



PUBLIC DISCLOSURE

April 1, 2014

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First National Bank in Okeene
Charter Number 10913

124 North Main Street
Okeene, OK 73763

Office of the Comptroller of the Currency
Oklahoma City Field Office
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 major factors that support this rating include:

- The loan-to-deposit ratio is reasonable and meets the standard for satisfactory performance.
- The bank generates a substantial majority of its loans within the defined assessment area (AA).
- The bank exceeds the standard for satisfactory performance for lending to borrowers of different incomes and to farms and businesses of different sizes.
- The bank has not received any consumer complaints regarding Community Reinvestment Act (CRA) performance.

The First National Bank in Okeene, Oklahoma is committed to serving the community. This is demonstrated by the satisfactory lending performance described in this Performance Evaluation.

SCOPE OF EXAMINATION

This 2014 CRA Performance Evaluation of First National Bank in Okeene (FNB) is based on comparison of the bank's lending activity during the evaluation period to 2010 US Census demographic information and certain information updated to 2013. FNB's AA is in northwest Oklahoma. Lending performance was evaluated in the bank's AA, which includes two census tracts in Blaine County and one census tract in Major County. The bank's primary lending products, agriculture, business, and consumer loans, were sampled for the years 2012 and 2013.

DESCRIPTION OF INSTITUTION

FNB is a community bank headquartered in Okeene, Oklahoma. The bank is wholly owned by the three-bank holding company, Grace Investment Company, Inc. of Alva, Oklahoma. It is affiliated by common ownership with Alva State Bank in Alva, Oklahoma and First State Bank of Kiowa, Kansas.

FNB offers a variety of loan and deposit products and other financial services commensurate with the size and needs of the AA. FNB operates a single full service bank and drive-in facility at 124 North Main Street in Okeene. FNB does not have any branch offices or automatic teller machines. No branch locations have been opened or closed since the previous CRA performance evaluation.

As of December 31, 2013, the bank's total assets were \$51.5 million, of which \$27.3 million, or 53 percent, were comprised of various types of loans to small farms, businesses, and individuals. Specifically, the bank's loan portfolio consists of the following:

Loan Portfolio Composition as of December 31, 2013		
Loan Category	\$ (000)	%
Agricultural Loans	19,128	70.08%
Commercial Loans	7,613	27.89%
Consumer Loans	312	1.14%
Residential Real Estate Loans	151	0.55%
Other	92	0.34%
Total	27,296	100.00%

Source: December 31, 2013 Report of Condition and Income

The bank's primary focus is to serve the agricultural community in Okeene and the surrounding areas in Blaine and Major Counties. There are no legal or financial impediments to prevent FNB from meeting the credit needs of the AA. FNB is involved in, and provides support to, the community's financial needs, especially financing customers in the wheat and cattle markets. FNB received an overall rating of "Satisfactory" at the previous CRA Examination, dated May 6, 2008.

DESCRIPTION OF ASSESSMENT AREA(S)

The AA adopted by FNB meets the requirements of the CRA regulation. The AA consists of whole geographies, does not reflect illegal discrimination, and does not arbitrarily exclude low- or moderate-income geographies.

The AA includes portions of Blaine and Major Counties in northwest Oklahoma. It consists of three census tracts, including tracts #9586 and #9588 in Blaine County, and tract #9551 in Major County. FNB's banking office is located in census tract #9586 in Blaine County.

Census tracts # 9586 and #9588 in Blaine County are upper-income tracts, and census tract #9551 in Major County is a middle-income tract. FNB chose to exclude census tract #9589 in Blaine County, which includes the city limits of Watonga, because the area is serviced by other financial institutions. FNB also chose to exclude census tracts #9552 and #9553 in Major County, which includes the city of Fairview, because the area is serviced by two financial institutions and a local branch of a third financial institution. The following table describes demographic and economic characteristics of the AA, based on the 2010 US Census Data:

Demographic and Economic Characteristics of AA	
<i>Population</i>	
Number of Families	1,695
Number of Households	2,278
<i>Geographies</i>	
Number of Census Tracts	3
% Low-Income Census Tracts	0%
% Moderate-Income Census Tracts	0%
% Middle-Income Census Tracts	33%
% Upper-Income Census Tracts	67%
<i>Median Family Income (MFI)</i>	
2010 MFI for AA	\$62,237
2013 HUD-Adjusted MFI	\$64,845
<i>Economic Indicators</i>	
2010 Median Housing Value	\$78,974
% of Households Below Poverty Level	9%

Source: 2010 Census data and 2013 HUD updated income data.

The AA has a total population of 5,896 persons. Although there are no low- or moderate-income census tracts in the AA, there are low- and moderate-income families in the AA. Of the 1,695 families, ten percent are low-income families and seventeen percent are moderate-income families. Of the 2,278 households, seventy-one percent derive their income from wages or salaries. Households below the poverty level total 215, or nine percent, and households that receive public assistance total 45, or two percent of the total number of households. The median housing value is \$78,974 and the median age of housing is 44 years old. The unemployment rate for the AA is one percent.

