



## **PUBLIC DISCLOSURE**

AUGUST 18, 2014

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

**THE FIRST BANK OF FAIRLAND  
RSSD# 182652**

**32 WEST CONNER  
FAIRLAND, OKLAHOMA 74343**

**Federal Reserve Bank of Kansas City  
1 Memorial Drive  
Kansas City, Missouri 64198**

**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 **Satisfactory**.*

The First Bank of Fairland (the bank) has a satisfactory record of meeting the credit needs of its assessment area (AA) including low- and moderate-income (LMI) borrowers and geographies, consistent with its resources and operating philosophy. Four of the five criteria used to evaluate a small bank's lending performance under the Community Reinvestment Act (CRA) were relevant to this review and are listed as follows:

- Net Loan-to-Deposit (NLTD) Ratio
- Lending Inside the AA
- Geographic Distribution of Loans Among Tracts of Different Income Levels
- Lending to Borrowers of Different Income Levels

The fifth core criterion used to assess a small bank's CRA performance, the bank's responsiveness to CRA-related complaints, was not evaluated as the bank has not received any complaints related to the CRA since the previous examination.

**SCOPE OF EXAMINATION**

The bank was evaluated using the Federal Financial Institution Examination Council's Interagency Small Institution Examination Procedures. The examination included an evaluation of the bank's performance with contextual consideration given to the demographic profile of the bank's AA.

Conclusions regarding the four applicable lending test criteria were based on data compiled from the bank's average NLTD ratio since the prior examination and data compiled from the entire universe of consumer loans, representing the bank's largest product by origination volume. This major product line was determined by a review of the bank's Report of Condition and Income (Call Report), and a review of the bank's loan originations since the bank's prior CRA examination conducted by the Federal Reserve Bank of Kansas City on June 21, 2010. The consumer installment loan sample consisted of the universe of 37 loans originated between January 1, 2013 and December 31, 2013.

To augment the evaluation, an interview was conducted with a member of the local community to obtain perspectives on local economic conditions and to assess the bank's responsiveness to the credit needs of the community.

**DESCRIPTION OF INSTITUTION**

The bank is headquartered in Fairland, Oklahoma, a rural community located 85 miles northeast of Tulsa, Oklahoma and 35 miles southwest of Joplin, Missouri. The bank operates

one location in Fairland and does not have any automated teller machines. The bank offers a range of loan and deposit products to meet the overall needs of the bank's customer base.

As of the June 30, 2014 Call Report, the bank's assets totaled \$11.5 million; of which gross loans represented \$8.0 million, or approximately 69.6 percent. By number volume of originations, the bank's major products are consumer loans, agriculture loans, residential real estate loans, and commercial loans, which comprise of 60.7 percent, 19.3 percent, 12.5 percent, and 7.5 percent, respectively. Table 1 illustrates the distribution by dollar volume of the bank's loan portfolio by product type.

<b>TABLE 1 FIRST BANK OF FAIRLAND LOAN PORTFOLIO</b>		
<b>Loan Type</b>	<b>Amount \$(000)</b>	<b>Percent of Total</b>
Residential Real Estate	3,385	42.5
Agricultural	2,347	29.4
Commercial	1,441	18.1
Consumer	763	9.6
Other	34	0.4
<b>Gross Loans</b>	<b>7,970</b>	<b>100.0</b>

The June 30, 2013, Federal Deposit Insurance Corporation Deposit Market Share Report indicates that the bank has a deposit market share of 0.7 percent and ranks 16<sup>th</sup> out of 18 financial institutions operating in Craig, Delaware, and Ottawa Counties. The bank has a slightly larger market share of 2.3 percent in Ottawa County, where the bank is headquartered.

The analysis of the bank's CRA performance considered its financial capacity, local demographic and economic conditions, and the competitive environment in which it operates. The CRA analysis did not identify any legal or financial impediments to the bank's ability to meet the credit needs of the AA.

