



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## **PUBLIC DISCLOSURE**

**September 28, 2009**

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**First National Bank of Muskogee  
Charter Number 24202**

**510 North Main Street  
Muskogee, OK 74401**

**Comptroller of the Currency  
Tulsa Field Office  
7134 South Yale Avenue, 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 bank is rated Satisfactory**

First National Bank of Muskogee (FNB) has a satisfactory record of meeting the credit and service needs of individuals and businesses that are located with its defined assessment area (AA). This is based on conclusions rendered based on the following criteria:

- The bank's loan-to-deposit (LTD) ratio is satisfactory and averaged 70% during the evaluation period. The average LTD ratio for all other chartered institutions headquartered in the assessment area is 75%.
- A majority of FNB's loans are within the defined AA. Approximately 83% of the number and 82% of the dollar volume of loans were to borrowers within the AA.
- FNB's distribution of loans to borrowers of different income (including low-and moderate-income) levels and businesses of different sizes is satisfactory.
- The geographic distribution of loans reflects satisfactory dispersion among census tracts and borrower's of different income levels.
- The bank has not received any consumer complaints regarding its Community Reinvestment Act (CRA) performance.

## **SCOPE OF EXAMINATION**

This Performance Evaluation (PE) covers the period September 8, 2003 through September 28, 2009. The review was conducted using small bank examination procedures to assess FNB's lending performance focusing on five performance criteria: the loan-to-deposit ratio; lending in the AA; lending to borrowers of different incomes and to businesses/farms of different sizes; geographic distribution of loans; and, responses to complaints.

Major loan products offered by the bank were sampled and consisted of all residential lending for 2008 reported under the Home Mortgage Disclosure Act (HMDA), 20 consumer loans, and 20 business loans originated within the past three years. We contacted a member of a local community organization to gain a better understanding of the needs of the citizens residing within a census tract where the main banking location is located.

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

## DESCRIPTION OF INSTITUTION

FNB is an independent community bank that opened for business on July 16, 2001. The bank is headquartered in Muskogee, Oklahoma and is a wholly-owned subsidiary of First Muskogee Financial Corporation, a multi-bank holding company. The main office is located at 510 North Main in Muskogee and includes a drive-in facility and automated teller machine (ATM). A full service branch opened March 7, 2005 and is located at 2215 Chandler Road, Muskogee. A free standing ATM which dispenses cash only is located inside the cafeteria at Muskogee Regional Medical Center. On October 15, 2007, the bank opened a second full service branch at 10124-B South Sheridan Road, Tulsa, Oklahoma. Hours of operation are responsive to the general banking needs. The main lobby at all three locations is open from 8:30 a.m. to 5:00 p.m. Monday-Friday. The drive-thru facilities are open from 7:30 a.m. to 6:00 p.m. Monday-Friday and 8:30 a.m. to Noon on Saturday.

Customers have 24-hour access to their accounts through telephone banking and through the internet (<http://www.fnbmuskogee.com>). Internet and phone banking services include transfers between FNB accounts, review of account balances and transactions, access to loan account information, and to schedule a stop payment request.

FNB was last evaluated under the CRA on September 8, 2003 and the bank received a “Satisfactory” rating. There are no legal, financial, or other barriers impeding the bank’s ability to meet the credit needs of the assessment area.

FNB’s primary focus is to serve commercial and consumer customers in its assessment area. FNB meets these needs by providing various types of loan and deposit products and services. As of June 30, 2009, the bank had total assets of \$142 million and the loan portfolio comprised 81% of total assets. Although the bank offers a variety of traditional credit products, its lending strategy focuses commercial and industrial loans, including commercial real estate loans. The table below reflects the composition of the bank’s loan portfolio as of June 30, 2009.

