



PUBLIC DISCLOSURE

April 23, 2001

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**FIRST AMERICAN BANK
RSSD# 321255**

**P. O. Box 307
STONEWALL, OKLAHOMA 74871-0307**

**Federal Reserve Bank of Kansas City
925 Grand Boulevard
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 bank has a satisfactory record of helping to meet the credit needs of its entire assessment area, including low- and moderate-income neighborhoods, in a manner consistent with its resources, capabilities, and operating philosophies. The bank's performance was assessed under the following four core criteria for small banks:

- Loan-to-Deposit Ratio (LTD)
- Lending Inside the Assessment Area
- Lending to Borrowers of Different Income Levels and Businesses of Different Sizes
- Geographic Distribution of Loans

Conclusions for each performance criteria was based on data compiled from a statistically derived sample of loan files reviewed for each major product line. Three loan products, commercial, agricultural, and residential real estate loans were selected for review in evaluating the bank's lending performance.

The analysis showed that the bank's loan-to-deposit ratio was reasonable as it compared favorably to its competitors and exceeded state and national peers. In addition, the analysis showed that a majority of the bank's loans were originated within its assessment area. The distribution of loans in the bank's assessment area reflects reasonable dispersion to individuals of different income levels and to businesses and farms of different sizes, given the institution's size, local economic factors, and assessment area credit demand. Furthermore, the geographic distribution of loans throughout the bank's assessment area reflects a reasonable dispersion based on assessment area demographics. The bank's response to complaints was not rated, as the bank has not received any complaints about its performance under the CRA.

DESCRIPTION OF INSTITUTION

First American Bank is located in Stonewall, Oklahoma, approximately 140 miles southeast of Oklahoma City. According to 1990 Census data, Stonewall had a population of 519. The bank is comprised of one facility, which is readily accessible to the entire community. The facility offers both drive-up teller windows and an automated teller machine (ATM) located on bank premises. The bank has no other branches or ATMs.

Based on its financial condition, size, resources, and credit product offerings, the bank has the ability to meet the credit needs of its assessment area. According to the bank's December 31, 2000 Consolidated Reports of Condition and Income (Call Report), the bank's assets totaled \$17,566M, of which net loans comprised \$13,989M or 80 percent. The bank offers a variety of credit products to meet the needs of its assessment area, as illustrated in Table 1.

Loan Type	Amount (\$000)	Percent of Total
Commercial	3,889	27.8
Real Estate	3,552	25.4
Agricultural	3,517	25.1
Consumer	2,935	21.0
Other	96	0.7
TOTAL	13,989	100.00

No legal or financial factors exist that would hinder the bank's ability to meet the credit needs of its assessment area. The bank's CRA performance was last assessed by the Federal Deposit Insurance Corporation (FDIC) on March 31, 1997, when a "Satisfactory" CRA rating was assigned.

DESCRIPTION OF THE BANK'S ASSESSMENT AREA

The bank's assessment area consists of the eastern portion of Pontotoc County and all of Coal County. Stonewall is located in eastern Pontotoc County, a mile from the county line. Coal County consists of two Block Numbering Areas (BNAs)¹ and three contiguous BNAs in the eastern part of Pontotoc County. Of the five BNAs, the two in Coal County are moderate-income, and the three in Pontotoc County are middle-income. The assessment area does not include the adjacent six geographies that comprise the city of Ada in Pontotoc County due to the existing number of banks that are currently located in Ada. The bank's designated assessment area appears reasonable and does not arbitrarily exclude any low- or moderate-income geographies.

Table 2 below details the general demographic and economic characteristics of Pontotoc and Coal Counties based on 1990 Census data.

¹ Block numbering areas are small statistical subdivisions of a county for grouping and numbering blocks in nonmetropolitan counties where census statistical area committees have not established census tracts. State agencies and the Census Bureau delineated BNAs for the 1990 Census. BNA numbers range from 9501 through 9989.99 and are unique within a county. BNAs do not cross county boundaries.

