



SMALL BANK

Comptroller of the Currency
Administrator of National Banks
Washington, DC 20219

PUBLIC DISCLOSURE

October 12, 2006

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

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

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

**Comptroller of the Currency
Tulsa (eastern Oklahoma)
7134 South Yale Executive Ctr. Bldg., Suite 910
Tulsa, OK 74136**

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 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 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, Oklahoma prepared by the Office of the Comptroller of the Currency, the institution's supervisory agency, as of October 12, 2006. The agency rate the CRA performance of an institution consistent with the provisions set for in Appendix A to 12 C.F.R. Part 24.

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

Institution's CRA Rating: This institution is rated Satisfactory.

- The bank's loan-to-deposit (LTD) ratio averaged 65.87%, since the previous examination.
- FNB generates a substantial portion of its loans within the assessment area.
- Management does a satisfactory job lending to individuals and households of different income levels and businesses of different sizes.

The following pages further describe FNB's performance under the CRA.

DESCRIPTION OF INSTITUTION

FNB is a \$188 million rural community bank located in Sallisaw, Oklahoma. The bank operates from its main facility and branch office in Sallisaw and another branch office located in Roland, Oklahoma. The bank has three automated teller machines (ATMs) one at each its locations. Sallisaw is in northeastern Oklahoma approximately 100 miles from Tulsa and 22 miles west of Fort Smith, Arkansas. On March 31, 2006, FNB was purchased by First Muskogee Financial Corporation, the holding company of First National Bank of Muskogee. The two banks maintain separate charters. A fourth branch was opened since the previous performance evaluation in North Roland, and closed in August 2005 due to a lack of business, and because of the availability of the other Roland branch.

A CRA performance evaluation was last prepared May 22, 2000, and an “Outstanding” 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 June 30, 2006 which represents 55.73% 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	\$16,870	15.46%
Farmland	\$740	0.68%
1 - 4 Family Real Estate	\$31,243	28.63%
Commercial Real Estate	\$35,479	32.51%
Agriculture Production	\$75	0.07%
Commercial and Industrial	\$12,981	11.90%
Consumer Loans	\$10,618	9.73%
Other	\$1,121	1.03%
Total Loan Portfolio	\$109,127	100.00%

Source: June 30, 2006 Consolidated Reports of Condition and Income

DESCRIPTION OF FNB’s Assessment Area

FNB’s assessment area meets the requirements of the regulation and does not arbitrarily exclude low-or moderate-income geographies. The bank’s assessment area is Sequoyah County which is

comprised of seven census tracts. All seven tracts are designated as middle-income tracts. According to the 2000 United States Census, Sequoyah has a population of 38,972 persons, 11,044 families, and 14,765 households.

The 2006 Housing and Urban Development (HUD) updated median family income (MFI) for the Fort Smith MSA was \$41,200. The updated MFI is provided annually by HUD, and is used to determine the income levels of borrowers that reside within the assessment area. The following table illustrates the percentage of households by income levels:

Households by Income	Count	Percentage
Low Income	3,799	25.73%
Moderate Income	2,219	15.03%
Middle Income	2,529	17.13%
Upper Income	6,218	42.11%
Total	14,765	100.00%

Source: 2000 Census Data, U.S. Bureau of the Census

There are three other financial institutions that have a significant presence in the area. One of the financial institutions is a national bank, with a branch in Sallisaw and Roland. The other two financial institutions are large state banks, each having one branch in Sallisaw. Community State Bank Poteau, Oklahoma is also considered one of FNB's main competitors.

According to 2005 regional demographics received from the Sallisaw Chamber of Commerce, Sequoyah County's unemployment rate is 3.53%, which is an increase from 2.68% in 2000. The population in Sequoyah County has grown 3.88% since 2000. Sequoyah County is now comprised of the following demographics: 68.69% White, 1.91% African American, 19.18% American Indian / Native Americans, 0.40% Asian, 2.29% Hispanic / Latino, and 7.53% other.