**DESCRIPTION OF THE BANK'S ASSESSMENT AREA**

The bank's AA consists of all nine census tracts in Ottawa County, two eastern census tracts in Craig County, and three northwestern census tracts of Delaware County. Of the 14 total census tracts in the bank's AA, two are moderate-income tracts and 12 middle-income tracts. There are no upper- or low-income tracts in the bank's AA. The moderate-income tracts are located in northern Ottawa County in the towns of Commerce, Oklahoma and Miami, Oklahoma. All tracts in the bank's AA are rural in nature. Further, all middle-income tracts in all three counties were considered distressed due to high poverty levels.

### *Population Trends and Characteristics*

According to the 2010 Census data, the total population in the bank's AA was approximately 51,815. A majority of the AA residents were located in Ottawa County, with a population of 31,848 residents. Estimates from the American Community Survey (ACS) census data indicate that between April 2010 and July 2013 the population of Ottawa County grew by 1.2 percent. During the same period, the population of the state of Oklahoma grew by 1.7 percent. The town of Fairland, where the bank is headquartered and the third largest community in Ottawa County, was estimated to have grown 1.5 percent between April 2010 and July 2013.

Demographic information indicates the AA has a higher proportion of elderly residents than statewide Oklahoma. According to 2010 ACS data, the median age of residents of statewide Oklahoma was 36.3 years, compared with the average age of residents within the counties of the bank's AA, at 41.9 years. The percentage of residents age 65 and over was 20.0 percent in the AA. This percentage is higher than the percentage in statewide rural Oklahoma, at 15.8 percent, and for statewide Oklahoma, at 13.5 percent. A community contact also indicated that the area has a high population of elderly residents.

### *Income Characteristics*

According to 2010 ACS data, median household income (MHI) in the AA was \$36,472, which is lower than the statewide rural Oklahoma MHI at \$38,139 and the MHI for the statewide Oklahoma at \$42,979. The percentage of low-income households within the AA of 24.3 percent is slightly higher than the percentage for statewide Oklahoma at 24.0 percent. Within the AA, moderate income households make up 17.3 percent. This is a slightly higher percentage in comparison to statewide Oklahoma at 16.5 percent. LMI households make up 41.7 percent of the AA; slightly higher than the percentage of LMI households for the statewide Oklahoma, at 40.5 percent.

The percentage of middle income households in the area is somewhat higher, at 19.5 percent as compared to statewide percentage of 17.9 percent; however, the percentage of upper income households, of 38.9 percent, is lower than the statewide percentage of 41.7 percent. The percentage of households below the poverty level in the AA is 16.8 percent, which is lower than the percentage for the nonmetropolitan areas of Oklahoma, at 18.0 percent, but higher than statewide Oklahoma of 15.4 percent.

### *Economic and Employment Characteristics*

The AA is predominantly rural and many residents are engaged in agricultural production. Primary products include cattle, hay, wheat, and soybeans. Recent conditions in the area have been favorable to farmers. The area has received sufficient rainfall for crop production and cattle prices are currently near record high levels.

The city of Fairland has recently attracted businesses to the Fairland Industrial Park. Primary employers in the Fairland area include: Crafton Pump Service, Inc., the Fairland School District, and Hughes Lumber. President Eddy Stoner indicated an active effort was currently in place on the part of the community to retain existing businesses and attract new businesses to the area. Through the efforts of the community and the Board of Economic Development, two new businesses recently opened in Fairland, including a new antique store and firearms store.

Based on 2010 ACS data, the unemployment rate of the AA was 7.6 percent, which was significantly higher than the unemployment rate for statewide Oklahoma, at 6.1 percent. The percentage of individuals in the labor force in the AA was 56.1 percent, compared to 63.0 percent for statewide Oklahoma and 58.1 percent for statewide rural Oklahoma.

According to FDIC Regional Economic data, unemployment in the area has decreased slightly but remains higher than figures for statewide Oklahoma. Unemployment rates for the first quarter of 2014 were 6.0 percent, 6.3 percent, and 6.1 percent for Craig, Delaware, and Ottawa Counties, respectively. For the same period, the unemployment rate for statewide Oklahoma was 5.2 percent. A community contact also indicated that unemployment in the area was higher than other parts of the state.

