



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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## **PUBLIC DISCLOSURE**

**April 20, 2009**

# **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**The Peoples National Bank of Checotah  
Charter Number 10051**

**300 West Gentry  
Checotah, Oklahoma 74426**

**Comptroller of the Currency  
7134 South Yale, 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.**

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# **INSTITUTION'S CRA RATING**

This institution is rated Outstanding.

## **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 Peoples National Bank (PNB) prepared by the Office of the Comptroller of the Currency, the institution's supervisory agency, as of April 20, 2009. 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:** This institution is rated Outstanding due to the following criteria.

- PNB's lending performance is outstanding given its size, financial condition, and known credit needs in its assessment area.
- PNB's loan to deposit (LTD) ratio is good compared to competitor banks and has averaged 51.16% since our last examination.
- Management demonstrates a willingness to originate loans to low-and moderate-income individuals (LMI) and small businesses.
- PNB generates a substantial majority of its loans within the defined assessment area.
- PNB provides additional services and community development projects that assist low-to-moderate income individuals.

## DESCRIPTION OF INSTITUTION

PNB is a \$120 million rural community bank located in Checotah, Oklahoma. The main bank and drive-in facility are located in downtown Checotah. The Main bank is located specifically at 300 West Gentry, Checotah Oklahoma. The bank is owned by a one bank holding company titled Peoples National Bancshares located also at 300 West Gentry, Checotah, Oklahoma. There is one branch located within Wal-Mart with a physical address of 131 Paul Carr Drive, Checotah, Oklahoma 74426. PNB does issue automated teller machine (ATM) cards and ATM's are available throughout the community. The ATMs do not accept deposits. PNB also issues Visa Check Cards, commonly referred to as debit cards. These check cards give the consumer a faster, more economical, more convenient way to purchase products and services. The bank's primary focus is to serve commercial and consumer customers in Checotah and the surrounding areas. The bank meets these needs by providing various loan and deposit products as well as other financial services. 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, which represents approximately 43 % of total assets as of 12/31/08. Management does not anticipate any significant changes in the composition of the loan portfolio in the near future.

<b>Loan Category</b>	<b>\$ (000)</b>	<b>%</b>
Commercial Real Estate Loans	6,684	12.92
Commercial Loans	4,822	9.32
Residential Real Estate Loans	14,134	27.32
Farm Production Loans	4,062	7.85
Farm Real Estate Loans	5,144	9.94
Consumer Loans	16,608	32.10
Other Loans	282	.55
<b>Total</b>	<b>51,736</b>	<b>100%</b>

*Source: 12/31/08 Consolidated Report of Condition*

Bank lobby services are provided Monday through Friday and half day on Saturday. PNB faces strong competition from several other financial institutions in the assessment area. Based on its financial condition, the local economy, product offerings, competition, and prior performance, PNB has the ability to meet the various credit needs in its community. At our last CRA examination as of July 10, 2003, the bank's CRA rating was "Outstanding." No legal impediments or other factors hinder the bank's ability to provide credit in its assessment area.

## DESCRIPTION OF ASSESSMENT AREA

PNB's assessment area (AA) consists of 10 census tracts. This AA meets the requirements of the regulation and does not arbitrarily exclude low-or-moderate income geographies. The AA includes all census tracts in McIntosh County and three census tracts in Muskogee County. Specifically, these three tracts are coded as 11, 13, and 15. The following table describes major demographic and economic characteristics of the assessment area.

*Source: 2008 Business Geodemographic Data; 2000 U.S. Census Data*

<b>Demographic Information</b>					
	#	% Low	% Moderate	% Middle	% Upper
Geographies (Census Tracts)	10	N/A	36.36%	63.64%	N/A
Population by Geography	48,77	N/A	40.22%	59.78%	N/A
Owner-Occupied Housing by Geography	21,432	N/A	36.84%	63.16%	N/A
Businesses by Geography	5,049	N/A	39.91%	60.09%	N/A
Farms by Geography	161	N/A	38.51%	61.49%	N/A
Family Distribution by Income Level	13,743	28.01%	18.41%	20.17%	33.41%
Household Distribution by Income Level	13,391	26.35%	17.40%	17.69%	38.56%
Census Median Family Income (MFI)	\$35,517	Median Housing Value 2008			\$46,865
HUD-Adjusted MFI: 2008	\$44,000	Families Below the Poverty Level			23.17%
HUD-Adjusted MFI: 2007	\$42,400	Unemployment Rate			6.66%
HUD-Adjusted MFI: 2006	\$42,600				

