

GENERAL INFORMATION

This document is an evaluation of the Community Reinvestment Act (CRA) performance of the **First National Bank and Trust Company** prepared by the Office of the Comptroller of the Currency (OCC), the institution's supervisory agency.

The evaluation represents the OCC's current assessment and rating of the institution's CRA performance based on an examination conducted as of **September 23, 1996**. It does not reflect any CRA-related activities that may have been initiated or discontinued by the institution after the completion of the examination.

The purpose of the Community Reinvestment Act of 1977 (12 U.S.C. 2901), as amended, is to encourage each financial institution to help meet the credit needs of the communities in which it operates. The Act requires that in connection with its examination of a financial institution, each federal financial supervisory agency shall (1) assess the institution's record of helping to meet the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operations of the institution, and (2) take that record of performance into account when deciding whether to approve an application of the institution for a deposit facility.

The Financial Institutions Reform, Recovery and Enforcement Act of 1989, Pub. L. No. 101-73, amended the CRA to require the Agencies to make public certain portions of their CRA performance assessments of financial institutions.

Basis for the Rating

The assessment of the institution's record takes into account its financial capacity and size, legal impediments and local economic conditions and demographics, including the competitive environment in which it operates. Assessing the CRA performance is a process that does not rely on absolute standards. Institutions are not required to adopt specific activities, nor to offer specific types or amounts of credit. Each institution has considerable flexibility in determining how it can best help to meet the credit needs of its entire community. In that light, evaluations are based on a review of 12 assessment factors, which are grouped together under five performance categories, as detailed in the following section of this evaluation.

GLOSSARY OF TERMS AND COMMON ABBREVIATIONS

The following terms and abbreviations are used throughout this

Performance Evaluation.

Automatic Teller Machines - This term will be referred to as ATM's throughout this Evaluation.

Block Number Area (BNA) - Small, locally defined statistical areas determined by the United States Census Bureau in an attempt to group homogeneous populations.

Community Reinvestment Act (CRA) - A statute that requires federal regulators to evaluate a financial institution's lending performance in light of the credit needs in the institution's local community. The regulator must also evaluate whether the institutions defined community is reasonable. *[THIS IS A GENERIC DESCRIPTION OF THE BANK'S REQUIREMENTS AND NOT A LEGAL EXPLANATION OF THE REQUIREMENTS CONTAINED IN 12 U.S.C. 2901, AS AMENDED AND 12 C.F.R 25, AS AMENDED.]*

First National Bank and Trust Company of McAlester - The bank will be referred to as FNB&T throughout this Evaluation.

First National Development Corporation - A nonprofit community development corporation (CDC) formed by FNB&T in 1981. The CDC provides financial and technical assistance for a variety of community projects in McAlester and Pittsburg County. The corporation will be referred to as FNDC throughout this Evaluation.

Low and Moderate Income (LMI) - Income levels which are less than 80% of the median family income. Low income is defined as less than 50% of the median family income.

Median Family Income - The median income determined by the United States Census Bureau. This figure is based on estimations developed by the Department of Housing and Urban Development and is updated annually.

ASSIGNMENT OF RATING

Identification of Ratings

In connection with the assessment of each insured depository institution's CRA performance, a rating is assigned from the following groups:

Outstanding record of meeting community credit needs.

An institution in this group has an outstanding record of, and is a leader in, ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Satisfactory record of meeting community credit needs.

An institution in this group has a satisfactory record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Needs to improve record of meeting community credit needs.

An institution in this group needs to improve its overall record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Substantial noncompliance in meeting community credit needs.

An institution in this group has a substantially deficient record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

DISCUSSION OF INSTITUTION'S PERFORMANCE

Institution's Rating:

Based on the findings presented below, this institution is rated: **"Outstanding Record of Meeting Community Credit Needs"**.

This evaluation covers the period of March 23, 1994 through September 23, 1996. The purpose of the CRA is to ensure that financial institutions help meet the credit needs of their local communities. Primary reasons why FNB&T achieved a rating of "Outstanding" are listed below.

- A substantial majority of the bank's lending is within its delineated community.
- The bank is proactive in meeting identified credit needs with a combination of innovative and traditional products and services.
- The bank and FNDC continue to support various community development initiatives, often in a leadership role, which greatly enhance the local community.

REASONABLENESS OF COMMUNITY DELINEATION

FNB&T's delineated community is reasonable and does not arbitrarily exclude any LMI areas. The delineated community is defined as Pittsburg County. Within this area, there are 13 BNA's. Their breakdown by income level is as follows: low income - zero, moderate income - two, middle income - eight, and upper income - three. The area median family income is approximately \$24 thousand.

