evaluation of the bank's performance in the bank's single AA identified as Beckham County in its entirety and 1 census tract (CT) in Washita County. The review focused on the bank's primary loan products, which are small business loans and residential mortgage loans. The review covered the period of

January 1, 2013, through February 23, 2015. This Performance Evaluation is based on 2010 US Census demographic information.

The evaluation period for the Community Development Test covers the period since our last CRA evaluation, dated January 3, 2011, through the start date of this evaluation, February 23, 2015. We tested the CD loans, investments, and services submitted by management to ensure compliance with the regulatory definition for community development.

## Description of Institution

FNB is a community bank located in Elk City, OK. FNB is wholly owned by Western Oklahoma Financial Services, Inc., a one-bank holding company. The bank's main office and drive-through facility, which includes an ATM, is located at 2714 West 3rd Street, Elk City, OK. A limited service paying and receiving facility is located in downtown Elk City at 102 S. Main, Elk City, OK, primarily for the convenience of retail deposit customers. Another ATM is located at the Great Plains Regional Medical Center, 3rd & Lincoln, Elk City, OK. In addition, a full service branch facility and ATM are located at 711 N.E. Highway 66, Sayre, OK; and an ATM is located at the Sayre Memorial Hospital, 911 Hospital Drive Sayre, OK.

Management's and the board's primary business strategy is to serve commercial, agricultural, home loan, and other consumer customers in the Elk City and Sayre communities. The bank meets its customer's needs by providing traditional loan and deposit products.

As of December 31, 2014, FNB had total assets of \$321 million. Total loans were \$200 million. Refer to the table below for the stratification of the loan portfolio.

<b>Loan Portfolio Composition as of December 31, 2014</b>		
<b>Loan Category</b>	<b>\$ (000)</b>	<b>%</b>
Commercial & Related Real Estate	\$97,076	48.5%
Residential - 1st Lien	\$53,953	27.0%
Agricultural Loans & Related Real Estate	\$41,586	20.8%
Individual	\$5,054	2.5%
Construction	\$1,905	1.0%
Residential - Jr Lien	\$445	0.2%
Other	\$18	0.0%

Source: December 31, 2014 Call Report Schedule RC-C

There are no legal, financial, or other factors impeding the bank's ability to help meet the credit needs in its AA. The bank is well capitalized. A "**Satisfactory**" rating was assigned at the last Community Reinvestment Act review, which was performed as of January 3, 2011.

The bank's primary focus is to serve business and home loan customers and other consumers in its AA. Agricultural lending is also an important credit service. FNB meets these needs by providing various types of loan and deposit products and services. The ability to lend in its AA continues to be impacted by strong competition from other financial institutions, or branches of those institutions.

## Description of Assessment Area(s)

One AA was considered in evaluating FNB's CRA performance. The AA meets the requirements of the regulation and does not arbitrarily exclude LMI areas. The AA includes all 4 CTs in Beckham County and 1 CT in Washita County. Three of the 4 CTs in Beckham County are designated as distressed middle-income tracts and 1 CT is designated as upper-income. The 1 CT in Washita County is also a distressed middle-income CT. Both of the bank's branches are located in Beckham County. The bank's facilities in Elk City are located in the upper-income CT and the Sayre facilities are located in a distressed middle-income CT. Please refer to the table below for additional demographic information relating to FNB's AA:

<b>DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF FNB'S AA</b>	
<b><i>Population</i></b>	
Number of Families	6,056
Number of Households	9,248
<b><i>Geographies</i></b>	
Number of Census Tracts/BNA	5
% Low-Income Census Tracts/BNA	0.00%
% Moderate-Income Census Tracts/BNA	0.00%
% Middle-Income Census Tracts/BNA	80.00%
% Upper-Income Census Tracts/BNA	20.00%
<b><i>Median Family Income (MFI)</i></b>	
2010 Census Median Family Income	\$47,891
2013 HUD-Adjusted Median Family Income	\$49,900
<b><i>Economic Indicators</i></b>	
Unemployment Rate	2.4%
Median Housing Value	\$86,697
% Of Households Below Poverty Level	17.44%

*Source: 2010 U.S. Census Data. Unemployment rate 12/31/2014 Bureau of Labor Statistics.*

Although there are no LMI CTs in the bank's AA, there are LMI families who reside in the AA. Of the 6,056 families in the AA, 21.43 percent are low-income families, 16.05 percent are moderate-income families, 18.44 percent are middle-income families, and 44.08 percent are upper-income families. The median housing value is \$86,697 with the median age of housing stock at 49 years.

