

### PUBLIC DISCLOSURE

May 25, 2015

# COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

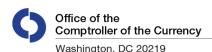
The Peoples National Bank of Checotah Charter Number 10051

> 300 West Gentry Checotah, OK 74426

Office of the Comptroller of the Currency

8282 South Memorial Drive Suite 300 Tulsa, OK 74133

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.



#### **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 The Peoples National Bank of Checotah (PNB), prepared by the Office of the Comptroller of the Currency, the institution's supervisory agency, as of May 25, 2015. 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:** PNB has an *Outstanding* record of meeting the credit needs of its assessment area (AA). This rating is based on the following:

- The average quarterly loan to deposit (LTD) ratio is *reasonable* based on PNB's performance context and lending opportunities within their Assessment Area.
- PNB's distribution of residential real estate and consumer loans during the review period reflects *excellent penetration* of loans among borrowers of different income levels, for both Residential Real Estate loans and Consumer loans.
- A *substantial majority* of the number and dollar level of PNB's loans originated during the review period are inside their Assessment Area.
- The geographic distribution of residential real estate and consumer loans during the review period indicate *excellent dispersion* of loans throughout the bank's Assessment Area, including moderate-income census tracts.
- In conjunction with the Federal Home Loan Bank Board, PNB offers an affordable housing program, titled First Time Home Buyer Program, targeted to low-income and moderate-income families.

#### SCOPE OF CRA EVALUATION

We evaluated PNB using the Small Bank standards for assessing performance, which includes a Lending Test, and covers loans originated from January 2, 2012, through December 31, 2013. We assessed performance under the Lending Test based on a review of PNB's primary loan products, which include consumer loans and residential real estate loans. Our sample included 20 residential real estate loans and 20 consumer loans, and is representative of the bank's business strategy since the last CRA Performance Evaluation (PE), which was completed as of April 20, 2009, and an *Outstanding* rating was assigned.



### **DESCRIPTION OF INSTITUTION**

PNB is a \$135 million community bank located in Checotah, Oklahoma, and a subsidiary of Peoples National Bancshares, a one-bank holding company located in Checotah. PNB is not required to report under the Home Mortgage Disclosure Act (HMDA). PNB has one subsidiary, Peoples Community Development Corporation, which was organized in 1997, and there was no merger or acquisition activity since the previous CRA PE. Other than strong competition from other banks and financial institutions in the Assessment Area, there are no known legal, financial, or other factors impeding the bank's ability to meet the credit needs in the Assessment Area. Based on the June 30, 2014 Federal Deposit Insurance Corporation (FDIC) market Share Report, PNB's presence in the Assessment Area is moderate, as they have 35 percent of the deposit market share in McIntosh County, an area that represents a substantial majority of the bank's Assessment Area.

The main bank and limited service drive-thru branch are located in downtown Checotah. The Main bank is located at 300 West Gentry, Checotah, Oklahoma, and the limited service branch is located at 303 North Broadway, Checotah, Oklahoma. PNB has one full-service branch located in Walmart at 131 Paul Carr Drive, Checotah, Oklahoma. PNB issues automated teller machine (ATM) cards and four bank-owned ATMs are available throughout the Assessment Area. All banking facilities, including ATMs, are located in moderate-income census tracks inside the bank's Assessment Area. The bank's primary business strategy is to serve local consumer/retail customers in their Assessment Area, including Checotah and the surrounding areas. PNB offers a diverse line of loan and deposit products and services during reasonable hours, Monday through Saturday, depending on the location, and by telephone and the internet.

The following table illustrates the composition of the bank's loan portfolio as of March 31, 2015, which represents 32 percent of total assets, based on the data presented in the Consolidated Reports of Condition and Income. Management does not anticipate any significant changes in the composition of the loan portfolio in the near future.

Loan Category	Dollars (\$000's)	%
Commercial Real Estate Loans	\$4,712	11
Commercial Loans	\$993	2
Residential Real Estate Loans	\$14,183	32
Farm Production Loans	\$3,689	8
Farm Real Estate Loans	\$3,324	8
Consumer Loans	\$16,823	38
Other Loans	\$199	1
Total	\$43,923	100

Source: March 31, 2015 Consolidated Report of Condition



### DESCRIPTION OF ASSESSMENT AREA

PNB's Assessment Area meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income areas. The Assessment Area consists of nine complete census tracks, including four moderate-income tracks and five middle-income tracks. The bank's Assessment Area does not have any designated low- or upper-income tracks. The area includes all census tracts in McIntosh County, and three census tracts in Muskogee County, which are adjacent to McIntosh County. The following table provides key demographic and economic characteristics of the Assessment Area; based on 2010 United States Census and 2012 Geo-demographic data.

