

SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

April 03, 2006

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The Pauls Valley National Bank
Charter Number 7892**

**101 W. Paul Avenue
Pauls Valley, Oklahoma 73075**

Comptroller of the Currency
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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.

PAULS VALLEY NATIONAL BANK'S CRA RATING

This institution is rated Satisfactory.

The major factors that support this rating include:

- A majority of the loans are made within the assessment area (AA).
- The performance for lending to borrowers of different incomes and to businesses of different sizes exceeds the standard for satisfactory performance.
- The loan-to-deposit ratio meets the standard for satisfactory performance.
- The bank is adequately meeting the lending needs of the assessment area.
- The bank has not received any consumer complaints regarding Community Reinvestment Act (CRA) performance.

Pauls Valley National Bank is committed to serving the community as demonstrated by the lending performance described in this Public Disclosure.

Note: Throughout this evaluation Pauls Valley National Bank will be referred to as "PVNB."

DESCRIPTION OF PAULS VALLEY NATIONAL BANK

Pauls Valley National Bank (PVNB) is community bank located in Pauls Valley, Oklahoma. PVNB is entirely owned by Valley Bancshares, Inc. of Pauls Valley, Oklahoma. At December 31, 2005, Valley Bancshares, Inc. (parent only) had total assets of \$14.7 million. PVNB's main office is located at 101 West Paul Street in Pauls Valley, Oklahoma. A drive-up facility and a 24-hour automatic teller machine (ATM) are located at 217 West Paul Street. A new full service branch at 24-hour ATM was opened in 2003 at 101 N. Indian Meridian Road in Pauls Valley. No branch locations have been closed since the previous CRA examination. PVNB's primary focus is to serve commercial and consumer customers in Garvin County. PVNB meets the loan and deposit needs of the local community by providing various loan and deposit products, and other financial services.

As of December 31, 2005, PVNB reported \$113 million in total assets, of which 63 percent is in various types of loans to individuals, businesses, and small farms. At year-end December 2005, PVNB reported the loan totals listed in the table below.

LOAN MIX of PAULS VALLEY NATIONAL BANK as of DECEMBER 31, 2005		
Loan Category	\$ (000)	% of Gross Loans
Consumer Loans	21,550	30.30%
Commercial Loans	17,443	24.53%
Residential Real Estate Loans	14,623	20.56%
Commercial Real Estate Loans	10,341	14.54%
Farm Production Loans	3,376	4.75%
Farm Real Estate Loans	2,055	2.89%
Other Loans	1,734	2.44%
Total	71,122	100.00%

Source: December 31, 2005 Consolidated Report of Condition.

PVNB received an overall rating of "Satisfactory" at the previous Community Reinvestment Act Examination dated December 14, 2001. There are no legal or financial impediments to prevent PVNB from meeting the credit needs of the designated assessment area. PVNB is involved in and provides good support of the community's financial needs.

Description of Pauls Valley's Assessment Area

PVNB's assessment area meets the requirements of the regulation and does not arbitrarily exclude low-or-moderate income geographies. The assessment area includes all census tracts in Garvin County. The following table describes major demographic and economic characteristics of the assessment area.

The total population of the assessment area is 27,210 people. Although there are no low- or moderate-income census tracts in the assessment area, there are low- and moderate-income families in the assessment area. Of the 10,903 households, 16 percent are below the poverty level. The median housing value is \$47,986 with the median age of housing stock at 41 years. The unemployment rate for the assessment area is low at 2.6 percent.

The local economic conditions are stable to improving. The economy is somewhat diversified due to the number of small business operations in the assessment area. The largest employers in the area are the Southern Oklahoma Resource Center, Wal-Mart Distribution Center, Pauls Valley General Hospital, and Pauls Valley Public Schools. PVNB's competition includes several local branches of larger financial institutions based in Oklahoma City. Other local competitors in the county include several similar sized community banks located in or near the assessment area.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA	
POPULATION	
Number of Families	7,655
Number of Households	10,903
GEOGRAPHIES	
Number of Census Tracts/BNA	9
% Low-Income Census Tracts/BNA	0%
% Moderate-Income Census Tracts/BNA	0%
% Middle-Income Census Tracts/BNA	100%
% Upper-Income Census Tracts/BNA	0%
MEDIAN FAMILY INCOME (MFI)	
2000 MFI for AA	35,118
2004 HUD-Adjusted MFI	41,300
ECONOMIC INDICATORS	
2000 Median Housing Value	47,986
# of Households Below Poverty Level	1,742

Source: U.S. Census data.

A community contact was made during the examination to help ascertain the credit needs of the assessment area. The immediate credit needs of the community are being fulfilled, according to this contact. The primary need indicated by the contact relates to the need for increased housing. The needed housing includes all types and prices of housing from quality rental units to affordable single-family housing to larger more costly homes. The contact further stated that this bank often takes the lead and that the other local financial institutions in the area are also actively involved in supporting the community.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

This Performance Evaluation (PE) assesses PVNB's performance focusing primarily on five performance criteria: the loan-to-deposit ratio; lending in the assessment area (AA); lending to borrowers of different incomes and to businesses of different sizes; geographic distribution of loans; and, responses to complaints.

