



PUBLIC DISCLOSURE

April 7, 2014

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The First Farmers National Bank of Waurika
Charter Number 12094

319 East "D" Street
Waurika, OK 73573-3608

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 following:

- The loan-to-deposit ratio is reasonable and meets the standard for satisfactory performance.
- The bank generates a substantial majority of the number and dollar volume of loans within the defined assessment area (AA).
- The bank's borrower distribution of loans reflects an excellent penetration to individuals and businesses of different income levels.
- The geographic distribution of loans reflects an excellent dispersion throughout the AA and exceeds the standard for satisfactory performance; less weight was given to geographic distribution due to the limited number of low- and moderate-income census tracts.
- There have been no complaints with respect to the bank's Community Reinvestment Act performance (CRA).

The First Farmers National Bank (FFNB) 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 FFNB is based on a comparison of the bank's lending activity during the evaluation period to 2010 US Census demographic information and certain information updated to 2013. The bank's AA for this evaluation included all three of the Jefferson County census tracts in south central Oklahoma. The bank's primary lending products, agricultural and commercial business loans and consumer loans, were sampled from the years 2012 and 2013. Residential real estate loans are also a primary product of the bank. However, there were not enough of these loans booked during the evaluation period to provide a meaningful performance analysis.

To evaluate FFNB's lending performance, a sample of 50 loans were reviewed. Loan products offered by the bank were randomly sampled and consisted of 24 agricultural or business loans and 26 consumer loans originated in 2012 and 2013.

DESCRIPTION OF INSTITUTION

FFNB is a \$46 million community bank that is entirely owned by the Waid family. FFNB has done business in Waurika, Oklahoma, since 1906. The bank is affiliated through common ownership with the First State Bank in Temple, Temple, Oklahoma.

FFNB offers a variety of loan and deposit products commensurate with the size and needs of the AA. The bank's single location offers both walk-in lobby services and drive-up teller windows. Automatic teller machines are also located off-site in businesses in Waurika, Oklahoma. FFNB does not have any branch office locations and does not have any financial or legal obstacles affecting its ability to meet the credit needs of the AA.

As of December 31, 2013, loans to agricultural related enterprises, individuals and commercial businesses, totaled \$18.5 million or 40 percent of FFNB's \$46 million in total assets. FFNB's loan portfolio is summarized below:

Loan Portfolio Composition as of December 31, 2013		
Loan Category	\$ (000)	%
Agricultural Loans	\$13,274	71.70%
Residential Real Estate Loans	\$1,703	9.20%
Commercial/Business Loans	\$1,643	8.87%
Consumer Loans	\$1,561	8.44%
Other Loans	\$332	1.79%
Total	\$18,513	100.00%

Source: December 31, 2013 Report of Condition and Income.

FFNB's primary focus is agricultural, business and consumer lending in the northwest corner of Jefferson County. 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 CRA Performance Evaluation, which was performed as of April 7, 2008.

DESCRIPTION OF ASSESSMENT AREA

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

FFNB's AA includes all three of Jefferson County's census tracts in south central Oklahoma. These are specifically identified as tracts 3716, 3717, and 3718. The City of Waurika is included in the AA. One tract is a moderate-income geography and the other two tracts are designated distressed and underserved nonmetropolitan middle-income census tracts. There are no low-income or upper-income tracts within the AA. The bank and the ATMs are all located in Jefferson County. The following table describes the

major demographic and economic characteristics of the AA, based on 2010 U.S. Census data.

Demographic and Economic Characteristics of Assessment Area	
<i>Population</i>	
Number of Families	1,725
Number of Households	2,488
<i>Geographies</i>	
Number of Census Tracts	3
% Low-Income Census Tracts	0%
% Moderate-Income Census Tracts	33%
% Middle-Income Census Tracts	66%
% Upper-Income Census Tracts	0%
<i>Median Family Income (MFI)</i>	
2010 MFI for AA	\$41,042
2013 HUD-Adjusted MFI	\$42,759
<i>Economic Indicators</i>	
2010 Median Housing Value	\$62,100
% of Households Below Poverty Level	18%

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

The total population of the AA is 6,472 persons. Although there are no low-income census tracts and only one moderate-income census tract in the AA, there are many low- and moderate-income families in Jefferson County. Of the 1,725 families, 21 percent are low-income families and 26 percent are moderate-income families. Of the 2,488 households, 18 percent are below the poverty level. The median housing value is \$62,100, and the median age of housing stock is 45 years.

Local economic conditions are satisfactory to poor. The economy of the area is driven by agriculture and the oil and gas (O&G) industries. Since agriculture is the predominant industry, weather conditions and government market controls have a large impact on area economic conditions, which vary from cycle to cycle. The current prices in the O&G industry have had a positive effect on the local economy. The major employers in the area consist of Waurika Public Schools, Jefferson County, the City of Waurika, Metalspand, Inc., and the local hospital.

FFNB faces competition from six other national and state chartered banks in or near Jefferson County, including branches of larger regional banks.