The local economic conditions are stable. The economy continues to depend on the agricultural industry, local area businesses, and the public school system. The major employers in the area include the United States Gypsum Plant; the Okeene Annex and Hospital; Mountain Country Foods (dog biscuit manufacturer); and the Okeene Public School System. FNB's major competitor is a local financial institution, the State Guaranty Bank in Okeene.

A community contact was made during the evaluation to help ascertain the credit needs of the AA. According to the contact, the immediate credit needs of the community are being fulfilled. The community contact had not worked directly with FNB but suggested that banks in the area extend their operating hours and be open on Saturdays to better

serve the community. The community contact also indicated that, given the increase in the Hispanic population, there are opportunities for local banks to expand their banking services to this primarily unbanked segment. In regards to housing, the community contact indicated that there appears to be a shortage of affordable rental housing. However, they were unsure that new affordable housing could be sustained, given the temporary nature of the local oil and wind generation industries.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

This CRA Performance Evaluation assesses FNB's lending primarily on five performance criteria: the loan-to-deposit ratio; lending in the AA; lending to borrowers of different incomes and to businesses of different sizes; geographic distribution of loans; and responses to CRA related complaints. Because FNB's AA does not include any low- or moderate-income census tracts, a geographic distribution of the bank's loans within the AA would not be meaningful and was not performed.

To evaluate FNB's lending performance, a random sample of 50 loans was reviewed. Primary loan products offered by the bank were sampled and consisted of 25 agricultural/commercial business loans and 25 consumer loans originated in 2012 or 2013. Based on the analysis, and consistent with available resources and capabilities, FNB is doing a satisfactory job of meeting the credit needs of its AA.

Loan-to-Deposit Ratio

FNB's loan-to-deposit (LTD) ratio is reasonable and meets the standard for satisfactory performance. The bank's LTD ratio fluctuates due to the seasonal agricultural lending. The average quarterly LTD ratio since the last performance evaluation, May 6, 2008 through December 31, 2013 is 59 percent. The quarterly average LTD ratios for five similar banks in the area are listed in the table below. FNB's average LTD ratio during the evaluation period, at 59 percent, is in line with the 53 percent average of the LTD ratios of the five comparable banks.

Loan-to-Deposit Ratios		
Institution	Total Assets as of 12/31/2013 \$ (000)	Average LTD Ratio
State Guaranty Bank in Okeene	41,032	40%
The Farmers & Merchants NB of Fairview	103,138	42%
Cornerstone Bank in Watonga	146,505	44%
The First National Bank in Okeene	51,513	59%
First State Bank in Watonga	52,154	66%
Community State Bank of Canton	38,192	72%

Source: Institution Reports of Condition from June 30, 2008 to December 31, 2013.

Lending in Assessment Area

FNB’s lending in their AA exceeds the standard for satisfactory performance. The substantial majority of the sampled loans are originated inside the bank’s AA. This conclusion is based on the samples of 25 agricultural/commercial and 25 consumer loans originated between January 1, 2012 and December 31, 2013, as shown in following table:

Lending in AA										
Loan Type	Number of Loans					Dollars of Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Ag/Commercial	20	80%	5	20%	25	1,589	70%	686	30%	2,275
Consumer Loans	22	88%	3	12%	25	195	85%	34	15%	229
Totals	42	84%	8	16%	50	1,784	71%	720	29%	2,504

Source: 2012 & 2013 Ag/Commercial and Consumer Loan Samples.

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

The overall distribution of loans in the bank’s AA indicates excellent penetration. FNB exceeds the standard for satisfactory performance for lending to borrowers of different incomes and businesses of different sizes. The following tables represent the distribution of lending based on the sample of 20 agricultural/commercial and 22 consumer loans extended within the AA:

Borrower Distribution of Loans to Businesses/Farms in AA				
Business Revenues	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses/Farms	66.14%	5.93%	27.92%	100%
% of Bank Loans in AA by #	90.00%	10.00%	0.00%	100%
% of Bank Loans in AA by \$	56.19%	43.81%	0%	100%

Source: 2012 & 2013 Ag/Commercial Loan Sample; Dunn & Bradstreet data.

FNB’s loan distribution, by number of loans, to small agricultural/business customers is excellent and exceeds the standard for satisfactory performance. By dollar amount, the percentage of lending to these small agricultural/business customers is lower than the ratio, but is still reasonable. The table reflects that a large percentage of the businesses in the AA did not report revenues or revenues were unavailable or unknown.

Borrower Distribution of Consumer Loans in AA								
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	16%	36%	15%	36%	18%	10%	51%	18%

Source: 2010 US Census data; 2012 & 2013 Consumer Loan Sample

FNB’s distribution of consumer loans by income level is excellent. The number of consumer loans extended to low- and moderate-income borrowers significantly exceeds the ratio of low- and moderate-income households represented in the AA.

Geographic Distribution of Loans

An analysis of the geographic distribution of loans would not be meaningful since there are no low- or moderate-income census tracts in the AA.

Responses to Complaints

FNB has not received any consumer complaints regarding the bank’s CRA performance in helping to meet AA needs during this 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.