COMMUNITY PROFILE

McAlester is located in southeast Oklahoma and is the largest city in the delineated community with an estimated population of 17M. McAlester is the primary trade center for the county and surrounding areas. The bank also services the community of Hartshorne which is located approximately 15 miles southeast of McAlester. The 1990 census reflects a population of 41 thousand for the entire delineated community. The racial composition is reported as 12% American Indian, 4% African American, 1% Hispanic, and 83% White.

The banking environment is competitive. There are at least five financial institutions operating in the McAlester area, of which FNB&T is the largest. FNB&T is the only financial institution in Hartshorne. The area's economic base is centered in manufacturing and agriculture. Significant employers include the Army Ammunition Plant (1,172), Oklahoma State Penitentiary (521), McAlester Regional Health Center (463), Wal-Mart (590), and Simmons Foods (425).

BANK PROFILE

FNB&T has substantial resources it can devote to meeting the credit needs of the community. As of June 30, 1996 the bank had \$421 million in assets. There are currently three branch facilities and four ATM's. FNB&T offers full service banking including commercial, real estate, consumer, and agricultural lending. The bank also offers trust services. The bank's lending breakdown is described in the table below.

OUTSTANDING LOANS BY TYPE AS OF JUNE 30, 1996		
LOAN TYPE	\$ (MILLIONS)	PERCENT
Commercial Real Estate	64	40%
Residential Real Estate	39	24%
Commercial - Other	33	20%
Consumer	16	10%
Municipal	9	6%
Total	161	100%

*Source: June 30, 1996 Consolidated Reports of Condition and Income

I. ASCERTAINMENT OF COMMUNITY CREDIT NEEDS

Assessment Factor A - Activities conducted by the institution to ascertain the credit needs of its community, including the extent of the institution's efforts to communicate with members of its community regarding the credit services being provided by the institution.

The bank has regular contact with a variety of individuals, community-based organizations and government officials to ascertain community credit needs.

FNB&T's primary methods of ascertaining community credit needs include:

- direct customer contact;
- Director, officer, staff member organizational affiliation; and
- regular communication with local government officials.

The bank sponsored a meeting of local mayors and community leaders in February 1996. Community needs and FNB&T's products

and services were discussed. The bank continues to have close involvement with the McAlester Economic Development Service, Inc., which serves to attract new industry to the area and assist existing business.

Management regularly reviews demographic data and performs informal reviews of lending services. As a result of the needs previously identified through this process and the bank's regular community contacts, management continues to offer six special lending programs that offer flexible criteria. They are as follows.

- **Low-Income Consumer Loan Program** - offers "below market" interest rates on all types of consumer loans to low income borrowers.
- **Low-Income First Time Home Buyer Loan Program** - offers a "below market" interest rate (fixed for the first ten years) and minimal closing costs to low income individuals wishing to purchase a first home.
- **Low-Income Home Loan Program** - similar criteria as the Low-Income First Time Buyer Loan program without the restriction of a "first home".
- **Second Chance Loan Program** - assists individuals who have experienced credit problems which would normally cause the individual to be uncreditworthy.
- **Minority and Women New Business Starts Program** - provides a combination of grants and loans to minorities and women, in cooperation with FNDC. This program seeks to provide needed

initial financing to new business ventures from these segments of the community.

- **New Small Business Loan Program** - meets financing needs for start-up small business enterprises.

See **Assessment Factor I** for information on the volume of lending in these special programs.

Assessment Factor C - The extent of participation by the institution's board of directors in formulating the institution's policies and reviewing its performance with respect to the purposes of the Community Reinvestment Act.

The Board of Directors has demonstrated active support for the intent of the Community Reinvestment Act

CRA activities are guided by the Board and their appointed CRA officer. The Board reviews the bank's CRA performance via monthly reporting of loan activity and an annual, comprehensive

self-assessment. The self-assessment includes reports which detail the volume and types of new loans, their geographic distribution, specific loans related to the CRA, and other associated activities.

As required by the regulation, the Board annually reviews and approves the bank's expanded CRA statement. Compliance with the regulation has been achieved.

II. MARKETING AND TYPES OF CREDIT OFFERED AND EXTENDED

Assessment Factor B - The extent of the institution's marketing and special credit-related programs to make members of the community aware of the credit services offered by the institution.

FNB&T's marketing program is designed to reach all segments of its delineated community.

Advertising is both image promotion and product specific. The bank uses traditional media including radio, newspapers, and brochures. Marketing coverage extends throughout the delineated community.