A community contact was made during the examination to help ascertain the credit needs of the AA and the involvement of local banks. The contact felt Jefferson County

banks are sufficiently involved in the community and these banks all perform appropriately by supporting county agricultural, rural and youth programs. FFNB is involved in community development activities and programs in the area, including livestock and youth programs.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

FFNB’s lending performance was evaluated based upon a random sample of 50 loans. The sample consisted of 24 agricultural/commercial business loans and 26 consumer loans that originated between January 1, 2012 and December 31, 2013. Based on the analysis, and consistent with available resources and capabilities, FFNB is satisfactorily meeting the credit needs in its AA.

Loan-to-Deposit Ratio

FFNB’s loan-to-deposit (LTD) ratio is reasonable and meets the standard for satisfactory performance. FFNB continues to employ prudent and conservative lending practices, with an emphasis on loan quality and underwriting. At December 31, 2013, the bank’s LTD ratio was 46 percent. FFNB originates a significant volume of lower dollar loans; approximately 64 percent of the loans originated in 2012 and 2013 for consumers were for amounts less than \$5 thousand. This is a significant contributing factor to their lower than peer LTD ratio.

FFNB’s average quarterly LTD ratio from June 30, 2008 through December 31, 2013 is 49 percent. This was compared to the average LTD ratios of three similar banks in FFNB’s AA or the surrounding areas, with total assets between \$22 million and \$50 million. The LTD ratios range from a low of 49 percent to a high of 88 percent. These average LTD ratios are listed in the following table:

Loan-to-Deposit Ratios		
Institution	Total Assets as of 12/31/2013 (000's)	Average LTD Ratio
First Farmers National Bank	45,674	49%
First State Bank in Temple	22,790	65%
The First State Bank, Ryan	28,583	77%
Peoples Bank & Trust, Ryan	29,730	88%

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

Lending in Assessment Area

FFNB’s lending in the AA exceeds the standard for satisfactory performance. A substantial majority of the number (88 percent) and dollar volume (99 percent) of loans sampled originated in the bank’s AA. This conclusion is based on the sample of 50 loans described above and depicted in following table:

Lending in FFNB’s AA										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$(000s)	%	\$(000s)	%	
Consumer Loans	21	81%	5	19%	26	167	92%	14	8%	181
Ag and Commercial	23	96%	1	4%	24	1,725	99%	10	1%	1,735
Totals	44	88%	6	12%	50	1,892	99%	24	1%	1,916

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

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 for lending to borrowers of different incomes and businesses of different sizes based only on the loans extended within the bank’s AA. The following tables represent the distribution of lending based on those sampled loans within the AA.

Borrower Distribution of Consumer Loans in FFNB’s AA								
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 Loans	29%	53%	19%	19%	19%	14%	33%	14%

Source: 2012 & 2013 Consumer Loan Sample; 2010 U.S. Census data.

FFNB’s borrower distribution of consumer loans is excellent. Consumer loans to low-income borrowers exceeds the ratio of low-income households in the AA, indicating excellent penetration. Loans extended to moderate-income borrowers meets the ratio for the percentage of moderate-income households in the AA. Overall, FFNB achieved excellent penetration in the low- and moderate-income consumer market by extending 72 percent of the consumer loans in the sample to borrowers of low- and moderate-income levels.

Borrower Distribution of Loans to Businesses/Farms in FFNB’s AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	65%	4%	31%	100%
% of Bank Loans in AA by #	100%	0%	0%	100%
% of Bank Loans in AA by \$	100%	0%	0%	100%

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

FFNB’s distribution of loans to agricultural/commercial businesses reflects excellent penetration among businesses of different sizes. One hundred percent of the bank’s loans to businesses were made to small businesses having gross annual revenues of \$1 million or less. The table above also reflects that 31 percent of the businesses in the assessment area did not report revenues or revenues were unavailable or unknown.

Geographic Distribution of Loans

FFNB’s overall geographic distribution of consumer and agricultural/commercial business loans reflects excellent dispersion and exceeds the standard for satisfactory performance. The geographical distribution analysis for the bank indicates there are no low-income or upper-income census tracts in the AA. The bank is located in a moderate-income tract and the majority of their lending occurs locally. The following tables represent the distribution of lending based on the sample of 21 consumer loans and 23 agricultural/commercial loans extended within the AA.

Geographic Distribution of Loans to Businesses/Farms in FFNB’s AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Ag/Commercial	0%	0%	56%	91%	44%	9%	0%	0%

Source: 2012 & 2013 Ag/Commercial Loan Sample; 2010 U.S. Census data.

The geographic distribution of agricultural/commercial loans reflects an excellent dispersion. The distribution of business loans located in the moderate-income census tract significantly exceeds the percentage of businesses located in that tract.

Geographic Distribution of Consumer Loans in FFNB’s AA								
Census Tract 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 Loans	0%	0%	42%	90%	58%	10%	0%	0%

Source: 2012 & 2013 Consumer Loan Sample; 2010 U.S. Census data.

The geographic distribution of consumer loans reflects excellent dispersion. The distribution of consumer loans located in the moderate-income census tract significantly exceeds the percentage of households located in that tract.

Responses to Complaints

FFNB has not received any consumer complaints regarding the bank’s CRA performance 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 assessment area 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.