



## PUBLIC DISCLOSURE

April 25, 2016

### COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First National Bank & Trust Company of McAlester  
Charter Number 5052

235 East Choctaw  
McAlester, Oklahoma 74501

Office of the Comptroller of the Currency  
8282 South Memorial Drive Suite 300 Tulsa, Oklahoma 74133

**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.

## 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 CRA performance of First National Bank & Trust Company of McAlester (FNB) prepared by the Office of the Comptroller of the Currency (OCC), the institution's supervisory agency, as of April 25, 2016. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 C.F.R. Part 25.

**Institution's CRA Rating: The institution is rated Satisfactory.**

**The Lending Test is rated: Satisfactory.**

**The Community Development Test is rated: Satisfactory.**

FNB has a satisfactory record of meeting community credit and development needs. These ratings are based on the following:

- A *substantial majority* of the number and dollar level of FNB's residential real estate (RRE) and commercial real estate (CRE) loans originated during the review period is inside the assessment area (AA), and FNB exceeds the standards of satisfactory performance.
- The loan-to-deposit (LTD) ratio is *reasonable* based on their performance context and lending opportunities inside the AA, and FNB meets the standards of satisfactory performance.
- Lending patterns for RRE loans and CRE loans during the review period reflect a *reasonable penetration* of loan originations among borrowers of different income levels and businesses with different revenue levels, and FNB meets the standards of satisfactory performance.
- Lending patterns for RRE loans and CRE loans during the review period indicate *reasonable dispersion* of loans throughout the AA, and FNB meets the standards of satisfactory performance.
- Community development (CD) performance demonstrates *adequate responsiveness* to the needs of the AA through CD loans, qualified investments, and CD services.

## Scope of Examination

We evaluated FNB using the Intermediate Small Bank standards for assessing performance, which includes lending and CD tests to evaluate FNB's record of meeting the credit and CD needs of the AA. FNB's primary loan products include RRE loans and CRE loans, and we assessed performance under the lending test using a sample of 20 RRE loans and 20 CRE loans originated from January 2, 2014 through April 25, 2016. The sample is representative of FNB's general business strategy since the previous CRA Performance Evaluation. FNB is not subject to the data reporting requirements of the Home Mortgage Disclosure Act. We assessed performance under the CD test through a review of CD loans, CD services, and qualified investments initiated from April 22, 2013 through April 25, 2016.

## Description of Institution

FNB is a \$453 million community bank headquartered in McAlester, Oklahoma, and a subsidiary of First McAlester Corporation (FMC), a locally owned, single-bank holding company. FNB operates a non-profit subsidiary Community Development Corporation (CDC) named First National Development Corporation (FNDC). A CRA Performance Evaluation was last prepared as of April 22, 2013, and a "Satisfactory" rating was assigned. There are no legal, financial, or other factors impeding FNB's ability to meet the credit and CD needs of the AA, and FNB did not open or close any bank facility during the review period.

FNB meets deposit, credit, and CD needs of the AA through the main bank at 235 East Choctaw (McAlester, Oklahoma), a drive-thru facility at 1103 E. Carl Albert Parkway (McAlester, Oklahoma), a drive-thru facility at 2nd Street & Chickasaw (McAlester, Oklahoma), a full-service branch and drive-thru facility at 1025 Pennsylvania Avenue (Hartshorne, Oklahoma), and five proprietary Automated Teller Machines.

To help meet the banking needs of its AA, FNB offers a variety of loan and deposit services during reasonable business hours, Monday through Saturday. FNB also offers banking services by telephone, mobile banking, and the Internet. Customers can obtain general information about loan and deposit products from FNB's website at <http://www.fnbmcalester.com/>. FNB's current business strategy includes providing a variety of loan and deposit services inside the AA, consistent with safe and sound operations, and there are no immediate plans to materially change this strategy.

The following table describes the composition of FNB's loan portfolio as of March 31, 2016, which represents approximately 51 percent of total assets. Management does not anticipate any significant changes in the near future.