According to the 2005 regional demographics from the Sallisaw Chamber of Commerce, the median housing value for the area was \$66,596, which is an increase from the 2000 US Census value of \$56,328. The percentage owner-occupied housing units were 72.03%, which is an increase from the 2000 US Census value of 65.00%. The number and percentage of households living below poverty level were 3,804, or 24.53%, which is an increase from the 2000 US Census values of 3,000, or 20.00%.

The major employers in Sallisaw consists of the following: Sequoyah Memorial Hospital, Borg Warner (manufacturer of automotive air and oil pumps), People Incorporated (Human Resources), Blue Ribbon Downs (Horse Racing Track), and Sallisaw Public Schools. Other employers in Sallisaw include SCA North America (Polystyrene Packaging), Aviagen (Chicken Hatchery), and CelloFoam Southwestern (Foam Insulation). There is a ThermaTrue plant in Roland that makes windows and doors, and an OK Foods processing plant in Muldrow. There is also the new Super Wal-Mart in Sallisaw and the new Cherokee Casino.

We contacted two local community leaders and discussed the local economic conditions, community's credit needs, bank employees' involvement in the community, opportunities for financing programs, and the contacts perceptions of the local financial institutions. The local economy is stable. Retail sales are up 50% over the last six years. The size of Carl Albert

College has doubled over the past five years. A new Super Wal-Mart has been built and resulted in over 40 expansions of old businesses or new businesses. Also, a new Cherokee Casino, located just off of I-40, opened during the summer of 2006.

Both contacts stated that all the financial institutions in Sallisaw have been very active and have participated in the economic development of the community. Presidents of banks and others in senior management serve on committees and other developmental organizations in the community. Both contacts stated that all the financial institutions are doing a good job at meeting the credit needs of the community and staying involved. The banking environment is becoming more competitive and both contacts stated that FNB was more aggressive than the others and has been actively involved in lending their time and resources to improve the welfare of the local community.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The bank's loan-to-deposit ratio is considered good given the bank's size, financial condition, and identified credit needs of the assessment area. FNB's LTD ratio averaged 65.87%, since the previous performance evaluation. The average loan to deposit ratio for the bank's peer group comprised of subject bank and two primary competitors was 72.66%.

Lending in Assessment Area

FNB extends a substantial portion of its funds to borrowers within the assessment area. According to information provided by the bank, 79.52% of the number or 58.94% of the dollar amount of the bank's loans were originated within the assessment area.

Lending in the Assessment Area										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
All Loans	2,202	79.52	567	20.48	2,769	69,406	58.94	48,348	41.06	117,754

Source: FNB-Sallisaw Loan Trial Balance as of October 11, 2006.

This is a sharp decline from the previous performance evaluation where the percentage of number and dollar amount of loans, originated with the assessment area were, 87% and 94%, respectively.

Management explained that the variance resulted from increased market share in the Ft. Smith,

Arkansas area. Roland, Oklahoma is considered a bedroom community to Ft. Smith, Arkansas. The Roland branch is in Sequoyah County, but just outside the city limits of Ft. Smith. We encouraged management to consider expanding their assessment area if it is their desire to continue growth in markets outside their immediate area.

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

1-4 Family Lending Analysis

The bank does a satisfactory job lending to borrower's of different income level. As captioned below, the number of 1-4 family RE originations to low-income families was below the percentage of low-income families residing within the assessment area. Management attributes this exception to the cost of housing in the assessment area which makes it difficult for low-income families to meet income underwriting guidelines and their overall preference toward renting. The bank is a participant in the Rural Development Loan program which promotes residential lending to individuals of low-and moderate-income status. In addition to our judgmental sample of 1-4 family loans, we noted that the bank originated ten loans through the Rural Development Loan program. Five were to moderate-income applicants and five were to middle-income applicants.