Loan Category	\$(000)	%
Commercial Real Estate Loans	55,815	47.93%
Commercial Loans	28,715	24.66%
Residential Real Estate Loans	23,200	19.92%
Agriculture Loans Consumer Loans	5,929	5.09%
Agriculture Loans	2,756	2.37%
Other Loans	30	Less than 1%
<b>Total</b>	<b>116,445</b>	<b>100%</b>

*Source: June 30, 2009 Consolidated Reports of Condition and Income*

## DESCRIPTION OF ASSESSMENT AREA

FNB’s assessment area encompasses an area of approximately 65 miles from the main office in Muskogee. The AA was expanded since the last CRA examination to accommodate a new banking location in Tulsa and now includes census tracts that are part of the Tulsa Metropolitan Statistical Area (MSA). The AA meets the technical requirements of the regulation and does not arbitrarily exclude low-to-moderate (LMI) geographies/individuals. The AA includes all of the census tracts in Muskogee County and census tracts that are part of Cherokee County to the west, Haskell and Okmulgee Counties to the east, and McIntosh and Sequoyah Counties to the south, and Wagoner County to the north. The AA also includes roughly the southern half of Tulsa County. All census tracts are contiguous forming one AA.

A community contact interview was conducted with a member of a local community organization during the evaluation. The contact indicated that the primary needs within the assessment area are economic growth and development and an expansion of the industrial base to create new jobs. An increase in affordable housing would also benefit the housing needs of the community.

The following includes major demographic and economic characteristics of the assessment area.

<b>DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA</b>	
<b>Population</b>	
Number of Families	178,008
Number of Households	261,720
<b>Geographies</b>	
Number of Census Tracts/BNA	181
% Low-Income Census Tracts/BNA	Less than 1%
% Moderate-Income Census Tracts/BNA	14%
% Middle-Income Census Tracts/BNA	48%
% Upper-Income Census Tracts/BNA	37%
<i>Median Family Income (MFI)</i>	
2000 MFI for AA	\$49,935
2000 MFI for MSA	\$43,436
2008 HUD-Adjusted MFI	\$50,197

Economic Indicators	
Unemployment Rates (as of July 2009)	
Cherokee County	5.8%
Haskell County	8.0%
McIntosh County	8.3%
Muskogee County	7.8%
Sequoyah County	8.9%
Tulsa County	6.5%
Wagoner County	7.8%
National Rate	9.4%
2000 Median Housing Value	\$87,259
% of Households Below Poverty Level	12.30%

*Sources: CRA Wiz, Bureau of Labor Statistics; 2000 Census data*

Local banking competition includes approximately 22 stand-alone community banks and several branches of larger Oklahoma and out-of-state institutions. Competition among the banks is moderately high. Overall lending activity within the AA has slowed due to a decline in economic conditions. FNB's lending strategy is to continue extending credit to credit worthy applicants. Unemployment rates throughout the AA have increased during the evaluation period, but are currently below the national average.

## **CONCLUSIONS ABOUT PERFORMANCE CRITERIA**

### **Loan-to-Deposit Ratio**

FNB's LTD ratio *meets* the standard for satisfactory performance given the bank's size, financial condition, and considering the communities credit needs. Since the last Performance Evaluation, the bank's LTD ratio averaged 70%. Over the same time period, the bank's competitor's had an average LTD ratio of 75%. The peer group consists of 22 other commercial banks operating within the AA. The LTD ratio stated below is derived by calculating the quarterly average since June 2004.

<b>Institution</b>	<b>Total Assets June 30, 2009</b>	<b>Average LTD Ratio</b>
Fort Gibson State Bank	\$61 Million	64%
Tulsa National Bank	\$177 Million	90%
The First National Bank & Trust Co. of Broken Arrow	\$207 Million	75%
Valley National Bank	\$214 Million	99%
Armstrong Bank	\$522 Million	87%
ONB Bank and Trust Co.	\$661 Million	101%
<b><i>First National Bank of Muskogee</i></b>	<b><i>\$142 Million</i></b>	<b><i>70%</i></b>

Source: June 30, 2009 Consolidated Reports of Condition and Income; Uniform Bank Performance Report.

### **Lending in Assessment Area**

FNB's lending within the AA *exceeds* the standard for satisfactory performance. This conclusion was drawn from an analysis of all residential loans reported under the Home Mortgage Disclosure Act (HMDA) for 2008 and a sample of consumer and commercial loans originated during the past three years. The table below reflects the number and dollar amount of loans and the percentages originated within and outside the AA. As depicted by the table, a majority of loans originated by FNB are to consumers and businesses that reside within the bank's AA.