<b>Loan Portfolio Composition</b>		
<i>Loan Category</i>	<b>\$ (000)</b>	<b>%</b>
RRE Loans	\$56,128	24%
CRE Loans	\$131,115	57%
Commercial Loans	\$17,460	8%
Construction Loans	\$7,387	3%
Farm Production Loans	\$2,732	1%
Farm Real Estate Loans	\$2,254	1%
Consumer Loans	\$13,826	6%
<b>Total</b>	<b>\$230,902</b>	<b>100%</b>

Source: March 31, 2016 Consolidated Reports of Condition and Income (Call Report)

## Description of Assessment Area

FNB's AA is Pittsburg County, which includes 13 contiguous census tracts (CT), comprises two moderate-income CT, nine middle-income CT, and two upper-income CT. The AA meets the requirements of the regulation and does not arbitrarily exclude low-or moderate-income geographies. The two moderate-income CT are located in McAlester, Oklahoma, northwest of the main bank. One includes the large state correctional facility, Oklahoma State Penitentiary. Combined, the moderate-income CT have a low level of owner-occupied housing.

Based on 2010 United States Census Data, the total population of the AA is 45,837, with 85 percent residing in middle and upper income CT. Approximately 40 percent of the households receive public assistance or social security, and 17 percent of the households are below the poverty level. There are 22,504 total housing units in the AA. Approximately 59 percent are owner-occupied and 27 percent are rental occupied.

The level of banking competition in the AA is aggressive and varied, originating from local affiliates of larger financial institutions, other small community banks, credit unions, and non-bank financial service providers (payday lenders). Based on the June 30, 2015 Federal Deposit Insurance Corporation Market Share report, FNB's presence in the Pittsburg County AA is significant, as they have 41 percent of the deposit market share. The local economic conditions are generally stable, however, have potential for decline, and employment levels at local major employers remain a concern. Housing values have increased slightly, and the percentage of households below the poverty level has declined only slightly. Major employers in Pittsburg County include the Defense Ammunitions Center, Oklahoma State Penitentiary, McAlester Public Schools and the McAlester Regional Health Center.

The following table provides key demographic and economic characteristics of the AA:

Demographic and Economic Characteristics of FNB's Assessment Area	
<i>Population</i>	
Number of Families	12,239
Number of Households	18,623
<i>Geographies</i>	
Number of Census Tracts/BNA	13
% Low-Income Census Tracts/BNA	0.00%
% Moderate-Income Census Tracts/BNA	15.38%
% Middle-Income Census Tracts/BNA	69.24%
% Upper-Income Census Tracts/BNA	15.38%
<i>Median Family Income (MFI)</i>	
2010 MFI for AA	\$48,915
2015 HUD-Adjusted MFI	\$51,200
<i>Economic Indicators</i>	
Unemployment Rate	5.40%
2010 Median Housing Value	\$83,240
% Of Households Below Poverty Level	16.82%

Source: 2014 Geo-demographic Data; 2010 United States Census Data

### Community Contact

During the evaluation process, we contacted a local community leader inside the AA to get a better understanding of the general community credit and development needs, and discuss local economic conditions. The contact indicated a need for affordable owner-occupied and rental housing. Comments were positive regarding community support from local financial institutions, including FNB.

## Conclusions with Respect to Performance Tests

### LENDING TEST

FNB's performance under the Lending Test is: *Satisfactory*.

### Loan-to-Deposit Ratio

FNB's LTD ratio is *reasonable* based on their performance context and lending opportunities inside the AA. Since the previous CRA Performance Evaluation, FNB's quarterly average LTD ratio averaged 52 percent, compared to a 54 percent aggregate average by three competing banks of similar size. FNB's LTD ratio as of March 31, 2016 was 57 percent. The following table provides detail regarding the LTD ratios of FNB and local competing banks.

LTD Ratios		
Institution	Total Assets \$000's (As of 12/31/15)	Average LTD Ratio
FNB&T Ardmore, Oklahoma	\$505,128	49.43%
The Bank NA, McAlester, Oklahoma	\$365,035	55.06%
American NB, Ardmore, Oklahoma	\$364,929	58.30%
<b>FNB, McAlester, Oklahoma</b>	<b>\$453,139</b>	<b>51.87%</b>

Source: December 31, 2015 Call Report

### Lending in Assessment Area

Our loan sample disclosed that a substantial majority of the number and dollar level of FNB's RRE loans and CRE loans are inside FNB's AA. The following table presents a more specific identification of loan types inside and outside of the AA.