#### *Housing Characteristics*

According to the 2010 Census data, the median housing value in the AA was \$87,398, which is considerably lower than the statewide median value of \$104,300, but higher than rural median value of \$81,706. The housing affordability ratio<sup>1</sup> of 41.7 percent is comparable to the statewide ratio of 41.2 percent, but lower than the statewide rural ratio<sup>1</sup> of 46.0 percent. Owner occupied housing comprised 56.8 percent of the housing units in the AA which is comparable to the statewide rural percentage of 58.3 percent. A member of the community also indicated that housing stock in the area, particularly in Ottawa County, was older and in need of repairs and weatherproofing. The median age of housing stock in the AA was 35 years, as compared to rural Oklahoma at 33 years and the statewide median age of 34. In Ottawa and Craig Counties, the median age of housing stock is 40 years.

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<sup>1</sup> The housing affordability ratio is calculated by dividing the median income by the median housing value. A higher ratio reflects more affordable housing.

Table 2 summarizes the demographic and economic characteristics of the bank's AA based on 2010 ACS data.

Income Categories	Tract Distribution		Families by Tract Income		Families < Poverty Level as % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low-income	0	0.0	0	0.0	0	0.0	3,296	22.8
Moderate-income	2	14.3	1,285	8.9	298	23.2	2,672	18.5
Middle-income	12	85.7	13,145	91.1	1,637	12.5	3,412	23.7
Upper-income	0	0.0	0	0.0	0	0.0	5,050	35.0
<b>Total AA</b>	14	100.0	14,430	100.0	1,935	13.4	14,430	100.0
	Housing Units by Tract	Housing Type by Tract						
		Owner-occupied			Rental		Vacant	
		#	% by tract	% by unit	#	% by unit	#	% by unit
Low-income	0	0	0.0	0.0	0	0.0	0	0.0
Moderate-income	2,512	1,329	8.6	52.9	848	33.8	335	13.3
Middle-income	24,642	14,095	91.4	57.2	4,060	16.5	6,487	26.3
Upper-income	0	0	0.0	0.0	0	0.0	0	0.0
<b>Total AA</b>	27,154	15,424	100.0	56.8	4,908	18.1	6,822	25.1

Based on 2010 ACS 5-year estimate data and 2010 FFIEC census tract designations.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank's performance under the CRA is considered satisfactory based on an assessment of its 16-quarter average NLTD ratio, level of lending within its AA, and level of lending to LMI borrowers and geographies. Data utilized for this analysis included the bank's performance data and area demographic information, and input from members of the local community.

### Net Loan-to-Deposit Ratio:

The bank's NLTD ratio reflected a more than reasonable effort to extend credit based on its size, financial condition, and the credit needs of its AA. The bank's NLTD ratio was averaged over a 16-quarter period since the previous CRA examination and compared with the NLTD ratios of two similarly situated institutions, the state of Oklahoma, statewide rural Oklahoma, and national peer groups over the same period. The bank's NLTD ratio of 80.9 percent exceeded that of the two local competitors, at 51.6 percent and 61.5 percent, respectively. Further, the bank's NLTD ratio also exceeded the statewide rural, statewide, and national peer averages of 64.8 percent, 68.5 percent, and 70.4 percent, respectively.

**Assessment Area Concentration:**

This performance criterion evaluates the bank's lending inside its AA. As illustrated in Table 3, a substantial majority of the bank's consumer loans were originated within the bank's AA. The analysis focused on the number of originations rather than the dollar volume, as the number of originations are a better representation of the number of applicants served. Of the total number of loans reviewed, 89.2 percent were originated within the AA, indicating an outstanding effort to serve the credit needs of the community in which the bank operates.

<b>TABLE 3 LENDING INSIDE AND OUTSIDE THE BANK'S AAs</b>								
<b>Bank Loans</b>	<b>Inside</b>				<b>Outside</b>			
	<b>#</b>	<b>\$(000)</b>	<b>#%</b>	<b>\$%</b>	<b>#</b>	<b>\$(000)</b>	<b>#%</b>	<b>\$%</b>
Consumer Loans	33	363	89.2	93.2	4	26	10.8	6.8
<b>Total Loans</b>	33	363	89.2	93.2	4	26	10.8	6.8

The remaining analysis is based solely on the loans originated in the bank's AA.

