



SMALL BANK

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

PUBLIC DISCLOSURE

July 05, 2007

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**National Bank of Sallisaw
Charter Number 15750**

**1000 South Kerr Boulevard
Sallisaw, OK 74955**

**Comptroller of the Currency
Little Rock (Memphis)
10201 West Markham, Suite 105 Ozark National Life Bld.
Little Rock, AR 72205**

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 bank is rated Satisfactory

Based on this evaluation, National Bank of Sallisaw (NBS) has a satisfactory record of meeting the credit needs of its assessment area. This is demonstrated by the following:

- NBS's lending performance is satisfactory given its size, financial condition, and known credit needs in its assessment area.
- The loan-to-deposit ratio is reasonable and has averaged 65% since our last examination.
- Management demonstrates a willingness to originate loans to low-and moderate-income individuals (LMI) and small businesses.
- NBS generates a substantial majority of its loans within the defined assessment area.

SCOPE OF EXAMINATION

This Performance Evaluation (PE) was conducted using small bank examination procedures to assess NBS's lending performance focusing on five performance criteria: the loan-to-deposit ratio;; lending in the assessment area (AA); lending to borrowers of different incomes and to businesses/farms of different sizes; geographic distribution of loans; and, responses to complaints.

Major loan products offered by the bank were sampled and consisted of all residential loans, 20 business loans, and 20 consumer loans, originated since December 31, 2004. We contacted a local business leader to gain a better understanding of the needs of the citizens residing with the assessment area of Sequoyah County.

The following pages further describe the bank's CRA performance.

DESCRIPTION OF INSTITUTION

NBS is located in Sequoyah County (east central Oklahoma) with branches in the cities of Sallisaw and Roland. NBS offers a full range of traditional loan and deposit products and services. Most lending activity is conducted at the main office in Sallisaw. All locations are easily accessible to the public and the bank's ATMs are operational at all times.

NBS's CRA performance was rated satisfactory at the previous evaluation as of October 9, 2001.

As of March 31, 2007, total assets were approximately \$100 million. NBS is owned by First Bank Corp of Fort Smith, AR. Based on NBS's financial performance, there are no impediments that would limit the bank's ability to meet the credit needs of its assessment area. As the table below indicates, the bank's loan portfolio is concentrated in commercial loans followed by residential and then consumer loans.

| Loan Category | \$(000) | % |
|-------------------------------|----------------|-------------|
| Commercial Real Estate Loans | 24,261 | 43% |
| Commercial Loans | 16,082 | 28% |
| Residential Real Estate Loans | 6,559 | 12% |
| Farm Production Loans | 1,320 | 2% |
| Farm Real Estate Loans | 1,267 | 2% |
| Consumer Loans | 5,926 | 10% |
| Other Loans | 1,891 | 3% |
| Total | 57,306 | 100% |

Source: March 31, 2007 Consolidated Reports of Condition and Income

DESCRIPTION OF SEQUOYAH COUNTY

NBS has identified all of Sequoyah County as its assessment area for CRA purposes. According to the 2000 Census, the total population for the county was 38,972. Sequoyah County is part of the Fort Smith Metropolitan Statistical Area (MSA) which has a population of 273,170. Sequoyah County contains seven Census Tracts/Block Numbering Areas. Based on 2000 Census data, all seven of these tracts are middle income. The assessment area, as selected by the bank, includes whole geographies and is appropriate given the bank's size and distribution system. Three other financial institutions have a significant presence in Sequoyah County, with branches in both the cities of Sallisaw and Roland.

The bank's assessment area is located in east central Oklahoma and is considered to be generally rural. The local economy is considered to be stable with no significant growth anticipated. Blue Ribbon Downs race track and casino is located in Sallisaw and is responsible for a large service industry that benefits local motels and restaurants. Other large employers in the area include: Sequoyah Memorial Hospital, Borg Warner (electric motor manufacturer), Tuscorora (package product manufacturer), Indian Capital Area Vo-Tech, and Global (lime processing). There is also a new Wal-Mart Supercenter and a new Cherokee Casino. The city of Roland is considered a bedroom community of Ft. Smith, AR., and as a result, the population has access to expanded employment opportunities.

A community contact interview was conducted with a local business during the evaluation. The contact indicated that the primary lending needs within the assessment area are affordable housing and small business loans. The contact stated that the community could benefit by increasing the supply of housing stock for low-to-moderate income individuals and families and educating the public on the availability of home ownership assistance programs.

