



# INTERMEDIATE SMALL BANK

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## PUBLIC DISCLOSURE

April 22, 2013

### COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First National Bank & Trust Company of McAlester  
Charter Number 5052

235 East Choctaw  
McAlester, OK 74501

Office of the Comptroller of the Currency

8282 South Memorial Drive, Suite 300  
Tulsa, OK 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.

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

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

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

The major factors supporting the institution's rating include:

- A substantial majority of the bank's business and home mortgage loans sampled were originated within the bank's assessment area (AA).
- FNB's loan-to-deposit ratio is reasonable when compared to banks of similar size and characteristics in or near the AA. The loan-to-deposit ratio averaged 49 percent during the evaluation period.
- Lending to borrowers of different incomes and businesses of different sizes reflects a reasonable penetration.
- The geographic distribution of loans sampled reflects a reasonable dispersion throughout the AA.
- Community development (CD) performance demonstrates adequate responsiveness to the needs of the AA through loans, qualified investments, and services.

## **Scope of Examination**

A Data Integrity review was performed commencing on March 6, 2013. Since the bank is not a home mortgage reporter under the Home Mortgage Disclosure Act (HMDA), this review focused on the bank's community development activities to ensure that an adequate level of activity had occurred during the evaluation period. The number and dollar amount of community development loans, qualified investments, and services were assessed. The review indicated that an adequate level of community development activities had occurred when considering the bank's limited opportunities to be involved in community development activities.

This Performance Evaluation is based on 2000 U.S. Census demographic information. Conclusions regarding the Lending Test are based on data from a sample of residential mortgage and small business loans originated in 2010 and 2011. Conclusions regarding the Community Development Test are based on community development activities from November 19, 2009 through April 22, 2013.

## Description of Institution

FNB is a \$456 million community bank that is headquartered in McAlester, Oklahoma. McAlester is in Pittsburg County, located in southeast Oklahoma. The one full service branch is located in Hartshorne, Oklahoma, also in Pittsburg County. FNB is owned by First McAlester Corporation (FMC), a locally owned, one-bank holding company. The bank also operates a non-profit subsidiary Community Development Corporation (CDC) named First National Development Corporation (FNDC). FNDC was created to stimulate the development and/or redevelopment of properties within the City of McAlester, provide jobs and other economic opportunities, and meet the health and education needs of the citizens of the community and surrounding area. No equity contributions have been made since the previous evaluation dated November 19, 2009. CDC activities during the evaluation period were limited to donations made to community development non-profit organizations.

FNB serves the AA with a full-service main office in downtown McAlester, a full-service branch office with a drive-in window in Hartshorne, two stand-alone drive-thru facilities in McAlester, and 8 Automated Teller Machines (ATM) throughout the AA. The main bank provides lobby services Monday through Friday and the Hartshorne branch provides lobby services Monday through Saturday. The branch and the two stand-alone drive-thrus provide extended hours, including Saturday. There have been no branch openings or closings since the previous CRA evaluation.

FNB offers a wide variety of traditional banking services and loan and deposit products to meet consumer and commercial banking needs. Commercial and residential consumer lending is the primary loan products. FNB also offers internet banking, mobile banking and 24-hour telephone banking services. Consumers can obtain general information about loan and deposit products from the bank's website at <http://www.fnbmcalester.com/>.

FNB's lending strategy focuses on residential real estate, commercial real estate, commercial, and consumer loans to meet the needs of the community. As of December 31, 2012, FNB's total assets equaled \$456 million, of which \$192 million or 42 percent were comprised of various types of loans to individuals, commercial businesses, and commercial and residential real estate. Specifically, the bank's loan portfolio consists of the following:

<b>Loan Portfolio Composition</b>		
<i>Loan Category</i>	<b>\$ (000)</b>	<b>%</b>
Real Estate Loans	\$151,419	79%
Commercial Loans	\$27,738	14%
Individual Loans	\$10,121	5%
Other Loans	\$615	1%
Agricultural Loans	\$2,088	1%
<b>Total</b>	<b>\$191,981</b>	<b>100%</b>

*Source: December 31, 2012 Uniform Bank Performance Report*

There are no legal, financial or other impediments to prevent the bank from meeting the credit needs of the AA. FNB is involved in and provides support to meet the community's financial needs. FNB received an overall "Satisfactory" rating for the last CRA Public Evaluation dated November 19, 2009.

## **Description of Assessment Area(S)**

The assessment area (AA) adopted by FNB consists of whole geographies, does not reflect illegal discrimination, and does not arbitrarily exclude low- to moderate-income geographies. It meets the requirements of the CRA regulation. The bank's AA comprises all 13 census tracts located in Pittsburg County, including the county seat of McAlester. There are no low-income census tracts, two moderate-income, nine middle-income and two upper-income census tracts in the AA. The two moderate-income census tracts are located in McAlester, northwest of the main bank. One of the moderate-income census tracts encompasses a large state correctional facility. Combined, the moderate-income census tracts have a low level of owner occupied housing at 7.02 percent.

