

Public Disclosure

May 22, 2000

Community Reinvestment Act Performance Evaluation

**First National Bank, Sallisaw
Charter Number 15429**

**1720 E. Cherokee
Sallisaw, Oklahoma 74955**

**Office of the Comptroller of the Currency
Tulsa Field Office
7134 S. Yale Avenue, Suite 910
Tulsa, OK 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 CRA performance of **First National Bank, Sallisaw** prepared by the Office of the Comptroller of the Currency, the institution's supervisory agency, as of May 22, 2000. 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.

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

Institution's CRA Rating: This institution is rated **Outstanding**.

- The bank's loan-to-deposit ratio (LTD) is good with a quarterly average of 67.67% since the last CRA exam.
- Management does an excellent job of originating loans to low-and moderate-income individuals (LMI) and small businesses.
- FNB generates a substantial majority of its loans within the defined assessment area.
- FNB provides additional services and community development loans in response to specific needs within the community.

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

Description of Institution

FNB is a \$131 million rural community bank located in Sallisaw, Oklahoma. The bank has a branch office in Sallisaw and another branch office located in Roland, Oklahoma. The bank has four automated teller machines (ATMs) located throughout the assessment area.

Sallisaw is in the northeast part of Oklahoma 100 miles southeast of Tulsa and 22 miles west of Fort Smith, Arkansas. The bank is majority owned by the holding company, First Financial Bancshares, Inc., located in Roland, Oklahoma. The bank represents primarily all of the assets of First Financial Bancshares. Prior to March 2000, the holding company also owned First National Bank, Roland located 15 miles east of Sallisaw in Roland, Oklahoma. In March, First National Bank, Roland was merged into FNB, Sallisaw.

A CRA performance evaluation was last prepared April 8, 1996 and a "Satisfactory" rating was assigned. There are no legal, financial, or other barriers impeding the bank's ability to meet the credit needs of its assessment area.

The bank offers a variety of loan and deposit products. The bank's lending strategy focuses on one-to-four family real estate loans, consumer loans, and small business loans to meet the needs of the community. The table below shows the composition of the bank's loan portfolio as of March 31, 2000 which represents 56% of total assets. Management does not anticipate any significant changes in the composition of the loan portfolio in the near future.

Loan Type	Dollar (000)	% of Portfolio
Construction and Land Development	2,695	4%
Farmland	363	1%
1-4 Family Real Estate	21,970	30%
Commercial Real Estate	25,894	34%
Agriculture Production	139	1%
Commercial and Industrial	8,716	11%
Consumer Loans	12,713	17%
Other	1,973	2%
TOTAL LOAN PORTFOLIO	74,463	100.0%

Source: March 31, 2000 Consolidated Reports of Condition and Income

Description of FNB Sallisaw's Assessment Area

FNB's assessment area meets the requirements of the regulation and does not arbitrarily exclude low-or-moderate income geographies. The assessment area consists of six whole census tracts in Sequoyah County. Five of the tracts are middle-income tracts and one is a moderate-income tract. The bank is located in a middle income tract. According to the 1990 United States Census, the population of the assessment area is 31,563 persons.

The 1999 Housing and Urban Development (HUD) updated median family income (MFI) for the Fort Smith MSA was \$36,700. The updated MFI is provided annually by HUD, and is used to determine the income level of individual borrowers that reside within the assessment area. The following table illustrates the percentage of families by income levels:

Family Income Level	Count	Percentage
Low Income	2,597	29%
Moderate Income	1,651	19%
Middle Income	1,910	21%
Upper Income	2,794	31%
Total	8,952	100%

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

Three other financial institutions have a significant presence in the area. Two have locations in Sallisaw. The local economy is stable and heavily influenced by the local pari-mutual horse racing track, Blue Ribbons Downs (BRD). BRD employs about 240 people. The track is primarily responsible for a large service industry comprising mainly of hotels and restaurants. Other significant employers include Borg Warner (manufacturer of electric motors), Tuscorora (manufacturer of packaging products), Indian Capital Area Vo-Tech School, Sallisaw Public Schools, Ross Breeders (chicken hatchery), and Global (lime processing plant).

According to the 1990 Census data, the median housing value for the area was \$37,705 and the percentage of owner-occupied housing units was 65.71%. The number and percentage of households living below the poverty level were 2,957 or 25.72%. The unemployment rate for the area is 3.41%.