Lending inside the Pittsburg County AA										
Loan Type	Number of Loans					Dollars of Loans (000's)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Purchase	18	90.00	2	10.00	20	\$2,043	90.55	\$213	9.45	\$2,256
Small Business	17	85.00	3	15.00	20	\$1,825	92.87	\$140	7.13	\$1,965
Totals	35	87.50	5	12.50	40	\$3,868	91.63	\$353	8.37	\$4,221

Source: Loan sample

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

Lending patterns for RRE loans and CRE loans during the review period reflect a *reasonable penetration* of loan originations among borrowers of different income levels and businesses with different revenue levels. Bank management attributes the relatively low percentage of RRE loans to low- and moderate-income borrowers to the general inability of borrowers in that income category to meet FNB's credit standards, consistent with safe and sound lending. The following table presents a more specific identification of loan distribution patterns among borrowers inside the AA.

Borrower Distribution of RRE Purchase Loans inside AA								
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

Purchase	20.39	16.66	17.78	5.56	18.83	27.78	43.00	50.00
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Source: Loan sample; 2010 United States Census Data

Borrower Distribution of CRE Loans to Businesses inside the AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	70.94	4.68	24.38	100%
% of Bank Loans in AA by #	76.47	23.53	0.00	100%
% of Bank Loans in AA by \$	57.21	42.79	0.00	100%

Source: Loan Sample; Dunn and Bradstreet data.

### Affordable Home Loan Programs

FNB has two residential mortgage loan products with flexible terms that make mortgage products more available to low- and moderate-income borrowers. These products include:

- *Low Income First Time Homebuyer Program*
- *Low Income Real Estate Loan Program*

During the evaluation period, FNB originated seven loans under these programs totaling \$154 thousand. Both programs are similarly underwritten, providing the borrower with a below market interest rate on the purchase of a 1-4 family primary residence, and a maximum loan amount of \$50 thousand. The loan must be secured by a first real estate mortgage on the primary residence. The loan amount is determined based on 28 percent of combined monthly gross income, which goes toward the loan payment, and not more than 40 percent of combined monthly gross income on all debt obligations, including the home payment. The loans are on a 10-year balloon and amortized up to 20 years. A five percent down payment is required. FNB is in the process of reviewing these products to ensure ongoing adherence to recent consumer real estate requirements.

### Geographic Distribution of Loans

Lending patterns for RRE loans and CRE loans during the review period indicate *reasonable dispersion* of loans throughout the AA. Despite the low percentage of lending in the moderate-income CT, relative to the percent of owner-occupied housing units in those CT, the geographic distribution of RRE loans is satisfactory as there are only two moderate-income CT in the AA. One includes the large state correctional facility, Oklahoma State Penitentiary. Additionally, combined the moderate-income CT have a low level of owner occupied housing units, providing less opportunity to originate RRE loans.

Geographic Distribution of RRE Loans inside the AA								
CT Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans

Purchase	0.00	0.00	10.58	5.56	65.99	56.55	23.43	38.89
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Source: Loan Sample; 2010 United States Census Data

The geographic distribution of loans to businesses is satisfactory, as the two upper income tracts are in the center of McAlester's primary business redevelopment (older town center) and new development area (a very large south central tract where new business has been developing). Additionally, the nine middle-income CT evidence more stable businesses with less demand for expansive lending.

Geographic Distribution of CRE Loans to Businesses inside the 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
	0.00	0.00	27.55	23.53	46.89	23.53	25.56	52.94

Source: Loan Sample; Dunn and Bradstreet Data

**Responses to Complaints**

There have been no consumer complaints regarding FNB’s performance under the CRA during the evaluation period. FNB’s CRA Public File contains all of the required information.

**Fair Lending or Other Illegal Credit Practices Review**

Pursuant to 12 C.F.R. § 25.28(c), or 12 C.F.R. § 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.

**COMMUNITY DEVELOPMENT TEST**

FNB’s performance under the Community Development Test is: *Satisfactory*.

**Responsiveness to CD Needs**

FNB’s CD performance demonstrates *adequate responsiveness* to the CD needs of the AA. The CD evaluation period is based on activities from April 22, 2013 through April 25, 2016. During the evaluation period, FNB originated or renewed ten CD loans totaling \$7,130,853, participated in seven qualified local school bond investments totaling \$1.5 million, donated \$56,005 to qualified CD organizations, and provided qualified officer and employee banking services to 17 different CD organizations. These organizations primarily serve low- and moderate-income residents, promote the development of jobs for low- and moderate-income workers, and work to revitalize or stabilize areas within the AA.



