



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

May 12, 2008

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The First National Bank of Davis
Charter Number 5298**

**227 East Main Street
Davis, Oklahoma 73030-1903**

**Comptroller of the Currency
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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 Outstanding

The First National Bank of Davis (FNB) is committed to serving the community. This is demonstrated by outstanding lending performance, a majority of which meets the credit needs of low- and moderate-income individuals and geographies. Additionally, management has established a Community Development Corporation to advance projects for affordable housing, community development, and other projects targeting low- and moderate-income individuals. The major factors that support this rating include:

- A substantial majority of loans are made within the assessment area (AA).
- The loan-to-deposit ratio is more than reasonable and exceeds the standard for satisfactory performance.
- The distribution of loans among borrowers of different income levels is excellent throughout its AA. In addition, FNB offers several mortgage loan products that benefit low- and moderate-income individuals.

SCOPE OF EXAMINATION

The review focused on FNB's three main product lines: consumer, commercial and residential real estate loans. A meaningful geographical analysis could not be performed because the bank's AA does not contain any low- or moderate-income census tracts. A sample of 25 loans for each of the three main product lines was selected for review. Each of the 75 loans originated between January 1, 2005, and April 30, 2008.

DESCRIPTION OF INSTITUTION

The First National Bank of Davis is headquartered in Davis, Oklahoma. FNB is 100 percent owned by Davis Bancorp, Incorporated. The main bank and drive-in facility are located at 227 East Main in Davis, Oklahoma. Automated Teller Machines (ATM) are located at the main bank and at the EZ Mart located at 1200 East Main Street. FNB's primary focus is to serve commercial, agriculture, and consumer customers in Davis and the surrounding areas in Murray, Garvin and Carter Counties. FNB meets these needs by providing various loan and deposit products.

In July 2002, FNB formed a Community Development Corporation (CDC) called Arbuckle Financial Services, Inc. (Arbuckle). FNB will use the CDC to make investments in community development projects, such as affordable housing, educational assistance, equity financing for small businesses, and area revitalization or stabilization, as well as other projects. Arbuckle has purchased lots and developed rental housing. Currently two houses are rented in an effort to provide additional affordable housing in Davis. The CDC was approved for Community Development Entity (CDE) status in order to participate in the New Markets Tax Credit (NMTC) program. This designation provides investors credit against Federal income taxes for making qualified equity investments in the CDE. FNB was also approved for the Community Development Financial Institutions Fund (CDFI) for the CORE component. This program makes FNB eligible for grants under various CDFI programs for providing financial and technical assistance to their respective target markets through loans, investments, financial services and other activities.

As of June 30, 2008, FNB had total assets of \$70 million, of which \$40 million, or 57 percent, were composed of various types of loans to individuals, commercial businesses, and agricultural related enterprises. The bank's loan portfolio is segmented as follows:

Loan Category	\$ (000)	%
Consumer Loans	9,619	24.08
Commercial Loans	8,781	21.97
Residential Real Estate Loans	7,930	19.84
Commercial Real Estate Loans	7,501	18.77
Agricultural Loans	6,130	15.34
Total	\$39,961	100.00

There are no known legal or financial impediments to prevent the bank from meeting the credit needs within the assessment area. FNB is involved in and provides support to the community's financial needs. The bank received an Outstanding at the last CRA examination dated August 5, 2002.

DESCRIPTION OF ASSESSMENT AREA

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

FNB has defined their AA as Murray County consisting of three census tracts (#9906, #9907, #9908), with an additional two census tracts (#9914, #9919) in Garvin County, and one census tract (#9921) in Carter County. These six contiguous tracts in the AA are defined as middle-income tracts. FNB's main bank, drive-in, and two ATMs are located in tract #9907 in Murray County. Local banking competition is aggressive and includes several community banks and branches of community banks. The following table describes the major demographic and economic characteristics of the assessment area, based on 2000 U.S. Census data.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF ASSESSMENT AREA	
Population	
Number of Families	6,607
Number of Households	9,191
Geographies	
Number of Census Tracts/BNA	6
% 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	\$35,782
2006 HUD-Adjusted MFI	\$42,600
<i>Economic Indicators</i>	
2000 Median Housing Value	\$51,526
% of Households Below Poverty Level	16%

Source: 2000 U.S. Census and 2006 HUD updated MFI

Based on 2000 census data, the United States Census Bureau identifies all six-census tracts as middle-income. The total population of the AA is 23,194. Additionally, there were 6,607 families and 9,191 households. Of the 6,607 families, 19 percent are low-income families and 19 percent are moderate-income families. Of the 9,191 households, 16 percent are below the poverty level. The age of housing stock is 36 years. The area contained 11,383 housing units with 6,904 or 61 percent owner occupied. Households below the poverty level are moderately high at 16 percent and seven percent of households receive public assistance.

The local economic conditions are stable to growing. There has been some job growth over the past few years. The unemployment rate has been trending downward over this same time period. Government, retail, and service sectors account for the majority of the employers in the AA. Principal employers include Exterran who bought the Hanover Compressor Company, Davis Public Schools, and Dolese Rock. The outlook for the local economy is improving with new city leadership in Davis. The Chickasaw Tribe is now operating a gaming center, hotel, and restaurant in Davis near I-35. The Chickasaw Tribe is also building a \$20 million Cultural Center near Davis, which when completed will boost tourism.