As of the 2000 census, the total population of the AA was 43,953. This population is distributed at 12.89 percent, 68.82 percent, and 18.30 percent to moderate, middle, and upper-income census tracts, respectively.

Of the 12,051 families in the AA, 20.94 percent, 17.74 percent, 22.55 percent, and 38.77 percent report earning low, moderate, middle, and upper-incomes, respectively. Approximately 42.28 percent of the households receive public assistance or social security. Households below the poverty level represent 17.66 percent. Slightly less than 80 percent of the housing units are occupied and 61 percent are owner occupied.

FNB operates two full service branch locations and eight ATMs in the Pittsburg County AA. Both of the bank locations are located in middle-income census tracts.

The following table further describes major demographic and economic characteristics of FNB’s AA:

Demographic and Economic Characteristics of FNB’s Assessment Area	
<i>Population</i>	
Number of Families	12,051
Number of Households	17,177
<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	69.23%
% Upper-Income Census Tracts/BNA	15.39%
<i>Median Family Income (MFI)</i>	
2000 MFI for AA	\$35,779
2011 HUD-Adjusted MFI	\$48,400
<i>Economic Indicators</i>	
Unemployment Rate	5.60%
2000 Median Housing Value	\$51,940
% Of Households Below Poverty Level	17.66%

*Source: 2000 Census data and 2011 HUD updated income data.*

The local economy in Pittsburg County has been stagnant and is slowly declining. The oil and gas activity has declined and reduced employment levels at local major employers is a concern. Housing values have declined and marketing periods have lengthened. Current projections anticipated \$1.2 million in reduced sales tax revenues for 2013. As of February 2013, the unemployment rate in Pittsburg County was 5.60%. Major employers in Pittsburg County include the Defense Ammunitions Center, Oklahoma State Penitentiary, McAlester Public Schools and the McAlester Regional Health Center.

Local banking competition is aggressive and includes affiliates of larger financial institutions, small community banks, credit unions, and non-bank financial service providers such as pay-day loan companies.

Community contacts were conducted during this review to gain a better understanding of the credit and community development needs of the AA. The comments received were positive concerning the manner in which FNB and other local banks provide needed credit, investment, and financial services. Perceived needs include affordable owner occupied and rental homes. Also discussed were potential lending opportunities for manufacturing housing and business incubators.

## Conclusions with Respect to Performance Tests

### LENDING TEST

The bank's performance under the Lending Test is rated Satisfactory.

#### Loan-to-Deposit Ratio

FNB McAlester's loan-to-deposit (LTD) ratio is reasonable and meets the standard for satisfactory performance. The bank's LTD ratio at December 31, 2012 was 47.85 percent. The bank's average quarterly LTD ratio from December 31, 2009 through December 31, 2012 was 49.06 percent. This average was compared to the average of four similar banks of similar size and characteristics in or near the AA with total assets between \$250 million and \$500 million, for the same period. FNB McAlester's LTD ratio is slightly below the average of the four comparable banks of 52.05 percent. LTD ratios are listed in the following table:

Loan-To-Deposit Ratios		
Institution	Total Assets \$000's (As of 12/31/12)	Average Loan – to-Deposit Ratio
FNB&T Ardmore, OK	\$491,872	48.77%
The Bank NA, McAlester, OK	\$401,331	52.15%
The Security NB Enid, OK	\$353,168	51.03%
American NB, Ardmore, OK	\$311,590	56.24%
<b>FNB&amp;T, McAlester, OK</b>	<b>\$456,368</b>	<b>49.06%</b>

Source: Institution Reports of Condition from December 31, 2009 to December 31, 2012

**Lending in Assessment Area**

FNB McAlester’s lending in its AA demonstrates outstanding performance. A substantial majority of the number and dollar amount of home mortgage and small business loans were originated within the bank’s AA. As depicted in the table below, 92.75 percent of the number and 92.48 percent of the dollar amount of loans were originated in FNB’s AAs.

<b>Lending in AA</b>										
Loan Type	Number of Loans					Dollars of Loans (000's)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Small Business	26	96.30%	1	3.70%	27	\$4,046	98.54%	\$60	1.46%	\$4,106
Home Mortgage	38	90.48%	4	9.52%	42	\$1,935	81.96%	\$426	18.04%	\$2,361
<b>Totals</b>	<b>64</b>	<b>92.75%</b>	<b>5</b>	<b>7.25%</b>	<b>69</b>	<b>\$5,981</b>	<b>92.48%</b>	<b>\$486</b>	<b>7.52%</b>	<b>\$6,467</b>

*Source: Sample of 2010- 2011 home mortgage and small business loans.*

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

The distribution of loans made to individuals and families of different income levels and businesses of different sizes is reasonable.