Table 2
Bank's Assessment Area Characteristics

<i>Tract Summary</i>	
Total Number of BNAs	5
Number of Low-Income BNAs	0
Number of Moderate-Income BNAs	2
Number of Middle-Income BNAs	3
Number of Upper-Income BNAs	0
<i>Income Summary</i>	
Median Family Income	19,797
Percent Low-Income Families	30.1
Percent Moderate-Income Families	19.0
Percent Middle-Income Families	19.8
Percent Upper-Income Families	31.1
<i>Unemployment Summary</i>	
Labor Force Population (Assessment Area)	4,373
Percent Unemployment (Assessment Area)	4.2
Percent Unemployment (State)	3.2
<i>Miscellaneous Information</i>	
Total Population	10,245
Percentage of Families Below Poverty	21.6
Total Housing Units	4,750
Percentage Owner-Occupied Units to Total Units	65.5
Percentage Rental Units to Total Units	20.7
Percentage Vacant Units to Total Units	16.2

Information obtained from community contacts, 1990 census data, employment and economic information data, CACI² data projections (projected data) and the Bureau of Labor Statistics was used to develop a performance context for this analysis. A school district representative and an Ada realtor were interviewed to discuss credit needs and assessment area economic and housing conditions. The performance context was used by the examiner to determine the reasonableness of the bank's lending levels and loan distribution within the assessment area.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

² CACI is an international information technology products and services company headquartered in Arlington, Virginia. Its demographic data are based on the following information sources: U.S. Census Bureau, 1990 census data and 1999 county population estimates, U.S. Postal Service residential delivery statistics, and annual General Data Technology and R.L. Polk databases.

Several factors were considered in evaluating the bank's overall CRA performance. The factors included: a review of the bank's level of lending in relation to its deposits and that of other comparable financial institutions in the area; the concentration of loan origination's inside and outside of the bank's defined assessment area; the bank's level of lending to borrowers of different income levels and to businesses and farms of different revenue sizes; and the distribution of lending in the bank's assessment area by income level of geographies. In addition, two local community members were contacted to obtain additional information about the community's credit needs and to confirm that the products and services offered by the bank adequately meet those needs. The bank has not received any complaints concerning its CRA activities or performance since the last examination. Therefore, the bank's responsiveness to CRA complaints was not included in the evaluation. The bank's performance under the Act is considered satisfactory based on the following assessment criteria analysis.

Loan-to-Deposit Ratio

The bank's average net LTD ratio of 81.2 percent is considered reasonable. It compared favorably to area competitors and exceeded state and national peers. The bank's LTD ratio was calculated by averaging its ratio for the last eight quarters as of December 2000. First American Bank's LTD ratio compared favorably to that of five competitor banks, whose LTD ratios ranged from 50.5 percent to 74.3 percent over the same time period. In addition, the bank's LTD exceeded that of its state peer group at 65.1 percent and the national peer group at 63.9 percent. The bank's peer group consisted of all insured commercial banks having assets between \$10 million and \$25 million with one banking office, and located in a non-metropolitan area. Given the institution's size, local economic conditions, and credit demand, the bank's average LTD is considered satisfactory.

Lending in the Assessment Area

A significant majority of the bank's lending occurred inside its assessment area. An analysis of 32 residential real estate, 28 commercial and 25 farm loans, showed that 91.8 percent of the loans were originated inside the bank's assessment area. Table 3 details the percentage of loans, by number and dollar amount, originated inside the bank's assessment area. The bank's percentage of loans within its assessment area is considered reasonable.

Loan Type Sampled	Percentage Of Loans Reviewed	Percentage of Total Dollar Amount
Real Estate	84.4	89.6
Small Business	92.9	97.6
Small Farm	100	100
TOTAL	91.8	

Lending to Borrowers of Different Income Levels and to Businesses/Farms of Different Revenue Sizes

The bank's distribution of loans to borrowers of different income levels represents a reasonable penetration among individuals of different income levels. The bank's lending levels generally reflect or exceed the income demographics of the assessment area and represent good penetration to low- and moderate-income individuals.