Demographic Information - McIntosh County and Muskogee County									
		#	%	%	%	%			
					Middle	Upper			
Geographies (Census Tracts	9	0	44	56	0				
Population by Geography		34,724	0	36	64	0			
Owner-Occupied Housing by Geo	19,118	0	37	63	0				
Businesses by Geography	1,862	0	53	47	0				
Farms by Geography		180	0	26	74	0			
Family Distribution by Income I	Level	8,501	27	21	19	33			
Household Distribution by Income	Level	12,464	30	19	18	33			
Weighted average of Median Family Income (MFI)	Media	Median Housing Value 2012							
Weighted average of HUD updated MFI: 2013	\$49,900	Housel	nolds Belov	v the Poverty	Level	21%			

Source: 2012 Geo-demographic Data; 2010 United States Census Data

### **Community Contact**

During our Performance Evaluation, we contacted a local community leader within the Assessment Area to get a better understanding of the general community credit and development needs, and discuss local economic conditions. The contact specifically referenced PNB as a leader in the local communities by helping schools, civic organizations, and local businesses. The contact indicated a need within the Assessment Area for more, better employment opportunities, and money in the form of low interest loans or grants for startup small business, and funding for infrastructure improvements. The contact stated he was not aware of any discriminatory practices by local financial institutions.

### CONCLUSIONS ABOUT PERFORMANCE CRITERIA Loan-to-Deposit Ratio

The average quarterly loan to deposit (LTD) ratio is *reasonable* based on PNB's performance context and lending opportunities within their Assessment Area. Since the previous CRA PE, the bank's quarterly average LTD ratio averaged 48 percent, compared to the same percentage

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for banks in the Assessment Area during the same period, that bank management consider primary competitors of PNB.

### Lending in Assessment Area

Our loan sample reveals that a *substantial majority* of loans originated during the review period are inside the bank's Assessment Area. The following table provides a more specific identification of loan originations for the bank's primary loan types:

Lending in the Assessment Area												
		Nun	nber of Lo	ans		Dollars of Loans (\$000's)						
	Inside Outside Total					Ins	ide	Out	Total			
Loan Type	#	%	#	%		\$	%	\$	%			
Residential Real	18	90	2	10	20	\$679	87	\$106	13	\$785		
Estate Loans												
Consumer Loans	20	100	0	0	20	\$239	100	0	0	\$239		
Totals	38	95	2	5	40	\$918	90	\$106	10	\$1,024		

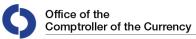
Source: Loan Sample.

#### **Lending to Borrowers of Different Incomes**

PNB's residential and consumer lending patterns during the review period indicate *excellent penetration* of loan originations among borrowers of different income levels, particularly lowand moderate-income borrowers. PNB faces strong competition from numerous local and regional financial institutions, including Bank of Oklahoma and Armstrong Bank. Bank management attributes the low percentage of consumer loans to low-income borrowers to the general inability of borrowers in that income category to meet the bank's consumer credit standards, consistent with prudent lending. The following tables present a more specific identification of loan penetration patterns among borrowers inside the Assessment Area.

Borrower Distribution of Residential Real Estate Loans in Assessment Area										
Borrower Income	Low		Moderate		Middle		Up	pper		
Level										
Loan Type	% of AA	% of	% of AA	% of	% of AA	% of	% of AA	% of		
	Families	Number	Families	Number of	Families	Number of	Families	Number of		
		of Loans		Loans		Loans		Loans		
Residential Real	27	28	21	28	19	11	33	33		
Estate Loans										

Source: Loan Sample; United States Census Data



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Borrower Distribution of Consumer Loans in Assessment Area											
Borrower	Low		Moderate		Middle		Upper				
Income											
Level											
	% of AA	% of	% of AA	% of	% of AA	% of	% of AA	% of			
	Households	Number of	Households	Number	Households	Number	Households	Number			
		Loans		of Loans		of Loans		of Loans			
Consumer	30	20	19	30	18	10	33	40			
Loans											

Source: Loan Sample; United States Census Data

### **Geographic Distribution of Loans**

PNB's residential and consumer lending patterns during the review period indicate *excellent dispersion* of loan originations inside the bank's Assessment Area, particularly the four moderate-income census tracts. The following tables present a more specific identification of the geographic distribution patterns of residential real estate loans and consumer loans, relative to the income level of the census tracts inside the Assessment Area.

Geographic Distribution of Residential Real Estate Loans in the Assessment Area										
Census Tract	Low		Moderate		Middle		Upj	per		
Income Level					Ì					
Loan type	% of AA	% of								
	Owner	Number	Owner	Number	Owner	Number	Owner	Number		
	Occupied	of Loans								
	Housing		Housing		Housing		Housing			
Residential Real	0	0	37	50	63	50	0	0		
Estate Loans										

Source: Loan Sample and 2010 United States census data

Ge	Geographic Distribution of Consumer Loans in the Assessment Area											
Census Tract	Low		Moderate		Middle		Uppe	er				
Income Level												
Loan Type	% of AA	% of	% of AA	% of	% of AA	% of	% of AA	% of				
	Households	Number	Households	Number	Households	Number	Households	Number				
		of Loans		of Loans		of Loans		of Loans				
Consumer Loans	0	0	51	65	49	35	0	0				

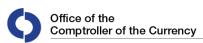
Source: Loan Sample and 2010 United States census data

#### **Responses to Complaints**

There have been no consumer complaints regarding PNB's performance under the Community Reinvestment Act (CRA) during the evaluation period. The bank's CRA Public File contains all of the required information.

### Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. § 25.28(c), or 12 C.F.R. § 195.28(c), in determining a national bank's (bank) or Federal savings association's (FSA) CRA rating, respectively, the OCC considers



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evidence of discriminatory or other illegal credit practices in any geography by the bank or FSA, or in any assessment area by an affiliate whose loans have been considered as part of the bank's or FSA's lending performance. We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.