To evaluate the PVNB's lending performance, a random sample of 90 loans was reviewed. Major loan products offered by the bank were sampled and consisted of 30 automobile loans, 30 residential real estate loans, and 30 commercial loans, originated since December 31, 2001. Based on the analysis and consistent with available resources and capabilities, PVNB is meeting the credit needs of the assessment area in a satisfactory manner.

Loan-to-Deposit Ratio (LTD)

The loan-to-deposit ratio meets the standard for satisfactory performance. PVNB's LTD ratio is comparable to that of peer banks in the assessment area. PVNB's LTD ratio since the last examination has averaged 68.81 percent. The ratio compares favorably to the 70 percent average loan-to-deposit ratio for the 27 banks in Garvin and the surrounding counties for the same time period.

Lending in Assessment Area

PVNB’s lending in the AA is satisfactory. A majority of credit is extended within the assessment area. The number and percentage of credits extended meets the standard for satisfactory performance as illustrated in the table below.

TOTAL LOANS REVIEWED								
Loan Type	In Assessment Area				Out of Assessment Area			
	#	%	\$ 000s	%	#	%	\$ 000s	%
Automobile	23	77%	238	75%	7	23%	\$81	25%
Residential Real Estate	27	90%	877	89%	3	10%	\$106	11%
Commercial	22	73%	749	84%	8	27%	\$146	16%
Totals	72	80%	1,864	85%	18	20%	\$333	15%

Source: Sample of 90 loans used to determine CRA performance.

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

PVNB’s overall distribution of loans by income level of borrowers exceeds the standard for satisfactory performance. The following tables represent the distribution of lending based on the sample of the 23 automobile loans, 27 residential real estate loans, and 22 commercial loans located in the assessment area. PVNB’s performance is very good in light of the fact that 16 percent of the households in the assessment area have incomes below the poverty level.

PVNB’s distribution of automobile loans by income level is very good. The percentage of the number of automobile loans to low-income and moderate-income borrowers is significantly higher than the percentage of low-income and moderate-income households in the assessment area.

Borrower Distribution of Automobile Loans in Garvin County								
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
Automobile Loans	23%	39%	17%	26%	19%	22%	41%	13%

Source: U.S. Census data and automobile loan sample.

PVNB's distribution of residential real estate loans by income level is satisfactory. The percentage of the number of residential real estate loans to low-income is lower than the percentage of low-income families in the assessment area. However, the percentage of the number of residential real estate loans to moderate-income families is higher than the percentage of moderate-income families.

Borrower Distribution of Residential Real Estate Loans in Garvin County								
Borrower Income Level	<i>LOW</i>		<i>MODERATE</i>		<i>MIDDLE</i>		<i>UPPER</i>	
	% 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
Residential Loans	20%	11%	19%	26%	23%	26%	38%	37%

Source: U.S. Census data and residential real estate loan sample.

PVNB's loan distribution to small businesses exceeds the standard for satisfactory performance. The percentage of loans to businesses with revenues less than \$1 million is higher than the percentage of businesses with revenues less than \$1 million located in the assessment area. However, a large percentage of business revenues are unavailable or unknown as shown in the table below.

Borrower Distribution of Business Loans in Garvin County				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	65%	5%	30%	100%
% of Bank Loans in AA by #	100%	0%	0%	100%
% of Bank Loans in AA by \$	100%	0%	0%	100%

Source: 2004 Business geo-demographic data and the commercial loan sample.

Other Lending Related Products and Services

PVNB offers two mortgage products to better meet the housing needs of low- and moderate-income individuals. The Rural First Time Homebuyer Program (RFHP) and the Targeted Ownership Program (TOP) are down payment assistance programs designed to help first time homebuyers in rural areas purchase a home. The TOP is designed to help first-time homebuyers, with disabled household members, purchase a home. To qualify, the homebuyer must have an income that is 80 percent or lower of the areas median income. The maximum RFHP and TOP subsidy per household is \$4,000. PVNB began offering the RFHP product in 1998 and has originated 22 loans totaling \$891 thousand since December 31, 2001. PVNB began offering the TOP product in 2003 and has originated one loan totaling \$23 thousand.

Additionally, PVNB has sponsored Home Buyer Education programs over the last several years. The last Home Buyer Education program was conducted at the PVNB banking facility on April 1, 2006. Twelve people attended the all day class designed to provide information to answer questions on the home buying process. This program or a similar program is a requirement to obtain the down payment assistance described above. PVNB also offers conventional 15 and 30 year fixed rate mortgages through an arrangement with a nearby mortgage company.

Geographic Distribution of Loans

No analysis of geographic distribution of credit within the assessment area was performed. The AA is comprised entirely of middle-income census tracts. Because PVNB's AA does not include any low- or moderate-income geographies, a review of a geographic distribution of credit would not be meaningful.

Responses to Complaints

PVNB has not received any complaints regarding their performance in helping to meet assessment area credit needs during this evaluation period.

FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

We found no evidence of illegal discrimination or other illegal credit practices.