### **Number and Amount of Community Development Loans**

FNB's CD lending activities demonstrate *adequate responsiveness* to the needs of the AA. Qualifying CD loans are those that meet the definition of CD, as defined in the CRA regulation. This includes activities that promote affordable housing, community services, economic development and revitalization and stabilization that benefit low- and moderate-income individuals and geographies. Activities are considered to promote economic development if they support permanent job creation, retention, and/or improvement for low- and moderate-income persons. Qualified CD activities that help revitalize or stabilize a community are activities that attract new businesses or persons to a community, or are activities that help retain existing businesses or persons in a community. Qualified activities, may include, for example, providing financing to help retain businesses in an area that employ low- and moderate-income persons; or providing financing to attract a new employer that will create permanent job opportunities for low- and moderate-income persons.

During the review period, April 22, 2013 through April 25, 2016, FNB originated or renewed ten CD loans, totaling \$7.1 million, in the AA. FNB also offers multiple loan programs directed toward low income borrowers including consumer loans, home loans, small business loans, and loans for low income women and minorities. Key lending in the AA included loans for multifamily, affordable housing and loans to finance improvements to the regional hospital and other medical services.

These loans included:

- FNB renewed a loan totaling \$4.6 million to the FNDC. The mission of this nonprofit CDC is to provide financial and technical assistance for a variety of community projects in Pittsburg County, to stimulate the development and redevelopment of properties, and to meet community needs in growth and development.
- FNB extended two loans totaling \$994 thousand to the McAlester Regional Health Center. This full-service hospital provides critical medical services for residents, including low- and moderate-income residents, in McAlester and the surrounding region.
- FNB renewed three loans totaling \$1.3 million to two borrowers to finance apartments in McAlester, Oklahoma and Krebs, Oklahoma. Both properties qualify as affordable housing and provide stable residence for low- and moderate-income families.

### **Number and Amount of Qualified Investments**

FNB's qualified CD investment activities demonstrate *adequate responsiveness* to the needs of the AA. Qualifying investments are bond or equity investments, deposits, membership shares, or grants that have as their primary purpose community development, as defined in the CRA regulation.

The level of qualified CD investments in the AA is adequate. FNB participated in seven qualified investments through the purchase of tax-exempt municipal bonds issued by local public school systems. More than 50 percent of the student populations in both school districts qualify for the federal free or reduced-price lunch program.

These investments include:

- Three Pittsburg County Municipal Bonds totaling \$1,028,496 that benefit the Krebs Public Schools.
- Four Pittsburg County Municipal Bonds totaling \$509,577 that benefit the McAlester Public Schools.

FNB also donated \$56,005 to qualified organizations in the AA during the evaluation period.

### **Extent to Which FNB Provides Community Development Services**

FNB's CD services performance demonstrates *adequate responsiveness* to the CD needs of the AA. The level of qualified CD services in the AA is adequate. FNB offers a low-cost check cashing service for government assistance checks, Treasury checks, and payroll checks. Bank officers and employees have served in 17 leadership positions in AA organizations that promote economic development in the AA, provide community services to low- and moderate-income families in the AA, or revitalize and stabilize areas within the AA. FNB provides technical and financial expertise to these organizations.

Examples of these qualifying CD services include:

- **McAlester Lions Club**  
A senior officer serves as Secretary/Treasurer for the Board, and another senior officer serves as the chairperson for the Eyeglasses Program. This organization provides services and assistance for low- and moderate-income residents within the AA who have vision problems.
- **Shared Blessing**  
A senior officer serves as Vice President for the Board for this nonprofit entity that provides services and assistance benefiting low- and moderate-income individuals, and provides administrative assistance to two other nonprofits that support affordable housing and neighborhood revitalization.
- **McAlester Foundation**

A senior officer serves as President of the board for this nonprofit, economic development entity that focuses on creating and retaining industry and manufacturing employment in the McAlester area.

- **Pittsburg County Habitat for Humanity**

A senior officer serves as President of the board for this organization that is focused on providing affordable housing to low- and moderate-income residents in Pittsburg County.

- **United Way of Southeastern Oklahoma**

A senior officer serves as a board member for the United Way chapter in the AA. The United Way chapters in this area focus on identifying the needs of underserved groups and persons, including low- and moderate-income residents, and providing monetary assistance.

- **First National Development Corporation**

A senior officer serves as a board member. The purpose of the FNDC is to provide financial and technical assistance for a variety of community projects in Pittsburg County, to stimulate the development and redevelopment of properties, and to meet community needs in growth and development.