We contacted a local city official to gain a better understanding of the needs of the citizens residing within the assessment area. This individual stated that the primary credit needs of the community were small business loans and home improvement loans. Blue Ribbon Downs heavily influences the local economy, and the community could benefit greatly from new, diversified businesses. It was stated that there does not seem to be a shortage of affordable housing units; however, many of the houses in the older part of town are in poor condition and in need of renovation. This is an area of the city where a concentration of low and moderate income families reside. This official stated that FNB Sallisaw has been a leader in providing this type of financing and bank management has been actively involved in lending their time and resources to improve the welfare of the local community.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The loan-to-deposit ratio is good given the bank’s size, financial condition, and credit needs of the assessment area. The quarterly LTD ratio averaged 67.67% since the last CRA examination. The average for the bank’s peer group, which consists of 17 banks in Sequoyah County and all of the contiguous counties in Oklahoma, was 63.89% for the same period. The average for the one other national bank located in Sallisaw was 57.60% for the same period. In addition, the bank originates mortgage loans that are sold in the secondary market. The average annual volume for the past four years was \$3.6 million.

Lending in the Assessment Area

Based on a sample of loans reviewed, we determined that a substantial majority of the bank’s lending occurs within its assessment area. To make this determination, we reviewed one-to-four family residential real estate, consumer, and commercial loans made in 1999 and year-to-date 2000. Our sample included 20 residential real estate, 27 consumer, and 20 commercial loans. The following table illustrates the percentage of loans made inside of the assessment area for each of the loan types reviewed.

Lending Within the Assessment Area		
Loan Type	% Inside (Number)	% Inside (Dollar)
Residential Real Estate	95%	95%
Consumer	81%	84%

Commercial	84%	63%
Aggregate	87%	94%

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

Recent lending patterns indicate a very good distribution of loans among borrowers of different income levels and businesses of different sizes. We based our review on a sample of one-to-four family real estate loans and consumer loans.

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				\$36,700
Income Level of the Borrower	Percentage of Res. R/E loans reviewed	Percentage of Consumer loans reviewed	Combined percentage of R/E and Consumer	Percentage of families w/i the assessment area
Low (less than 50% of median)	11%	23%	17%	29%
Moderate (50 to 80% of median)	26%	27%	27%	18%
Middle (80 to 120% of median)	37%	23%	29%	21%
Upper (Greater than 120% of median)	26%	27%	27%	31%
Total	100%	100%	100%	100%

Source: OCC loan sample

The table reflects a slightly lower level of lending to low income families. However, as mentioned before, 25.72% of households in the assessment area are living below the

poverty level. Lending to borrowers at this level of income is generally not feasible. Management does an excellent job of lending to moderate income households. 27% of the loans in the sample were made to moderate income households which represent only 18% of the assessment area population.

Small businesses, as defined by the CRA, are businesses having gross annual revenue of \$1 million or less. We reviewed 20 business loans and all met this definition.

In addition, the bank also generates one-to-four family loans that are sold in the secondary market. For 1999, the bank generated \$2.7 million in secondary market loans. The yearly average for 1996 - 1999 was \$3.6 million.

Geographic Distribution of Loans

There are 6 census tracts in the bank's assessment area. Five are classified as middle income tracts and one is classified as a moderate-income tract. From our sample of 27 consumer loans and 20 one-to-four family real estate loans, there were two loans originated in the moderate income census tract. After further review, it was discovered that another larger financial institution with headquarters in Vian, Oklahoma has a significant presence in that area. This provides a reasonable explanation for why FNB's lending in the moderate income tract is relatively low compared to the other tracts in the assessment area.

Responses to Complaints

FNB has not received any complaints relevant to CRA during the evaluation period.

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.

Additional Services and Community Development Loans

Bank management provided the following information regarding service activity and community development loans that enhance FNB's CRA performance and rating.

- FNB participates in the Oklahoma Capital Access Program which provides an avenue for Oklahoma banks to provide capital for small businesses to grow and expand. FNB made 31 loans totaling \$521 thousand under this program in 1999 and has made 4 totaling \$73 thousand during the first quarter of 2000.
- In 1999, the bank began participating in the Rural Development Loan program which provides financing to low-to-moderate income families for home purchases. In 1999, the bank made 3 loans in this program totaling \$160 thousand. The bank has not processed any applications under this program thus far in 2000.
- Senior Vice-President Terri Daniels assists in reviewing and approving applications for H.O.M.E. grant funds. This is a program through the city of Sallisaw that provides grants or low-interest loans to low-to-moderate income individuals for home improvement projects. For 1998 and 1999 combined, 18 families received grant money through this program.
- The bank made a \$50 thousand loan for the construction of a church located in an area that the bank has identified as a low-income neighborhood of the city of Sallisaw that serves primarily low-to-moderate income individuals.
- The bank made a \$76 thousand loan to finance the purchase of C&J Apartments in Muldrow, OK. This is an “affordable housing” nine unit building that is HUD subsidized. In addition, the bank made an \$18 thousand loan to refurbish an existing 48 unit low-income apartment building in Sallisaw.