We met with a local community contact to gain a better understanding of how PNB helps to meet the needs of the community. The community contact indicated that, to the best of their knowledge PNB attempts to meet the credit needs of community. The contact indicated there is a need for employment opportunities within the PNB assessment area. This fact was also communicated by bank management. While many businesses have closed down in the community over the last decade, a Wal-Mart has opened along US Highway 69 which is within the city limits of Checotah; this has generated some employment opportunities as well as tax revenue for the city. The contact indicated the possibility of some other businesses opening within the proximity of Wal-Mart which would offer further opportunities for businesses and employment. The contact did not indicate being aware of any industrial and/or upper income opportunities located to the banks assessment area within the near future.

## CONCLUSIONS ABOUT PERFORMANCE CRITERIA

### Loan-to-Deposit Ratio

PNB's LTD ratio is in line with that of peer banks in the assessment area. The bank's LTD ratio since the last examination has averaged 51.16% over a 20 quarter period, which is reasonable, compared to banks in the area that averaged a LTD ratio of 56.80% over the same time period. Management indicated the banks listed below are considered to be the main competitors of PNB, and are located within the same geographical area of PNB.

Institution	Assets as of 12/31/08 (000s)	Average Quarterly LTD Ratio as of 12/31/08
Peoples National Bank of Checotah	\$120,026	51.16%
Armstrong Bank	\$520,910	86.80%
Bank of Eufaula	\$81,717	27.80%
First National Bank and Trust Co. McAlester	\$429,287	45.81%
First National Bank of Muskogee	\$142,804	67.54%

Source: Uniform Bank Performance Report

### Lending in Assessment Area

The majority of PNB's loans are made within the assessment area. Our analysis determined that 86.67% of the number and 91.82% of the dollar amount of loans were made within the assessment area. The following chart details our findings from the sample.

Loans Within Bank's AA										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Purchase	17	85%	3	15%	20	\$695,418	90.49%	\$73,092	9.51%	\$768,510
Auto Purchase	15	75%	5	25%	20	\$538,785	90.74%	\$54,951	9.26%	\$593,736
Business	20	100%	0	0%	20	\$202,571	100%	0	0%	\$202,571
Totals	52	86.67%	8	13.33%	60	\$1,436,774	91.82%	\$128,043	8.18%	\$1,564,817

Source: Loan Sample

## Lending to Borrowers of Different Incomes and to 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 20 1-4 family residential real estate loans and 20 auto loans within the assessment area. Our conclusions were based on loans originated since the last CRA exam. As the charts below indicate, the bank predominately lends to low- or- moderate-income individuals. The majority of commercial loans were to small businesses with gross income of \$1 million or less.

Borrower Distribution of Residential Real Estate Loans								
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 Purchase	28.01%	20%	18.41%	10%	20.17%	30%	33.41%	40%

Source: HUD-updated 2000 U.S. Census data

Borrower Distribution of Consumer Loans								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% 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
Used Autos	28.01%	<b>40%</b>	18.41%	<b>25%</b>	20.17%	<b>20%</b>	33.41%	<b>15%</b>

Source: 2009 Loan Sample

## Business Loans

We based our review on a sample of 20 business loans. All of the commercial loans were to small businesses with gross income of \$1 million or less. The distribution of loans to businesses reflects outstanding penetration among businesses of different sizes. One hundred percent of the bank's loans to businesses originated during the loan sampling period were made to small businesses. Small businesses are businesses with gross annual revenues of one million dollars or less. This is considered outstanding when compared to demographic data that show 32.09% of the AA's businesses are considered small businesses. Because we lacked revenue data on 65.97% of the business loans made by the bank, we also looked at the distribution of loans by dollar amount. We found that 100% of the business loans in our sample were loans under \$25 thousand; and the average loan amount was \$10 thousand, which provides additional support for an outstanding distribution of loans to small businesses. The following table shows the distribution of commercial loans among different sized businesses in the AA.