The following table reflects demographic data for the assessment area.

| DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA | |
|---|----------|
| Population | |
| Number of Families | 11,044 |
| Number of Households | 14,765 |
| Geographies | |
| Number of Census Tracts/BNA | 7 |
| % Low-Income Census Tracts/BNA | 0 |
| % Moderate-Income Census Tracts/BNA | 0% |
| % Middle-Income Census Tracts/BNA | 100% |
| % Upper-Income Census Tracts/BNA | 0 |
| <i>Median Family Income (MFI)</i> | |
| 2000 MFI for AA | \$33,129 |
| 2000 MFI for MSA | \$37,051 |
| 2007 HUD-Adjusted MFI | \$42,000 |
| Economic Indicators | |
| Unemployment Rate (as of May 2007) | |
| Sequoyah County | 6.7% |
| US | 4.5% |
| 2000 Median Housing Value | \$56,328 |
| % of Households Below Poverty Level | 20% |

Sources: CRA Wiz, Bureau of Labor Statistics; U.S. 2000 Census data

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

NBS's loan-to-deposit (LTD) ratio *meets* that standard for satisfactory performance and compares favorably with the other financial institution headquartered in the assessment area. The bank's LTD ratio since the last examination has averaged 68% compared to an average LTD ratio of 65% for the peer institution. The LTD ratio stated below is derived by calculating the quarterly average since June 2002.

| Institution | Assets (as of March 31, 2007) | Average LTD Ratio |
|---------------------------------|-------------------------------|-------------------|
| First National Bank of Sallisaw | \$195 Million | 65% |
| National Bank of Sallisaw | \$100 Million | 68% |

Source: March 31, 2007 Consolidated Reports of Condition and Income; Uniform Bank Performance Report.

Lending in Assessment Area

NBS's lending within the assessment *exceeds* the standard for satisfactory performance. A majority of loans originated by NBS are to consumers and businesses that reside within the bank's assessment area. All of the following loans were originated since December 2004. Bank records contain sufficient information to determine if loans are granted to customers located in or out of the bank's assessment area.

| TOTAL LOANS REVIEWED | | | | | | | | |
|----------------------|--------------------|------------|---------------|------------|------------------------|------------|--------------|------------|
| LOAN TYPE | IN ASSESSMENT AREA | | | | OUT OF ASSESSMENT AREA | | | |
| | # | % | \$ (000s) | % | # | % | \$ (000s) | % |
| Real Estate | 105 | 98% | 6,218 | 98% | 2 | 2% | 134 | 2% |
| Consumer | 656 | 90% | 5,695 | 87% | 72 | 10% | 875 | 13% |
| Commercial | 85 | 64% | 15,895 | 79% | 48 | 36% | 4,224 | 21% |
| Total | 846 | 87% | 27,808 | 84% | 122 | 13% | 5,233 | 16% |

Source: loan sample; HMDA data and CRA Wiz reports.

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

NBS's pattern of lending to borrowers of different income levels and businesses of different sizes *meets* the standard for satisfactory performance. This conclusion was based on a loan sample of 105 1-4 family residential real estate loans, 20 business loans, and 20 consumer loans originated within the assessment area since December 2004. Census income information is updated by HUD annually to reflect current family income levels that are used for residential real estate and consumer loan comparisons. Income information for businesses was derived from the 2000 Census. The table below reflects the distribution of 1-4 family residential, consumer, and business loans within the bank's assessment area.

| Table 2 - Borrower Distribution of Residential Real Estate Loans | | | | | | | | |
|---|------------------|----------------------|------------------|----------------------|------------------|----------------------|------------------|----------------------|
| 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 | 25% | 7% | 19% | 32% | 23% | 17% | 33% | 44% |

Source: HMDA Data; U.S. 2000 Census data.

The volume of loans to low income families in the AA is below average due to 20% of the potential borrowers having household incomes below the poverty level.

| Table 2A - Borrower Distribution of Consumer Loans | | | | | | | | |
|---|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|
| Borrower 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 | 26% | 35% | 15% | 30% | 17% | 25% | 42% | 10% |

Source: loan sample; U.S. 2000 Census data.

| Table 2B - Borrower Distribution of Loans to Businesses | | |
|--|--------------|--------------|
| Business Revenues (or Sales) | ≤\$1,000,000 | >\$1,000,000 |
| % of AA Businesses* | *33% | *3% |
| % of Bank Loans in AA by # | 95% | 5% |
| % of Bank Loans in AA by \$ | 77% | 23% |

Source: Loan sample; Dunn and Bradstreet Data. 64% of AA businesses did not report revenue data.

* 64% of businesses in the AA did not report revenue.

Geographic Distribution of Loans

An analysis for geographic distribution was not necessary because the bank's assessment area does not include any low or moderate income tracts.

Responses to Complaints

NBS has not received any formal CRA complaints since the prior CRA examination in 2001. The bank's CRA public file contains all required public disclosures.

Compliance with Fair Lending Laws and Regulations

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

Additional Community Services

Management officials of NBS introduced a program at the sixth grade level in the local school system titled “Dollars and Cents” to educate students on the procedures for opening checking or savings accounts and some basic money management principles.