The economy is somewhat diversified due to the number of small business and agricultural operations in the AA. According to the Elk City Chamber of Commerce, the largest employers in Elk City are Great Plains Regional Medical Center, a local hospital (410 employees), Elk City Public School System (221 employees), City of Elk City (130 employees), and Bar S Foods (110 employees). In Sayre, the largest employers are Beckham County (Sayre is the county seat for Beckham County), City of Sayre, and the

Sayre Public School System. FNB's competition includes similar sized community banks headquartered in Elk City, OK. Other local competitors in the area include branches of larger financial institutions and several similar sized community banks located in or near the AA.

As part of this CRA evaluation, a community contact was made in the bank's AA to help ascertain the credit needs of the AA. According to the contact, the local economy has been good for the past several years due to the robust oil and gas industry. However, with the recent drop in oil prices, layoffs are anticipated. Extended low oil prices will have a negative impact on the local economy. The contact stated that while the credit needs of the community are generally being met, there is still a need for both affordable owner occupied and rental housing.

## Conclusions with Respect to Performance Tests

### LENDING TEST

FNB's performance under the Lending Test is rated **Satisfactory**. FNB's LTD ratio is considered reasonable. A substantial majority of the loans sampled were originated in the bank's AA. The overall distribution of loans in FNB's AA indicates reasonable penetration to borrowers of different incomes and to businesses of different sizes.

### Loan-to-Deposit Ratio

FNB's LTD ratio is reasonable and meets the standard for satisfactory performance. This is based on the bank's quarterly average LTD ratio from March 31, 2011, through September 30, 2014. At 61.70 percent, FNB's average LTD ratio is less than, but compares reasonably with 3 bank's that are similarly situated to FNB. These 3 competitors each have larger and more diversified AAs than FNB. Additionally, FNB has a conservative lending culture. Refer to the table below for a comparison of FNB's average LTD ratio over the evaluation period compared to the average of 3 similarly situated banks.

LOAN-TO-DEPOSIT RATIOS		
Institution	Total Assets as of 9/30/14 (000's)	Average LTD Ratio
Great Plains National Bank	\$605,930	95.14%
Bank of Western Oklahoma	\$231,470	76.60%
<b>First National Bank and Trust, Elk City</b>	<b>\$323,344</b>	<b>61.70%</b>
Legacy	\$466,638	80.87%

Source: Institution Reports of Condition from March 31, 2011 to September 30, 2014

**Lending in Assessment Area**

FNB’s lending in the AA is outstanding and exceeds the standard for satisfactory performance. A majority of the number and dollar amount of home mortgage and small business loans were originated within FNB’s AA. As depicted in the following table, 92 percent of the number and 93 percent of the dollar amount of the loans sampled were originated in FNB’s AA. More precisely, 87 percent of the sampled home mortgage loans and 100 percent of the sampled small business loans made during the review period were originated in FNB’s AA.

<b>Table 1 - Lending in AA</b>										
<b>Loan Type</b>	<b>Number of Loans</b>					<b>Dollars of Loans</b>				
	<b>Inside</b>		<b>Outside</b>		<b>Total</b>	<b>Inside</b>		<b>Outside</b>		<b>Total</b>
	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>		<b>\$</b>	<b>%</b>	<b>\$</b>	<b>%</b>	
Home Purchase	27	87%	4	13%	31	2,763,952	85%	407,688	13%	3,171,640
Small Business	22	100%	0	0%	22	2,265,966	100%	0	0%	2,265,966
Totals	49	92%	4	8%	53	5,029,918	93%	407,688	7%	5,437,606

*Source: Loan Samples from January 1, 2013 through December 31, 2014*

**Lending to Borrowers of Different Incomes and to Businesses of Different Sizes**

The overall distribution of loans in FNB’s AA indicates reasonable penetration to borrowers of different incomes and to businesses of different sizes and meets the standard for satisfactory performance when considering performance context issues. FNB’s home mortgage loan penetration is poor to low-income families; however, loan penetration to moderate-income families is reasonable for overall satisfactory performance. Additionally, lending to small businesses exceeds the ratio and reflects excellent penetration.