The bank’s borrower distribution of home mortgage loans is reasonable. The percentage of loans to low- and moderate-income borrowers is slightly lower than the percentage of low- and moderate-income families in the AA. This performance is considered reasonable in light of the fact that low- and moderate-income families have a difficult time qualifying for home mortgage products.

<b>Borrower Distribution of Residential Real Estate Loans</b>								
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
Home Loans	20.94%	18.42%	17.74%	15.79%	22.55%	15.79%	38.77%	50.00%

*Source: Home loan sample 2010--2011; U.S. Census data.*

The distribution of loans originated to businesses with revenues of less than \$1 million, by number, exceeds the percentage of businesses in the AA that generate revenues less than \$1 million. The distribution of loans originated to businesses with revenues greater than \$1 million, by dollar amount, is high due to the fact that the loans in the sample to those businesses were much larger than the loans to businesses with

revenues less than \$1 million. More weight is given to the distribution of loans by number since larger businesses typically originate larger loans. Note that 29.37 percent of the businesses in the AA did not report income data rendering the analysis less meaningful.

<b>Borrower Distribution of Loans to Businesses</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	67.56%	3.07%	*29.37%	100%
% of Bank Loans in AA by #	69.23%	30.77%	0.00%	100%
% of Bank Loans in AA by \$	18.28%	81.72%	0.00%	100%

Source: Loan sample of 2010-2011 small business loans; Dunn and Bradstreet data.

\*29.37% of the businesses did not report income data.

### **Affordable Home Loan Programs**

The bank has two residential mortgage loan products with flexible terms that make mortgage products more available to low- and moderate-income people. These products are called the *Low Income First Time Homebuyer Program* and the *Low Income Real Estate Loan Program*. During the evaluation period, the bank extended 32 loans under these programs totaling \$437 thousand.

Both programs are similarly underwritten offering a below market interest rate on the purchase of a 1-4 family primary residence with 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 upon 28 percent of combined monthly gross income, which goes toward the home 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.

### **Geographic Distribution of Loans**

FNB’s geographic loan distribution is reasonable. Performance for mortgage loans is excellent and performance for business loans is reasonable. Less weight is given to the geographic distribution of loans since there are no low-income tracts and only two moderate-income tracts in the AA.

The geographic distribution of home mortgage loans is excellent. The bank’s percentage of home mortgage loans extended to moderate-income tracts exceeded the percent of owner occupied housing in those tracts. This performance is good considering only two of the 13 tracts comprising the AA are moderate-income tracts and one of the moderate tracts comprises the State Penitentiary. Further, there is only 7.02

percent owner occupancy in the moderate tracts limiting opportunities to originate home mortgage loans in those tracts.

<b>Geographic Distribution of Residential Real Estate Loans</b>								
Census Tract 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
Home Loans	0%	0%	7.02%	7.89%	73.28%	63.16%	19.70%	28.95%

*Source: Sample of 2010-2012 home mortgage; 2000 U.S. Census data.*

The geographic distribution of loans to businesses is reasonable as the percentage of loans extended to moderate-income geographies is near to the percentage of businesses in those income tracts.

<b>Geographic Distribution of Loans to Businesses</b>								
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
Small Business Loans	0%	0%	5.91%	3.85%	73.32%	76.92%	20.77%	19.23%

*Source: Loan sample of 2010-2011 small business loans; Dunn and Bradstreet data.*

### Responses to Complaints

There have been no complaints related to the bank’s CRA performance during the evaluation period.

### COMMUNITY DEVELOPMENT TEST

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

Opportunities for qualified community development loans and investments are limited in the bank’s AA. A majority of the AA is comprised of rural, low-density areas. The largest city in the AA is McAlester, which has a population of only 18,000. Currently, there are no major community development projects underway in Pittsburg County.

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

Qualifying community development loans are those that meet the definition of community development, as defined in the CRA regulation. The bank's community development loans target small business development, affordable housing, and health care, all of which have been identified as critical needs within the community.

The bank has originated an adequate level of CD loans. FNB originated 14 loans totaling \$6,526 thousand. Six loans totaling \$3,766 thousand promoted small business development. Six loans totaling \$2,110 thousand provided affordable housing and two loans totaling \$650 thousand provided health care services.

