



INTERMEDIATE SMALL BANK

Comptroller of the Currency
Administrator of National Banks
Washington, DC 20219

PUBLIC DISCLOSURE

July 17, 2006

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First National Bank & Trust Company of McAlester
Charter Number 5052**

**235 East Choctaw
McAlester, OK 74501**

**Comptroller of the Currency
Eastern Oklahoma Field Office
7134 South Yale Avenue, Suite 910
Tulsa, Oklahoma 74136**

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. Throughout this evaluation, First National Bank & Trust Company of McAlester will be referred to as "FNB".

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

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

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

The major factors that support this rating include:

- A substantial majority of the bank's loans are made within the assessment area (AA)
- The bank's lending performance to individuals of different income levels and businesses and farms of different sizes is outstanding.
- The bank's distribution of loans throughout the AA, particularly the two moderate-income census tracts, is outstanding.
- FNB's community development lending performance in the AA is outstanding.
- FNB is proactive in their approach to community development investments in a market where investment opportunities are limited.
- The number of community development services that ultimately benefit low and moderate-income individuals in the AA is good.
- Accessibility of FNB's offices to geographies and individuals of different income levels, and the responsiveness of FNB's banking services to the needs of its AA are good.

SCOPE OF EXAMINATION

This Performance Evaluation assesses the bank's performance under the Lending and Community Development tests. The evaluation period for these tests is January 2, 2004 through May 30, 2006. To complete the assessment of the bank's lending performance, we reviewed their residential mortgage loans, consumer loans, and loans to small businesses and small farms. The Community Development Test included a review of community development (CD) loans, CD services, and CD investments/donations made in the bank's AA.

DESCRIPTION OF INSTITUTION

FNB is a \$363 million community bank located in McAlester, Oklahoma. McAlester is located in Pittsburg County approximately 90 miles south of Tulsa, Oklahoma. FNB was chartered in Indian Territory in 1896 and is now owned by First McAlester Corporation (FMC), a locally owned, one-bank holding company. The bank also operates a subsidiary Community Development Corporation (CDC) titled First National Development Corporation (FNDC). FNB serves the AA with a full-service main office in downtown McAlester, a full-service branch office in Hartshorne, a limited-service branch in McAlester, and a drive-thru only facility also in McAlester. Each branch includes at least one drive-thru lane and a separate lane for Automated Teller Machine (ATM) access. FNB also offers internet banking and 24-hour telephone banking services. Consumers can obtain general information about loan and deposit products from the bank's website at <http://portal.fxfn.com/fnbcmok>.

Main bank lobby services are provided Monday through Friday, and Monday through Saturday at each branch. FNB offers a wide variety of banking services and loan and deposit products to meet consumer and commercial banking needs, although they also face strong lending competition from several other financial institutions in the AA. A June 30, 2005 FDIC Deposit Market Share Report indicates FNB has the largest market share of deposits in the AA at \$329 million, or 48%. As of the same date, The Bank, National Association, one of FNB's local competitors has the second largest deposit market share at \$178 million, or 27%. There are no legal or financial impediments to prevent the bank from meeting the credit needs of the AA. FNB received an overall **Outstanding** rating for the last CRA Public Evaluation dated November 4, 2002.

FNB's lending strategy focuses on one-to-four family real estate loans, commercial loans, and consumer installment loans to meet the needs of the community. As of June 30, 2006 the loan portfolio comprised 37% of total assets and consists of the following loan types:

Loan Category	\$ (000)	%
Commercial Real Estate Loans	43,557	32
Residential Real Estate Loans	37,177	28
Commercial Loans	14,639	11
Consumer Loans	14,922	11
Obligations of states and political subdivisions	11,051	8
Construction Loans	7,637	6
Other Loans	6,323	4
Total	135,306	100.00

Source: June 30, 2006 Consolidated Report of Condition and Income

DESCRIPTION OF ASSESSMENT AREA

FNB's AA meets the requirements of the regulation and does not arbitrarily exclude low or Moderate-income geographies. The AA consists of 13 census tracts located in Pittsburg County. The two moderate-income tracts are located in McAlester, northwest of the main bank which is located in an upper-income census tract. There are no low-income census tracts in the bank's AA.