<b>Table 1 - Lending in Assessment Area</b>										
Loan Type	Number of Loans					Dollars of Loans (000's)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Purchase	31	79%	8	21%	39	3,933	78%	1,125	22%	5,058
Home Improvement	2	100%	0	0%	2	51	100%	0	0%	51
Refinancing	53	85%	9	15%	62	7,723	84%	1,419	15%	9,142
Consumer	16	80%	4	20%	20	187	68%	86	32%	273
Commercial	17	85%	3	15%	20	3,803	96%	148	4%	3,951
Totals	86	83%	17	17%	103	11,707	82%	2,544	18%	14,251

Source: Loan sample; Data reported under HMDA.

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

FNB's pattern of lending to borrowers of different income levels and businesses of different sizes *meets* the standard for satisfactory performance. Recent lending patterns indicate a reasonable distribution of loans among borrowers of different income levels and businesses of

different sizes. Census income information is updated by HUD annually to reflect current family income levels that are used for residential real estate and consumer loan comparisons. Revenue information for businesses was derived from the 2000 Census. The tables below reflect the distribution of residential real estate, consumer, and small business loans within the bank's AA.

<b>Table 2 – Borrower Distribution of Residential Real Estate Loans in Assessment Area</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 Purchase	18%	3%	17%	16%	21%	23%	44%	58%
Home Improvement	18%	0%	17%	0%	21%	0%	44%	100%
Refinancing	18%	4%	17%	11%	21%	25%	44%	60%

Source: Data reported under HMDA; U.S. 2000 Census Data.

<b>Table 2A - Borrower Distribution of Consumer Loans in Assessment Area</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% 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
Consumer Loans	21%	19%	16%	19%	19%	19%	44%	43%

Source: Loan sample; U.S. 2000 Census data.

<b>Table 2B – Borrower Distribution of Loans to Businesses in Assessment Area</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	56%	5%	40%	100%
% of Bank Loans in AA by #	47%	53%	0%	100%
% of Bank Loans in AA by \$	48%	52%	0%	100%

Source: Dunn and Bradstreet data. 40% of AA businesses did not report revenue data.

The reason for the low percentage of residential lending to low-income borrowers is attributed to the fact that the majority of low-income families reside in the only low-income census tract that has a very low percentage of 1-4 family units relative to total housing units. The level of consumer lending to low-to moderate income households and residential lending to moderate-income families demonstrates FNB's willingness to meet the credit needs within the AA.

## Geographic Distribution of Loans

An analysis of the distribution of loans by income level of the census tracts revealed satisfactory dispersion. The dollar volume and number of loans in the various income tracts is a reasonable representation of the population that those tracts represent. The following tables depict the geographic analysis of residential real estate, consumer, and small business loans in our sample compared to demographic data relative to the income level of the census tracts in the assessment area.

<b>Table 3 – Geographic Distribution of Residential Real Estate Loans in Assessment Area</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	1%	0%	11%	6%	53%	52%	35%	42%
Home Improvement	1%	0%	11%	0%	53%	50%	35%	50%
Refinancing	1%	0%	11%	6%	53%	62%	35%	32%

*Source: Data reported under HMDA; U.S. Census data.*

<b>Table 3A – Geographic Distribution of Consumer Loans in Assessment Area</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% 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
Consumer	1%	6%	14%	6%	54%	50%	31%	37%

*Source: Loan sample; U.S.2000 Census data*

<b>Table 3B - Geographic Distribution of Loans to Businesses in Assessment Area</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
Businesses	1%	0%	14%	24%	52%	53%	33%	24%

*Source: Loan sample; CRA Wiz.*

The lack of residential lending in the low-income census tract is attributed by the fact that this tract has a very low volume of owner occupied housing. Therefore, residential lending opportunities in that tract are limited.

## Responses to Complaints



FNB has not received any formal CRA complaints since the prior CRA examination on September 8, 2003. The bank's CRA public file contains all required public disclosures.

**Compliance with Fair Lending Laws and Regulations**

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.