<b>Borrower Distribution of Loans to Businesses/Farms in AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	32.09%	1.94%	65.97%	100%
% of Bank Loans in AA by #	100%	N/A	N/A	100%
% of Bank Loans in AA by \$	100%	N/A	N/A	100%

Source: 2009 Loan Sample & 2000 U.S. Census Data

### Geographic Distribution of Loans

The bank's geographic distribution of loans in this AA reflects an excellent dispersion throughout census tracts of different income levels.

### Home Loans

The bank's geographic distribution of home loans in this AA reflects an excellent dispersion throughout census tracts of different income levels, including the moderate-income census tract. Following is a table that details the bank's performance as compared to the percentage of owner-occupied housing units in each census tract income level.

<b>Geographic Distribution of Residential Real Estate Loans in AA</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 Purchase	N/A	N/A	36.84%	15%	63.16%	85%	N/A	N/A

Source: 2000 U.S. Census Data

### Consumer Loans

<b>Geographic Distribution of Consumer Loans in AA</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Househo lds	% of Numbe r of Loans	% of AA Househol ds	% of Numbe r of Loans	% of AA Househol ds	% of Numbe r of Loans	% of AA Househol ds	% of Numbe r of Loans
Used Autos	N/A	N/A	36.36%	<b>25%</b>	60.78%	<b>75%</b>	N/A	<b>N/A</b>

Source: 2009 Loan Sample



**Business Loans**

The bank’s geographic distribution of business loans reflects reasonable dispersion throughout the census tracts of different income levels. Following is a table that details the bank’s performance as compared to the percentage of businesses in each census tract income level.

Geographic Distribution of Loans to Businesses/Farms in AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses/Farms	% of Number of Loans	% of AA Businesses/Farms	% of Number of Loans	% of AA Businesses/Farms	% of Number of Loans	% of AA Businesses/Farms	% of Number of Loans
Business	N/A	N/A	39.91%	5.00%	60.09%	95.00%	N/A	N/A

Source: 2009 Loan Sample & 2000 U.S. Census Data

**Qualified Investments and CD Services**

PNB is classified as a small bank based on asset size; therefore, the CD test is not required. However, management requested a CD test during this examination and we complied with their request. The results are detailed below.

Peoples Community Development Corporation was formed in 1997 after a fire destroyed twenty-five percent of the central business district. With the fire, several businesses and jobs were lost which had a dramatic effect on the local economy.

Peoples National Bank formed a commercial development corporation (CDC) and injected \$205,000. Those funds were loaned in two phases. The first phase was a zero percent loan in the amount of \$150,000 for twenty years. This loan was made to a local group of individuals who raised a matching amount. The funds were used to construct a 5,000 square ft. retail office space that currently employees over 20 people. The largest tenant is an adoption agency that assists therapeutic children placement. The staff employment includes management, counselors, and investigators. The current balance on the loan is \$66,250.

The second phase was a zero percent loan in the amount of \$50,000 for 1 year. The purpose was to secure adjacent land for future growth. The land was subsequently sold to the newly formed McIntosh County Health Authority for the construction of a health department that is funded from state and federal funds. The facility administers many programs including geriatric care, immunization, and many others. The employment numbers average 15 to 20 individuals throughout the year. The financing of the McIntosh County Health Department was provided by Peoples National Bank through a 15 year fixed rate loan that matures in 2013.

In conjunction with the Federal Home Loan Bank of Topeka (FHLB), PNB offers an affordable housing program for low to moderate-income families. The program gives the consumer an \$8,000 dollar grant which is used as a down payment to borrowers who

qualify. The borrower must reside at the residence for five years to gain the full advantage of the grant. If borrower does not reside at the residence for the full five years a pro rated portion of the grant must be repaid.

### **Responses to Complaints**

A review of the banks public file as well as Customer Assistant Group (CAG) database indicates the bank had three complaints since the last CRA exam. In all three cases the bank acted in the legal and appropriate manner to resolve consumer complaints which are all closed. Furthermore, the bank did not suffer any financial loss from any of the complaints.

### **Fair Lending Review**

The last fair lending assessment was performed as of July 7, 2008 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 or other illegal credit practices inconsistent with helping to meet community credit needs. The bank is in compliance with the substantive provisions of the ECOA.