In aggregate, the moderate-income tracts are composed of 1,534 housing units (1,359 single family, 153 multi-family, and 22 mobile homes) and 60% are owner-occupied. The following table further describes major demographic and economic characteristics of the AA.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA	
<i>Population</i>	
Number of Families	12,051
Number of Households	17,177
<i>Geographies</i>	
Number of Census Tracts/BNA	13
% Low-Income Census Tracts/BNA	0%
% Moderate-Income Census Tracts/BNA	15%
% Middle-Income Census Tracts/BNA	70%
% Upper-Income Census Tracts/BNA	15%
<i>Median Family Income (MFI)</i>	
2000 MFI for AA	\$35,517
2004 HUD-Adjusted MFI	\$41,400
<i>Economic Indicators</i>	
# of households receiving social security	6,121
# of households below poverty level	3,034

Source: 2000 United States Census

Community Contact

We initiated two community contacts during this evaluation to gain a better understanding of the credit and community development needs of the AA. The comments we received were positive concerning the manner in which FNB and other local banks provide needed credit, investment, and financial services.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Lending Test

This Performance Evaluation (PE) assesses FNB's lending performance and focuses primarily on five criteria: 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 complaints.

1. Loan-to-Deposit Ratio

FNB's loan-to-deposit (LTD) ratio is reasonable relative to their financial condition, banking competition within the AA, and credit needs of the AA. FNB's net LTD ratio as of June 30, 2006 is 42%. FNB's quarterly average LTD ratio since the previous CRA Public Evaluation is 43%, compared to a peer bank average of 71% over the same period. One key reason for the difference in ratios between the competing banks is the peer bank has multiple assessment areas that provide the banks with a much greater geographic area to originate loans.

2. Lending in Assessment Area

Based on the Home Mortgage Disclosure Act Data Listing Report and other bank prepared reports we reviewed, a substantial majority of the home mortgage loans, loans to small businesses and small farms, and consumer installment loans originated during the evaluation period were within its AA. The table below reflects the number and dollar amount of loans, by type, originated within and outside of the AA.

<i>Assessment Area Lending</i>				
Loan Product	In Assessment Area #	In Assessment Area \$	Out of Assessment Area #	Out of Assessment Area \$
Real Estate	569 (91%)	24,590 (88%)	54 (9%)	3,216 (12%)
Small Business	614 (91%)	24,977 (79%)	59 (9%)	6,485 (21%)
Small Farm	473 (87%)	6,887 (90%)	73 (13%)	787 (10%)
Consumer	1,644 (88%)	13,466 (85%)	219 (12%)	2,389 (15%)

Source: Loan sample and 2000 United States Census

3. Geographic Distribution of Loans

Lending patterns within the bank's AA reflect the geographic distribution of consumer loans, residential real estate loans, and loans to small business and small farms is outstanding. There are no low-income census tracts in the bank's AA, although it is evident from the loans originated during the evaluation period that FNB is actively originating loans in the two moderate-income census tracts. The tables below summarize our conclusions regarding the bank's lending activities during the evaluation period for each type we reviewed.

CONSUMER LOANS				
Census Tract Income Level	LOW	MODERATE	MIDDLE	UPPER
% of AA households	0%	8%	73%	19%
% of loans reviewed	0%	8%	74%	18%

Source: Loan sample and 2000 United States Census

RESIDENTIAL REAL ESTATE				
Census Tract Income Level	LOW	MODERATE	MIDDLE	UPPER
% of AA owner occupied	0%	7%	73%	20%
% of loans reviewed	0%	11%	58%	31%

Source: Loan sample and 2000 United States Census

SMALL BUSINESS AND SMALL FARMS				
Census Tract Income Level	LOW	MODERATE	MIDDLE	UPPER
% of AA businesses	0%	9%	91%	0%
% of loans reviewed	0%	9%	76%	15%

Source: Loan sample and 2000 United States Census

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

Lending patterns within the bank's AA indicate that FNB does an outstanding job of originating consumer, residential real estate, and commercial loans to borrowers of different incomes and businesses of different sizes, particularly low and moderate-income borrowers and small businesses. The tables below summarize our conclusions regarding the bank's lending activities during the evaluation period for each of the loan types we reviewed.

Borrower Distribution of Residential Real Estate Loans								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA families	% of loans reviewed	% of AA families	% of loans reviewed	% of AA families	% of loans reviewed	% of AA families	% of loans reviewed
Residential RE Loans	21%	18%	18%	24%	22%	8%	39%	50%

Source: Loan sample and 2000 United States Census

Borrower Distribution of Consumer Loans				
Borrower Income	Low	Moderate	Middle	Upper

Level	% of AA households	% of loans reviewed	% of AA households	% of loans reviewed	% of AA households	% of loans reviewed	% of AA households	% of loans reviewed
Consumer Loans	26%	25%	15%	30%	18%	25%	41%	20%

Source: Loan sample and 2000 United States Census

<i>Borrower Distribution of Loans to Small Businesses and Small Farms</i>				
Gross Annual Revenues of Business	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA businesses	57%	4%	39%	100%
% of loans reviewed	94%	6%	0%	100%

Source: Loan sample and 2000 United States Census

<i>Borrower Distribution of Loans to Small Businesses and Small Farms</i>				
Original Loan Amount	<\$100,000	\$100,000-\$250,000	>\$250,000	Total
% of loans reviewed	94%	5%	1%	100%

Source: Loan sample and 2000 United States Census

5. Responses to Complaints

Neither FNB nor the OCC received any CRA related complaints about FNB since the previous CRA evaluation.