FNB’s distribution of home mortgage loans indicates reasonable penetration. While the percentage of home mortgage loans to low-income borrowers is less than the percentage of low-income families in the AA, this performance is not unreasonable in light of the difficulty low-income families have qualifying for conventional home mortgage products. FNB retains all mortgage loans and loan underwriting generally reflects qualified mortgage standards. FNB’s underwriting requires 20 percent equity at origination. All mortgage loans are variable rate, which requires the debt-to-income ratio to be calculated using the maximum rate and not to exceed 43 percent. The distribution of home mortgage products to moderate-income families is reasonable in comparison to the percentage of moderate-income families in the AA.

<b>Table 2 - Borrower Distribution of Residential Real Estate Loans in AA</b>								
<b>Borrower Income Level</b>	<b>Low</b>		<b>Moderate</b>		<b>Middle</b>		<b>Upper</b>	
<b>Loan Type</b>	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans
Home Purchase	21.43%	3.70%	16.05%	14.81%	18.44%	22.22%	44.07%	74.04%

Source: Loan Samples from January 1, 2013 through December 31, 2014; 2010 US Census Data.

FNB's borrower distribution of loans to small businesses indicates excellent penetration as 86 percent of the number and 71 percent of the dollar volume of business loans sampled was to businesses with revenues of less than \$1 million. However, 29 percent of the businesses did not report their revenues.

<b>Table 2A - Borrower Distribution of Loans to Businesses in AA</b>				
<b>Business Revenues (or Sales)</b>	<b>≤\$1,000,000</b>	<b>&gt;\$1,000,000</b>	<b>Unknown</b>	<b>Total</b>
% of AA Businesses	66.91%	3.95%	*29.14%	100%
% of Bank Loans in AA by #	86.36%	13.64%	0.00%	100%
% of Bank Loans in AA by \$	71.47%	28.53%	0.00%	100%

Source: Loan Samples from January 1, 2013 through December 31, 2014; Dunn and Bradstreet.

\*Twenty-nine percent of the businesses did not report revenues.

## **Geographic Distribution of Loans**

An analysis of the geographic distribution of loans sampled would not be meaningful since there are no low- or moderate-income CTs in FNB's AA.

## **RESPONSES TO COMPLAINTS**

There were no consumer complaints relating to the FNB's Community Reinvestment Act performance during the evaluation period.

### **FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW**

Pursuant to 12 CFR 25.28(c) or 12 CFR 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 AA 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.

## **COMMUNITY DEVELOPMENT TEST**

The bank's performance under the Community Development Test is rated **Satisfactory**. FNB's CD activities reflected adequate responsiveness to the needs of the bank's AA. FNB originated 7 CD loans totaling \$4.4 million centered in providing affordable housing and health care services to LMI individuals. Qualified investments included the purchase of 2 municipal bonds totaling \$895,000, in addition to donations to various non-profit organizations. The bank has taken a leadership role in the community as evidenced by their involvement in various non-profit organizations that assist LMI individuals and promote economic development.

Opportunities for qualified CD loans and investments are limited in the bank's AA. A majority of the AA is comprised of rural, high poverty, low-density tracts. According to the 2010 Census, the largest cities in the AA are Elk City with a population of 11,693, Sayre with a population of 4,375 and Erick with a population of 1,052. Currently, there are no major CD projects underway in the bank's AA.

FNB is active in the communities they serve. This is evidenced by their leadership roles on various civic and non-profit organizations that provide services to LMI individuals. The bank is also involved with, or lends to, organizations whose focus is on community or economic development and health care. FNB has extended loans and investments to local schools and hospitals. These types of loans and investments have been important, not only in creating and retaining LMI jobs, but also in retaining critical community services, such as health care and education.

The bank's commitment to economic development is evidenced by investments and loans involving economic development activities. The bank has been active in holding leadership positions and making donations to local Chambers of Commerce, which are primarily involved in economic development and small business creation.

### **Number and Amount of Community Development Loans**

The level of CD loans reflects an adequate responsiveness to AA needs. Qualifying CD loans are those that meet the definition of community development, as defined in the CRA regulation. During the evaluation period, FNB originated or renewed \$4.4 million in CD loans. The following is a summary of those loans.

In August 2011, FNB originated an \$815,000 loan to purchase a 30-unit multi-family housing project in Elk City. Rent is affordable at \$500 per month.