In December 2010, FNB extended a first real estate mortgage loan for \$1,910 thousand and a second real estate mortgage loan for \$1,182 thousand to construct an entertainment complex in McAlester, Ok. These were SBA loans extended under SBA's 504 loan program. This project stimulated small business development and created upwards of 10 part and full time minimum wage jobs. The building is located in the Pittsburg County State Enterprise Zone.

FNB extended several loans to small businesses located in McAlester's downtown Main Street District. This is a city designated area in need of revitalization where the city provides incentives to small businesses to remain or relocate to the area. The bank extended a \$125 thousand loan in January 2010 to a pharmacy for operating expenses. The bank subsequently made a \$520 thousand loan to the pharmacy in December 2012 to purchase a commercial building. FNB extended a \$25 thousand loan for working capital to a start up clothing store in the District. FNB also extended a \$4 thousand inventory purchase loan in November 2009 to a retail accessory store that had recently re-located to the Main Street District area.

In February 2013, the bank renewed a loan for \$1,655 thousand that was originally for the construction of an affordable independent senior living center. The center has 87 units. Rents are affordable and include utilities, cable, housekeeping services, laundry service, and transportation. The bank also provides a \$50 thousand line of credit dating back to January 2005. The line of credit has renewed four times during the evaluation period.

In October 2010, the bank refinanced a \$255 thousand loan that included new money for the rehabilitation of two affordable apartment complexes located in McAlester. The two apartments complexes combined contain 49 units. A majority of the units are affordable with rents starting as low as \$250 per month.

In May 2010, FNB extended a \$400 thousand loan to purchase a building and equipment for a new dialysis center providing outpatient dialysis services and inpatient dialysis services to the McAlester Regional Health Center Authority. The dialysis center

is owned by a public trust. All patients are treated regardless of their ability to pay. A majority of the people that utilize the dialysis center are low- to moderate-income individuals as indicated by the Medicare, Medicaid and indigent patient levels. Over 72 percent of the patients are Medicare or Medicaid. FNB also extended a \$250 thousand loan to the dialysis center for working capital on the same date.

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

Qualifying investments are investments, deposits, membership shares, or grants that have as their primary purpose community development, as defined in the CRA regulation.

The level of qualified investments is adequate given the limited opportunities to make investments in the AA. During the evaluation period, the bank and the CDC made numerous qualified donations totaling \$128 thousand in FNB's AA. Donations are to local nonprofits that support community services that target low- and moderate-income families and individuals and economic and small business development.

### **Extent to Which the Bank Provides Community Development Services**

FNB's CD services are adequate considering both delivery of retail products and the level of CD services provided by bank officers and personnel. The primary delivery systems for products and services within the bank's AA is through the branches and ATMs available to bank customers.

The level of qualified community development services is adequate. Bank officers have served in leadership positions on organizations that provide community services to low- and moderate-income families. Bank officers also serve in leadership positions on organizations that are involved in economic development and small business development activities. The following are examples of qualifying community development services.

- ***McAlester Regional Health Authority***  
A bank officer serves as Chair of the Finance Committee. The McAlester Regional Health Center is a not-for-profit health care facility devoted to providing a full range of health care services to Southeastern Oklahoma. The facility is owned by a Public Trust and treats all patients regardless of their ability to pay.
- ***McAlester Main Street***  
A bank officer serves on the Board of this organization. McAlester Main Street exists to maintain and improve historic districts like downtown McAlester. Goals include revitalizing and attracting new businesses to these areas, thus increasing sales tax revenues for the community.

- ***Oklahoma Mission of Mercy (OkMOM)***

A bank officer served on the Planning Committee of this non-profit organization. OkMOM is a two-day free dental clinic designed to treat the most pressing needs of patients that are either uninsured, underinsured or would normally not have access to dental care. At the event, patients will undergo medical and dental triage to identify their needs and then be routed to the appropriate areas of treatment: oral surgery, extractions, restorations, pediatrics and hygiene. Over 2000 patients are expected to be treated over the course of the event. OkMOM McAlester provided treatment to 1,733 patients over two days. They performed 6,487 procedures, which equaled \$1,097 thousand in services. There were 1,702 volunteers. The bank officer that serves with OkMOM played a vital role in getting OkMOM to come to McAlester to perform these services.

- ***Habitat for Humanity Pittsburg County***

A bank officer serves on the Steering Committee for this non-profit organization. Habitat is a nonprofit Christian ministry founded on the conviction that every person should have a decent, safe and affordable place to live. Habitat houses are simple, decent, and affordable to low-income families around the world. Homeowners must participate in the construction of their home (sweat equity) under supervision.

## **Responsiveness to Community Development Needs**

Overall, FNB's CD performance demonstrates an adequate responsiveness to the identified needs in the community, especially through CD lending. CD lending addressed primarily small business development and affordable housing. Both small business development and affordable housing have been identified as critical needs within the community.

## **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.