Assessment Factor I - The institution's origination of residential mortgage loans, housing rehabilitation loans, home improvement loans, and small business or small farm loans within its community, or the purchase of such loans originated in its community.

The bank has made a significant effort to meet the credit needs of its delineated community through traditional and innovative banking products such as residential, commercial, and consumer loans.

A general measure of a bank's volume of lending is the ratio of its total loans to its total deposits. FNB&T has a loan-to-deposit ratio of about 45%. Although this percentage is somewhat lower than other institutions in the area, it is reasonable when consideration is given to the bank's competition, community credit needs, and the level of lending within the delineated community. The following chart shows the total number of loans originated in the delineated community for 1994 and 1995, by loan category.

ORIGINATIONS BY NUMBER AND TYPE WITHIN THE DELINEATED COMMUNITY		
LOAN TYPE	1995	1994
CONSUMER	3,162	2,919
REAL ESTATE	597	556
COMMERCIAL	372	363
AGRICULTURE	279	254
TOTAL	4,410	4,092

Source: Internal Loan Tracking Reports

These loans constitute a substantial 85% of the total loans originated by the bank in this time period.

Residential Real Estate Loans

FNB&T originates home purchase, refinance, and home improvement loans. The following chart provides a detailed breakdown of home loan originations for the first six months of 1996 and the prior two years (home improvement lending data was not available).

HOME LOAN ORIGINATIONS			
LOAN TYPE	YTD 1996	1995	1994
Purchase	82	137	177
Construction	9	15	20
Refinance	99	178	168

Source: Internal Home Loan Activity Reports

Small Business and Agricultural Loans

Although not an absolute measurement, the size of the loan often provides an indication of the size of business. FNB&T has made numerous commercial and agricultural loans originating under \$100 thousand, which indicates the bank provides a reasonable degree of small business/small farm lending. This point is further illustrated in the following table.

BUSINESS/AGRI LOANS LESS THAN \$100 THOUSAND AS OF JUNE 30, 1996			
LOAN TYPE	NUMBER	DOLLAR OUTSTANDING (thousands)	AVERAGE LOAN BALANCE (thousands)

BUSINESS/AGRI LOANS LESS THAN \$100 THOUSAND AS OF JUNE 30, 1996			
Commercial Real Estate	200	5,751	29
Other Commercial	1,686	10,167	6
Secured by Farmland	103	1,852	18
Agricultural Production	520	5,623	11
TOTAL	2,509	23,393	9

Source: June 30, 1996 Consolidated Reports of Condition and Income

Special Credit Related Programs

Loan volumes for the special credit programs described in Assessment Factor A are:

- **Low-Income Consumer** loans = \$482 thousand (250 loans);
- **Low-Income First Time Home Buyer** loans = \$1.4 million (74 loans);
- **Low-Income Home** loans = \$510 thousand (48 loans);
- **Second Chance** loans = \$24 thousand (6 loans);
- **Minority and Women New Business Starts** loans = \$9 thousand (4 loans); and
- **New Small Business** loans - \$570 thousand (6 loans).

The total volume of special program loans has significantly increased since our last evaluation. These grew from \$1.3 million (205 loans) in March 1994 to \$3 million (388 loans) in August 1996. This growth has been primarily in the Low-Income First Time Home Buyer and Low-Income Home loan programs, which have grown from \$798 thousand (48 loans) and \$72 thousand (6 loans), respectively.

Assessment Factor J - The institution's participation in governmentally-insured, guaranteed or subsidized loan programs for housing, small businesses, or small farms.

FNB&T participates in governmentally insured, guaranteed, or subsidized loan programs.

FNB&T participates in the Federal Housing Authority (FHA) and Veterans Administration (VA) loan programs. Since the bank began offering loans through these programs in January 1994, the bank

has originated 30 VA and eight FHA loans totaling \$1.7 million and \$370 thousand, respectively. FNB&T also participates in the SBA lending program. The bank currently has five loans outstanding totaling \$864 thousand.

III. GEOGRAPHIC DISTRIBUTION AND RECORD OF OPENING AND CLOSING OFFICES

Assessment Factor E - The geographic distribution of the institution's credit extensions, credit applications, and credit denials.

FNB&T's volume of lending to LMI individuals is good. The distribution of loan applications, approvals, and denials represents a reasonable pattern throughout the delineated community.

During the first six months of 1996, 20% of the loan originations were to borrowers who resided in moderate income BNA's within the delineated community. These BNA's constitute 18% of the community's total population. Additionally, 35% of home and consumer loan originations have been to LMI individuals. The following chart illustrates this in greater detail.