The bank has extended several loans to borrowers who rent affordable single-family residences (SFR) in the Elk City area. In January 2011, FNB extended a \$110,000 loan to a borrower that owns and rents single-family residences at affordable rates. The proceeds of the loan were used for renovation expenses. All four properties rent for \$500 per month and are located in LMI neighborhoods. In February 2015, FNB extended a \$120,000 loan to a borrower to purchase single-family rental properties. The borrower owns several affordable rental properties in LMI neighborhoods in the Elk City area. In January 2014, FNB extended a \$28,000 loan to a borrower who rents affordable single-family residences in the Elk City area. The proceeds were used to buy a rental property. Affordable rental properties are a critical need in Elk City due to population growth and a robust oil and gas industry.

In May 2014, FNB extended a \$2 million loan to the Sayre Memorial Hospital Authority to create a surgical center. The hospital is located in a distressed middle-income tract. The hospital expansion will create permanent LMI jobs and provide health care services to LMI people located throughout western Oklahoma, which is generally a high unemployment, high poverty, low density area.

In January 2014, FNB originated a \$1.1 million loan to the Elk City Public School District for capital improvements. Over 50 percent of the students in the school district qualify for the free or reduced school lunch program.

In March 2014, FNB extended a \$224,000 loan to purchase a convenience store located adjacent to public housing. This loan helps create and retain LMI jobs and is located in a LMI neighborhood.

### **Number and Amount of Qualified Investments**

Although opportunities for qualified CD investments are limited in the bank's AA, the level of CD investments, including CD donations, is adequate. Qualifying investments

are investments, deposits, membership shares, or grants that have as their primary purpose of CD, as defined in the CRA regulation.

FNB has a prior period investment of \$395,000 in the Washita County Public Facilities Authority Municipal Bond to acquire, construct, and equip a new county detention facility and, renovate an existing jail. FNB purchased another issuance of \$500,000 in the same project in May 2011. This project will create several permanent LMI jobs. The project is located in a distressed middle-income CT in Washita County.

During the review period, FNB also made over 236 qualified CD donations in its AA, totaling \$163,000. Donations were centered in providing funds to local schools and hospitals. Donations were also made to local non-profit organizations that provide social services, youth programs, and affordable housing.

### **Extent to Which the Bank Provides Community Development Services**

The level of qualified CD services is reasonable. Bank officers and staff have served in leadership positions on organizations that provide community services to LMI families. Bank officers also serve in leadership positions on organizations that promote affordable housing and are involved in economic and small business development activities. The following are examples of qualifying CD services.

- ***Chambers of Commerce:*** - Bank officers are active in taking leadership positions in local Chambers of Commerce. Bank officers currently serve as board members or officers on the Elk City and Sayre Chambers and provide technical expertise through their involvement with planning, budgeting, and financing activities. These Chambers are all active with regard to economic development and to the retention and recruiting of new businesses within their respective communities.
- ***Elk City Housing Authority:*** A bank officer serves as the Chairman of this organization. The Housing Authority's mission is to subsidize housing for the low-income, elderly citizens of the community. This organization also houses the Literacy and Meals-on-Wheels programs.
- ***Elk City Educational Foundation:*** A bank officer serves as the Treasurer of this non-profit organization whose primary objective is to provide teachers with materials and supplies that the school is unable to afford.
- ***Great Plains Regional Medical Center (GPRMC) Foundation:*** A bank officer serves as Chairman of this foundation whose mission is to raise funds for future hospital capital projects.

## **RETAIL DELIVERY SYSTEMS**

FNB has appropriate systems for delivering retail banking services. In addition to the main bank location with a drive-thru ATM, the bank operates a full service branch in Sayre with a drive-thru ATM, a limited service branch in downtown Elk City and walk-up ATMs at the hospitals in Elk City and Sayre. The facilities in Sayre are located in a distressed middle-income CT. The offices and retail services are reasonably accessible to geographies and individuals of different income levels in the AA.

Traditional banking services are offered at the full service and limited service offices. The bank also offers 24-hour access via mobile banking and internet banking, which allows viewing of loan and depository account information and transfers between accounts. Alternative delivery systems provide easy access to banking services by all sections of the bank's AA, to include LMI individuals and geographies. The bank offers telephone banking, free checking accounts with low opening balance, a health savings account (a tax-advantaged medical savings account to customers enrolled in a high-deductible health plan) to lower health care costs, bill pay, and prepaid Visa cards.