**Distribution by Income Level of Geographies:**

This performance criterion evaluates the bank's distribution of loans among geographies of different income levels. The bank's consumer lending activity was compared to the percentage of households in each census tract income category.

Based on 2010 Census data, the bank's AA contains two moderate-income and 12 middle-income census tracts. Since the AA does not contain any low- or upper-income tracts, an in-depth analysis was performed for the two remaining tract levels. The bank's sole location is located in a middle-income tract. Focus is placed on the lending within the moderate-income tracts in the bank's AA, since the focus of CRA is on lending in LMI tracts.

<b>TABLE 4 DISTRIBUTION BY INCOME LEVELS OF GEOGRAPHIES FIRST BANK OF FAIRLAND AA</b>					
<b>Census Tract Income Level</b>	<b>Consumer Loans</b>				<b>% of Households<sup>1</sup></b>
	<b>#</b>	<b>\$(000)</b>	<b>#%</b>	<b>\$%</b>	
Low	0	0	0.0	0.0	0.0
Moderate	0	0	0.0	0.0	10.7
Middle	33	363	100.0	100.0	89.3
Upper	0	0	0.0	0.0	0.0

<sup>1</sup> Based on 2010 ACS 5-year estimate data and 2010 FFIEC census tract designations.

Consumer Loans

As illustrated in Table 4, the bank had no originations in the moderate-income tracts during the period reviewed. Although the bank did not originate any consumer loans in the moderate-



income tracts, the percentage of households in those tracts was relatively low, at 10.7 percent. In addition, the two moderate-income tracts are located in the city of Miami, Oklahoma, which is approximately 11 miles from Fairland. Further, Miami, Oklahoma, with a population of approximately 13,570, is served by seven financial institutions. Due to the distance from the bank, high competition, and a low percentage of households within the moderate-income tracts, the bank's level of lending is considered reasonable.

**Distribution by Income Levels of Borrowers:**

This performance criterion evaluates the bank's distribution of lending to borrowers of different income levels, particularly LMI individuals. The bank's level of consumer lending was compared to the percentage of households located within the bank's AA by income level.

<b>Borrower Income Level</b>	<b>Consumer Loans</b>				<b>% of Households<sup>1</sup></b>
	<b>#</b>	<b>\$(000)</b>	<b>#%</b>	<b>\$%</b>	
Low	16	133	48.5	36.5	24.3
Moderate	10	110	30.3	30.3	17.3
Middle	5	65	15.1	17.9	19.5
Upper	2	56	6.1	15.4	38.9

<sup>1</sup> Based on 2010 ACS 5-year estimate data.  
(Note: Total percentages shown may vary by 0.1 percent due to automated rounding differences.)

**Consumer Loans**

The bank's level of lending to borrowers of different income levels was considered excellent. The bank's lending to LMI borrowers exceeded the demographic profile of LMI households in the AA. As shown in Table 5, the bank originated 48.5 percent of its consumer loans to low-income borrowers, which substantially exceeded the percentage of low-income households at 24.3 percent. Similarly, the percent of consumer loans to moderate-income borrowers at 30.3 percent significantly exceeded the percent of moderate-income households at 17.3 percent. The bank's percentage of loans to middle-income borrowers was 15.2 percent and the percentage of loans to upper-income borrowers was 6.1 percent.

**COMMUNITY DEVELOPMENT**

Although not required under the FFIEC's Interagency Small Institution Examination Procedures, the bank's performance was enhanced by community development activities, including services and an investment, which benefited the bank's AA. The community development activities were comprised of a qualified investment to the Grand River Dam Authority, which totaled \$150,000 and qualified services which included President Eddy Stoner serving on the Fairland Economic Development Authority Board and the Ottawa County Rural Water District #6 Board.

**FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW**

An evaluation of the bank's fair lending activities was conducted during the examination to determine compliance with the substantive provisions of the antidiscrimination laws and regulations, including the Equal Credit Opportunity Act and the Fair Housing Act. A review of the bank's policies and procedures, credit applications, loan denials, and staff interviews revealed no prohibited practices designed to discourage loan applicants. In addition, the bank has not engaged in any illegal credit practices inconsistent with helping to meet the credit needs of its community.