Community Development Test

This Performance Evaluation (PE) assesses FNB's Community Development (CD) performance and focuses primarily on three criteria: CD lending, CD investments, and CD services.

1. Community Development Lending

FNB's community development lending performance within the AA is outstanding. FNB originated or renewed three qualifying community development loans within the AA totaling \$13,000,000. These are detailed below. The loans, partially facilitated through the First National Development Corporation, were used for such things the construction and renovation of community medical facilities, and contributed to local efforts aimed at revitalizing and stabilizing the low- and moderate-income areas in which the proceeds were used. We also noted one loan to an Oklahoma corporation to provide assistance with the Department of Housing and Urban Development (HUD) involvement with Section 8 Housing Assistance Payment Contracts. While this loan is outside of the bank's AA, it nonetheless has a positive effect on the bank's community development lending activities. FNB is also active to originate loans to borrowers located in AA census tracts designated as an Oklahoma Enterprise Zone (EZ). The U.S. Department of Housing and Urban Development Empowerment Zone program was established to generate economic development in urban areas. Incentives for EZ businesses include tax incentives, wage credits, and low-interest loans through EZ facility bonds.

First National Development Corporation (FNDC): FNB refinanced a \$6,000,000 construction loan originated in December 2001, plus an additional \$500,000 to complete construction of a three-story medical office building to be located on the campus of the McAlester Regional Health Center (MRHC). Without these facilities, many patients would have to drive approximately 100 miles to Tulsa, Oklahoma for health care services.

The FNDC is a non-profit Community Development Corporation (CDC) created and wholly-owned by FNB, and approved by the OCC in May 1999 under 12 CFR 24. FNB created the CDC to stimulate development and/or redevelopment of properties within the city of McAlester, provide jobs and other economic opportunities, and meet the health and education needs of the citizens of the community and surrounding area.

McAlester Regional Health Center (MRHC): In 2003 FNB originated a \$500,000 loan for start-up costs associated with the construction of a Wellness Center located on the campus of the MRHC. The MRHC consists of various health care facilities and an assisted living facility. The area surrounding the MRHC was officially designated as low- and moderate-income by the HUD, and targeted for revitalization under the "City Demonstration Agency Program" and the "Urban Renewal Program". These programs included projects over the years to rehabilitate homes, repair infrastructure, remove dilapidated structures, and relocate displaced occupants. The RHC reflects its primary service area as an eight county region, including Pittsburg County. This region includes some of the poorest counties in the state. Approximately fifty percent of the families in this region are considered low- and moderate-income.

McAlester Regional Health Center Authority (MRHCA): The MRHCA is a public trust and operates the MRHC. In 2004 FNB originated a \$6,000,000 loan to the Authority for the construction of a Wellness Center, which aids hospital patients in rehabilitation services.

2. Community Development Investments

FNB's community development investment performance in the AA is good. FNB is proactive in their approach to community development investments in a market where investment opportunities are limited. FNB made contributions of \$150,000 to the CDC during the evaluation period. The funds benefit organizations providing services targeted to low and moderate-income persons.

3. Community Development Services

The number of community development services that ultimately benefit low and moderate-income individuals in the AA is good. Banking hours and services offered throughout the AA are good and provide accessibility to banking products and services. FNB's alternative product

delivery systems have an overall positive impact on the accessibility of bank products and services. Bank officers and employees are active to provide their financial expertise and technical assistance on financial matters to small businesses, nonprofit groups, affordable housing programs, and other community development organizations. Some notable examples of these services include:

First National Development Corporation (FNDC): FNB Chairman of the Board Wanda Bass serves on the board of this affiliated, non-profit corporation created to stimulate development and/or redevelopment of properties within the city of McAlester, provide jobs and other economic opportunities, and meet the health and education needs of the citizens of the community and surrounding area.

Clark and Wanda Bass Family Foundation, Inc. and The Wanda L. Bass Foundation, Inc.: Not-for-profit corporations formed for charitable religious, educational, and medical/scientific purposes, as well as to acquire, own, and improve real property in furtherance of a purpose to fight urban blight and neighborhood deterioration, and promote historic preservation.

Low Income Loan Programs: FNB offers several residential and consumer loan programs targeted to low-income applicants. As of 6/30/06, FNB's loan portfolio for these programs includes 58 loans with a current balance of \$292,494.

Local Housing Authority: Formed in 1968, the mission of this organization is to ensure adequate, safe, and affordable housing is available to low and moderate-income individuals, as well as create opportunities for the resident's self-sufficiency, economic independence, and to ensure fiscal integrity by all program participants.

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.