HOME AND CONSUMER LOANS ORIGINATED IN FIRST SIX MONTHS OF 1996 BY APPLICANT INCOME		
APPLICANT INCOME	LOANS ORIGINATED	% OF ORIGINATIONS
Low	275	16%
Moderate	404	23%
Middle	414	24%
Upper	635	37%

* Source: First Six Months 1996 Internal Loan Tracking Reports

The bank has a system to identify the geographic distribution of approved loans by BNA. The Board and management monitor this data on a monthly basis to determine if there are unwarranted gaps in their lending distribution. This examination revealed no such gaps.

Assessment Factor G - The institution's record of opening and closing offices and providing services at offices.

The bank has a satisfactory record of opening and closing offices. FNB&T's facilities are conveniently located and provide business hours tailored to the needs of the delineated community.

The bank has a main facility, a drive-in facility, and branch locations in McAlester and Hartshorne. The bank also has four ATM's within its delineated community. Business hours are convenient as FNB&T is open six days a week. ATM's are accessible 24 hours a day. Management reviews services and hours of operation on a periodic basis to determine the need for any changes. No branch closures have occurred over the past two years. The Board has developed such a policy in the event a closure should occur.

As mentioned earlier, FNB&T offers full service banking including commercial, real estate, consumer, and agricultural lending. The bank also offers trust services.

IV. DISCRIMINATION AND OTHER ILLEGAL CREDIT PRACTICES

Assessment Factor D - Any practices intended to discourage applications for types of credit set forth in the institution's CRA Statement(s).

FNB&T does not engage in any practices to discourage loan applicants.

Credit applications are solicited from all segments of the community, including LMI and minority individuals. FNB&T has developed adequate policies supporting nondiscrimination.

Assessment Factor F - Evidence of prohibited discriminatory or other illegal credit practices.

No evidence of prohibited discrimination or other illegal credit practices was found.

The examination compared 9 denied minority and 68 approved white home purchase loan applications. No practice of discriminatory treatment was noted. FNB&T is in substantial compliance with the provisions of the anti-discrimination laws and regulations, including the Equal Credit Opportunity Act and the Fair Housing Act.

V. COMMUNITY DEVELOPMENT

Assessment Factor H - The institution's participation, including investments, in local community development and redevelopment projects or programs.

FNB&T and its affiliated CDC have maintained a high level of participation in community development related activities, often in a leadership role.

Management and the Board have established working relationships with government and private sector representatives and are aware of developmental opportunities as they arise. Most of FNB&T's community development activities have been initiated by themselves and not necessarily part of a formalized, community wide initiative. Examples of development activities include:

- a \$1.5 million pledge for the construction of a Higher Education Center in McAlester;
- \$1 million in contributions to build a fine arts teaching facility on the high school campus;
- a \$500 thousand contribution to construct a 10th Grade Center at the McAlester High School;
- a pledge of \$225 thousand for improvements to McAlester public school athletic facilities;
- a \$150 thousand contribution for capital improvements to Hartshorne public schools;
- a \$100 thousand donation to construct an assisted living center for the elderly;
- CDC leadership and monetary support for ongoing efforts to turn a vacant landmark hotel into housing for the elderly; and
- more than \$700 thousand in financing for single-family home construction projects in 1996 to meet an identified need for housing.

Like most communities, McAlester is constantly trying to expand its job base through the attraction of new industry. The quality of educational facilities is often cited by industry as a major determining factor in locating to a community. The bank's leadership and significant contributions in this area will enhance efforts to attract industry and consequently, additional jobs.

Assessment Factor K - The institution's ability to meet various community credit needs based on its financial condition and size, legal impediments, local economic conditions and other factors.

FNB&T's efforts to meet its community's credit needs are consistent with its size and financial resources.

For additional data, please refer to the "BANK PROFILE" and the "COMMUNITY PROFILE" beginning on page 5 of this evaluation.

Assessment Factor L - Any other factors that, in the regulatory authority's judgment, reasonably bear upon the extent to which an institution is helping to meet the credit needs of its entire community.

The bank has engaged in other activities that have benefited the community.

FNB&T and FNDC regularly contribute to a large number of organizations that promote and serve the community. Charitable donations totaled more than \$200 thousand in 1995, excluding large contributions previously described. The bank was a leading force behind the creation of a credit counseling service and continues to monetarily support this endeavor. FNB&T has provided major funding of county credit needs through loans and leases. Bank officers and employees participate in a variety of activities that promote a better community. They actively take part in civic, religious, and charitable organizations.