Borrower Distribution of Residential Real Estate Loans in Sequoyah County								
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
1-4 Family RE	25.28	10.00	18.82	20.00	22.90	25.00	33.00	40.00
Consumer	25.73	13.04	15.03	21.74	17.13	30.43	42.11	34.78

Source: OCC Loan Sample and 2000 Census Data, U.S. Bureau of the Census.

The bank participates with the Cherokee Nation in its housing program. Under this program, the Cherokee Nation provides grants of up to \$15,000 for qualified applicants to use toward the purchase of a home. The customer borrows the remaining amount from a financial institution which either originates the first real estate mortgage or sells the loan into the secondary market. President Smith indicated than one obstacle limiting secondary market sales is the low amount financed, after the housing grant proceeds are applied. These low lending amounts are reportedly less appealing to investors in the secondary market. President Smith indicated that subject bank is typically unable to provide fixed rate long-term financing structures on this type of credit.

Consumer Lending Analysis

The bank does a satisfactory job of lending in the consumer area. We reviewed a sample of 23 consumer loans. As captioned on the previous page low-income households comprised 25.73%

of total households in the assessment area, however only 13.04% of the loans we reviewed were to low-income households. Bank management provided the OCC with an extensive trial balance indicating numerous loans under \$2,500. These low loan amounts suggest a reasonable effort in lending to low-income households.

Small Business and Small Farm Lending Analysis

The bank does an excellent job lending to small businesses and small farms. Our sample consisted of twenty commercial loans originated within the bank's assessment area. All loans in the sample were originated or renewed within the previous 12 months.

Table 2A - Borrower Distribution of Loans to Businesses/Farms in [Name of AA]				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	46.07	2.99	50.94	100%
% of Bank Loans in AA by #	70.00	30.00	0.00	100%

As captioned in the table above, 70% of the loans in our sample were to small businesses with gross operating revenue of less than one million dollars while only 46% of the small businesses in the assessment area report income of less than one million dollars.

Geographic Distribution of Loans

All census tracts, in the bank's assessment area, are designated as middle-income, therefore an analysis of the geographic distribution of loans would not be meaningful.

Qualified Investments and CD Services (Optional)

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 (OCAP), a program designed to encourage financial institutions to make commercial loans to small businesses in Oklahoma. OCAP matches the fees charged to customers and establishes an off-balance sheet reserve account earmarked for the lender. The reserve account is tapped by the lender in the event an OCAP loan(s) default. FNB had 38 loans within its AA with outstanding balances of \$1,022M, and all of these loans had origination dates since the May 22, 2000 performance evaluation.

The bank participated as the lead bank in a \$980M loan to the Sallisaw Economic Authority to benefit Cellofoam North America, Inc. (Cellofoam). Cellofoam's business was growing and needed a larger plant. FNB partnered with two other financial institutions in this financing package. The loan helped preserve the 40 current jobs and will ultimately lead to a total of 70 jobs within two years. The majority of these workers were reported to be low- and moderate-

income individuals.

Responses to Complaints

FNB has not received any complaints relevant to CRA, since the previous performance evaluation.

Fair Lending or Other Illegal Credit Practices Review

This institution was randomly selected as part of the OCC's 2005 fair lending sample. Compliance with fair lending laws was based on a comparative file review of home purchase loans using the loan terms approach. The selected prohibitive basis (PB) group was Native American applicants and white applicants were used as the control group (CG). The review focused on the fairness and consistency of rates, fees, and other conditions charged to PB applicants compared to CG borrowers. The loan sample consisted of 5 prohibitive basis and 20 control group loans.

Compliance with fair lending laws is satisfactory and the bank's fair lending risk is low. The file review disclosed no instances of discrimination or disparate treatment that required further explanation from management. The bank has established good policies, procedures, and training programs to ensure compliance with anti-discrimination laws.

The bank does not use a credit scoring system for credit approval/denial decisions. However, essential underwriting criteria and other pertinent credit information is consistently reviewed to ensure loan terms and conditions for home purchase loans are within policy and consistently applied for both PB and CG.