

PUBLIC DISCLOSURE

February 8, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The First National Bank of Chelsea
Charter number: 5955**

**516 Walnut
Chelsea, Oklahoma 74016**

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

NOTE: 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.

GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the 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. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

*This document is an evaluation of the Community Reinvestment Act (CRA) performance of **The First National Bank of Chelsea, Chelsea, Oklahoma**, prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **February 8, 1999**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.*

Note: Throughout this evaluation, The First National Bank of Chelsea will be referred to as "FNB."

INSTITUTION'S CRA RATING: This institution is rated **Satisfactory**.

- < The bank's loan-to-deposit ratio (LTD) is very good. The LTD ratio averaged 79.87% since the February 21, 1995 performance evaluation. The national peer average was 62.40% for the same period. The bank's loan-to-deposit ratio on December 31, 1998 was 78.38%.
- < FNB generates a majority of its loans within the defined assessment area.
- < Management demonstrates a willingness to originate loans to low-and moderate-income individuals (LMI) and small businesses.
- < Management is doing a very good job originating loans in all census tracts throughout its assessment area.

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

The following table indicates the performance level of The First National Bank of Chelsea with respect to each of the five performance criteria.

Small Institution Assessment Criteria	First National Bank & Trust Company of Broken Arrow Performance Levels		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does not meet Standards for Satisfactory Performance
Loan-to-Deposit Ratio	X		
Lending in Assessment Area		X	
Lending to Borrowers of Different Incomes and to Businesses of Different Sizes		X	
Geographic Distribution of Loans	X		
Response to Complaints	No complaints have been received since the February 21, 1995 CRA performance evaluation was completed.		

DESCRIPTION OF INSTITUTION

FNB is a \$24 million financial institution located in the rural community of Chelsea, Oklahoma. Chelsea is in the northeastern portion of Rogers County, 25 miles northeast of Claremore, Oklahoma and 50 miles northeast of Tulsa, Oklahoma. The bank and its assessment area are part of the Tulsa Metropolitan Statistical Area (MSA). Because of its location, the bank's assessment area contains both rural and urban characteristics. 1990 census data reports the population of Chelsea at 1,620 and the population of Rogers County, Oklahoma at 26,376. The bank operates exclusively from its main bank location in Chelsea, Oklahoma.

FNB is affiliated with Lakeside State Bank, Oologah, Oklahoma. Both banks are majority owned by members of one family. There is no holding company. The last CRA Performance Evaluation of FNB was prepared on February 21, 1995 and an Outstanding rating was assigned.

The bank serves the assessment area through its main bank facility which includes a three lane drive-thru facility. The bank offers a variety of loan products. There are no legal, financial, or other barriers impeding the bank's ability to meet the credit needs of its' assessment area.

The bank's lending strategy focuses on one-to-four family real estate and consumer loans. On December 31, 1998, gross loans comprised 68% of total assets. Loan portfolio distribution on same date is as follows:

December 31, 1998 Loan Portfolio Distribution		
Loan Type	Amount (\$000)	Percent of Total
REAL ESTATE:		
Construction Land Development	422	2
Farmland	11	-
1-4 Family	7,635	47
Multifamily	33	-
Commercial	1,347	10
SUBTOTAL REAL ESTATE	9,448	59
AGRICULTURE:	790	5
COMMERCIAL:	639	4
CONSUMER:	5,194	32
TOTAL	16,071	100

Source: December 31, 1998 Consolidated Reports of Condition and Income

COMMUNITY CONTACT

To better understand the general credit needs of the citizens residing within the assessment area, we visited with a representative of a local housing authority. Based on information from this contact and confirmed by officers of subject bank, a need for new industry and affordable housing were identified.

DESCRIPTION OF FNB's ASSESSMENT AREA

FNB's assessment area meets the technical requirements of the regulation and does not arbitrarily exclude LMI geographies. FNB's assessment area includes five census tracts in Rogers County, Oklahoma. Four of the tracts are middle-income and one tract is moderate-income. Subject bank is located in the moderate-income census tract. There are no low-income census tracts in the assessment area. There are three other similarly sized financial institutions operating within the bank's assessment area.

The 1998 Housing and Urban Development (HUD) MSA/Non-MSA's updated median family income was \$41,400. There are 10,774 housing units in the bank's assessment area. Approximately 67% of the units are owner occupied, 25% are rental units, and 8% are vacant. The median housing value of the assessment area was \$53,243.

According to Oklahoma Department of Commerce (ODC) data, Rogers County is one of the fastest growing counties in the state. From 1990 to 1997, Rogers County grew 19% and ranked second in the state for population growth. Chelsea's business community is primarily composed of small employers. The largest employers include the local school system which employees 130 and Century, Inc., a manufacturer of martial arts clothing, which employees 60.

The following tables depict borrower income and the distribution of families within each census tract of the assessment area.

Family Income Level	Count	Percentage
Low Income	1,793	24%
Moderate Income	1,399	19%
Middle Income	1,887	25%
Upper Income	2,394	32%
Total	7,473	100%

Source: 1990 Census Data, U.S. Bureau of the Census

Percentage of Families Within Each Tract Category					
	Low-Income Families	Moderate-Income Families	Middle-Income Families	Upper-Income Families	Total
Low Income Tracts	0%	0%	0%	0%	100%
Moderate-Income Tracts	34%	25%	22%	19%	100%
Middle-Income Tracts	22%	18%	26%	34%	100%
Upper-Income Tracts	0%	0%	0%	0%	0%

Source: 1990 Census Data, U.S. Bureau of the Census

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The bank's average loan-to-deposit (LTD) ratio is considered **excellent** given the institution's size, financial condition, and considering the credit needs of the assessment area. FNB's quarterly LTD ratio averaged 80%. This compares favorably with the national peer average LTD ratio of 62% and local average LTD ratio of 69%. On December 31, 1998, FNB's LTD ratio was 78%.