A community contact was conducted during this review. The contact was affiliated with city government in Davis, Oklahoma. The contact indicated that additional small businesses are always welcome and the continued need for affordable housing in the immediate Davis area. Affordable housing is needed to attract and retain qualified employees which are essential to attracting new industry. The contact indicated that local banks, specifically FNB and Landmark Bank, N.A., were instrumental in forming the Davis Housing Alliance to address the affordable housing needs within the community. The contact stated that FNB is very involved in community activities and has taken a leadership role in the community.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

This Performance Evaluation (PE) assesses the bank's performance focusing primarily on five performance criteria: the loan-to-deposit ratio; lending in the AA; lending to borrowers of different incomes and to businesses/farms of different sizes; geographic distribution of loans; and, responses to complaints. Because FNB's AA does not include any low- or moderate-income census tracts, a geographic distribution of the bank's loans within their AA was not performed.

In evaluating the bank's lending performance a random sample of 75 loans was reviewed. Major loan products offered by the bank were sampled and consisted of 25 consumer loans, 25 real estate loans and 25 loans to small businesses/farms.

Consistent with available resources and capabilities, the bank is meeting the credit needs of the entire AA in an outstanding manner.

Loan-to-Deposit Ratio

The bank's lending activity within their AA is very good and exceeds the standard for satisfactory performance. As illustrated in the table below, FNB's loan-to-deposit ratio (LTD) is significantly higher than most of their local competitors and is reflective of their leadership position within this market. For the past eighteen months, the average quarterly LTD ratio for the 16 other banks chartered in Carter, Garvin, Murray, and Pontotoc Counties in Oklahoma is 66 percent and range from a low of 32 percent to a high of 87 percent. The quarterly average LTD ratios for four similarly situated banks in the area are listed in the table below.

Institution	Assets as of 6/30/2008 \$ (000)	Average LTD Ratio
The State Bank of Wynnewood	59,350	87.03%
<i>FNB of Davis</i>	<i>70,072</i>	<i>85.45%</i>
Community Bank of the Arbuckles	78,389	61.76%
FNB of Lindsay	23,205	59.23%
American Exchange Bank, Lindsay	50,306	38.79%

Lending in Assessment Area

FNB’s lending in the AA is good. A substantial majority of the consumer, home purchase, and small businesses/farms loans sampled were originated within the bank’s AA, as illustrated in the table below.

Total Loans Reviewed										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total (000s)
	#	%	#	%		\$(000s)	%	\$(000s)	%	
Consumer	18	72%	7	28%	25	217	64%	123	36%	340
Residential Real Estate	22	88%	3	12%	25	1,173	96%	49	4%	1,223
Business/Ag	20	80%	5	20%	25	2,497	86%	402	14%	2,899
Totals	60	80%	15	20%	75	3,888	87%	575	13%	4,462

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

FNB’s overall distribution of loans by income level of borrowers is excellent and exceeds the standard for satisfactory performance.

Borrower Distribution of Residential Real Estate Loans								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% 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 Real Estate Loans	19%	9%	19%	32%	22%	27%	40%	32%

The bank’s distribution of home purchase loans by income level is excellent. The combined percentage of the number of home purchase loans to low- and moderate-income borrowers is higher than the percentage of low- and moderate-income families in the AA. Nevertheless, the distribution of home purchase loans to low- and moderate-income individuals reflects favorably on the bank’s performance, particularly the distribution to moderate-income families. The bank’s performance is particularly good in light of the fact that approximately 16 percent of the households in the AA have incomes below the poverty level.

Borrower Distribution of Consumer Loans								
Borrower Income Level	<i>Low</i>		<i>Moderate</i>		<i>Middle</i>		<i>Upper</i>	
	% 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	22%	0%	17%	22%	18%	17%	43%	44%

Percentages do not equal 100 because 17 percent of consumer loans in the AA had unknown income levels.

The bank’s distribution of consumer loans by income levels is satisfactory. The percentage of the number of consumer loans to moderate-income borrowers is higher than the percentage of moderate-income families in the AA. This distribution is particularly good in light of the fact that approximately 16 percent of the households in the AA have incomes below the poverty level.

Borrower Distribution of Loans to Businesses/ Farms				
Business/ Farm Revenues	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses/ Farms	42%	3%	55%	100%
% of Bank Loans in AA by #	90%	5%	5%	100%
% of Bank Loans in AA by \$	81%	17%	2%	100%

The loan distribution to small businesses/farms in the AA is excellent. The percentage of bank loans to businesses/farms with revenues less than \$1 million is significantly higher than the percentage of businesses/farms located in the AA with revenues less than \$1 million. The table also reflects that a large percentage of the businesses in the assessment area did not report revenues or revenues were unavailable or unknown.

Other Information

FNB offers three mortgage products to better meet the housing needs of low- and moderate-income individuals. The Rural First Time Homebuyer Program (RFHP) is a down payment assistance program designed to help first time homebuyers in rural areas purchase a home. To qualify, the homebuyer must have an income that is 80 percent or lower of the areas median income. The bank also offers the USDA Rural Development Guaranteed Single Family Housing Program. Eligible homebuyers must meet certain income restrictions. This program provides 100 percent financing, requires no down payment, and mortgage insurance is prohibited. Additionally, FNB has internally developed an affordable housing program to assist low- and moderate-income individuals. To be eligible, the homebuyer’s income must not exceed 115 percent of the area’s median income. The product has no origination fees and requires only a 90 percent loan-to-value. FNB also offers 15 and 30 year fixed rate mortgages through a broker arrangement with another bank and mortgage company.

Geographic Distribution of Loans

A meaningful geographical analysis cannot be performed because the bank's AA does not contain any low- or moderate-income census tracts.

Responses to Complaints

There have been no consumer complaints regarding the bank's Community Reinvestment Act performance during the evaluation period.

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.