Lending in the Assessment Area

Based on a sample of loans reviewed, we determined that a **majority** of the bank's lending occurs within its assessment area. To make this determination, we reviewed residential real estate loans, consumer loans, and small business loans. The bank began geo-coding originated loans during 1998. Through sampling twenty consumer and real estate loans and 24 small business loans, we verified the accuracy of the bank's geo-coding practices. The table below depicts lending practices within the assessment area based on originations between July 1, and December 31, 1998.

Lending Practices Within the Assessment Area				
Loan Type	# inside	% inside	\$ inside	% inside
Consumer	290	68%	1,669M	70%
Real Estate	54	71%	1,434M	62%
Small Business	17	77%	366M	72%
Aggregate	361	69%	3,469M	67%

Source: OCC Loan Sample

Lending to Borrowers with Different Income Levels and Businesses of Different Sizes

Recent lending patterns indicate a **reasonable** distribution of loans to borrower's of different income levels and businesses of different sizes. Our review of 18 real estate loans originated within the assessment area revealed 28% were to low-income borrowers and 11% were to moderate-income borrowers. The percentage of real estate loans to moderate-income borrowers is below the overall percentage of moderate-income families living within the assessment area. Impeding the bank's ability to originate real estate loans to qualified applicants is the percentage of families living below the poverty level (14.85%), the percentage of families receiving public assistance (5.44%), and the percentage of retired families (14.85%). The median average housing value within the assessment area (\$53,243) is significantly higher than the state median average housing value of \$47,643 and the statewide rural area median average housing value of \$36,373.

Our review of 19 consumer loans originated within the assessment area revealed 21% were to low-income families and 32% were to moderate-income families. Consumer lending to low-income families is slightly below the overall percentage of low-income families living within the assessment area. FNB offers flexible underwriting qualifications in an effort to provide credit to all constituents of their assessment area. The following table depicts lending patterns to borrowers of different income levels.

Percentage Distribution of Loans Reviewed Within the Bank's Assessment Area by Income Level of the Borrower				
Area Median Family Income				\$41,400
Income Level of the Borrower	Percentage of Real Estate Loans Reviewed	Percentage of Consumer Loans Reviewed	Combined Percent of Total Loans Reviewed	Percentage of Families Within the Assessment Area
Low (Less than 50% of median income)	28	21	24	24
Moderate (50 to 80% of median income)	11	32	22	19
Middle (80 to 120% of median income)	39	21	30	25
Upper (Greater than 120% of median income)	22	26	24	32
Total	100	100	100	100

Source: OCC Loan Sample

Small businesses, as defined by the CRA, are businesses having gross annual revenue of \$1 million or less. Each small business loan we reviewed met this definition. Furthermore, sixteen of the seventeen small business loans originated within the assessment area were in amounts less than \$100,000. FNB is designated as a certified small business administration (SBA) lender. During 1998, FNB originated six SBA loans totaling \$600M. All were to businesses with revenue less than \$1,000M. The following table illustrates the gross revenue size of each small businesses loan originated within the assessment area between July 1, and December 31, 1998.

Small Business Loans Originated Within Assessment Area		
Business Revenue	Small Business Loans	
	Number	Percent
<= \$100,000	11	66%
\$100,001 to \$250,000	3	17%
\$250,001 to \$500,000	3	17%
\$500,001 to \$750,000	0	0%
\$750,001 to \$1,000,000	0	0%
Total:	17	100%

Source: OCC Loan Sample

Geographic Distribution of Loans

An evaluation of the distribution of loans by income level of the census tract revealed an excellent dispersion. Four of the census tracts within the assessment area are middle-income and the other tract is moderate-income. There are no low-income tracts in the assessment area. Based on sampling, a substantial majority were originated within the moderate-income tract. Specifically, 78% of the residential real estate loans, 84% of the consumer loans, and 71% of the small business loans were originated in the moderate-income tract. The remainder were originated in the middle-income tracts. This is appropriate considering the bank's only facility is in the moderate-income tract.

Distribution of Loans Reviewed Within the Bank's Assessment Area By Income Level of the Geography				
Area Median Family Income				\$41,400
Income Level of Geography	Percentage of Residential Real Estate Loans Reviewed	Percentage of Consumer Loans Reviewed	Percentage of Small Business Loans Reviewed	Percentage of Population within the Assessment Area
Moderate (50 to 80% of median income)	78%	84%	71%	15%
Middle (80 to 120% of median income)	22%	16%	29%	85%

Source: 1990 Census Data and Loan Sample

Response to Complaints

FNB has not received any complaints relating to their CRA performance.

Compliance with Fair Lending Laws and Regulations

During our compliance examination, we also completed a fair lending review to determine if lending decisions are consistent among similarly qualified applicants, regardless of any prohibited basis listed in 12 CFR 202.2(z) - *Equal Credit Opportunity Act* (ECOA). We found no evidence of discriminatory lending acts or practices. The bank is in compliance with the substantive provisions of the ECOA.