A review of 32 loans originated from a 4-year time period between March 1997 and March 2001 was performed to determine the bank's record of lending to borrowers of all income levels. Table 4 illustrates the percentage of loans made to each borrower income level compared to the percentage of families in the assessment area that are designated low-, moderate-, middle- and upper-income. The analysis focused on the number of loans originated, rather than the dollar volume, as it is a better indicator of the number of the people benefiting from this product.

Income Level of Borrower	Percentage of Real Estate Loans Reviewed	Percentage of Families within Assessment Area **
<i>Low (<50 percent of median)</i>	18.6%	29%
<i>Moderate (50 to <80 percent of median)</i>	22.2%	19%
<i>Middle (80 to <120 percent of median)</i>	37%	21%
<i>Upper (=>120 percent of median)</i>	22.2%	31%

* The percent of families by income level reflects the bank's combined assessment area of Coal and the eastern portion of Pontotoc Counties.

** The percentage of families in assessment area is based on 1990 census data.

As Table 4, illustrates, the percentage of real estate loan originations to low-income borrowers is less than the percentage of low-income families by 10.4 percent. However, the bank's performance in this area is considered reasonable given the assessment area's poverty rate and the availability of affordable low-income housing. According to 1990 Census data, 21.6 percent of the families within the assessment area are below the poverty level and are less likely to have sufficient economic viability to obtain residential real estate loans. Consequently, the effective loan demand for residential real estate loans by low-income borrowers is reduced by the percentage of families below the poverty level. Moreover, a community contact indicated that the real estate market for the assessment area remained tight, making it more difficult for low-income borrowers to find affordable housing.

The bank's percentage of real estate loan originations to moderate-income individuals exceeds the percentage of moderate-income families within the assessment area. This is especially noteworthy, given the tight affordability of homes and the borrowers' limited financial capacity in this income category. Given the bank's record of lending to low- and moderate-income individuals and the assessment area demographics, the bank's performance is considered reasonable.

The bank's distribution of loans to businesses and farms of different revenue sizes is strong. The bank's lending levels exceed the business and farm revenue demographics of the assessment area. Table 5 illustrates the bank's lending activity by loan amount.

Loan Size	Small Business (Revenue of \$1MM and under)		Small Farm (Revenue of \$1MM and under)	
	Percentage of Small Business Loans Reviewed	Percentage of Small Businesses within the AA *	Percentage of Small Farm Loans Reviewed	Percentage of Small Farms within the AA **
Less than or Equal to \$1 Million	96	82.0	100	97.4
Over \$1 Million	4	9.0	0	2.6
No data reported	NA	9.0	NA	0
Totals	100	100	100	100

* Small businesses are defined as those with revenues of less than \$1 Million.

** Small farms are defined as those with revenues of less than \$1 Million.

The bank's volume of small dollar originations, in particular, indicates its willingness to make small business and small farm loans. Approximately 96 percent of the small business loans originated were for amounts less than or equal to \$100M. This indicates that the bank recognizes the need for small business credit in its assessment area and reflects an excellent penetration of small businesses.

The bank's distribution of loans to farms of different revenue sizes is considered reasonable. A small farm loan is defined as a loan with an origination balance of \$500M or less. A review of the farm loans revealed that 100 percent of the small farm loan originations were for amounts less than or equal to \$500M. The fact that all of the loans in the sample were made to small farms reflects the bank's commitment to meet the needs of small farms in its assessment area.

Distribution of Lending Among Geographies of Different Income Levels

Given the demographics of the assessment area, the geographic distribution of loans reflects reasonable penetration throughout the overall assessment area. As previously stated, the assessment area contains no low- or upper-income BNAs. Three of the BNAs were middle-income and two were moderate-income, representing 60 percent and 40 percent of the assessment area, respectively.

As Table 6 illustrates, the bank's residential real estate loan originations to moderate-income BNAs was less than the percentage of housing units and less than the proportion of moderate-income geographies within the assessment area. However, an analysis of the moderate-income BNAs showed that 23.3 percent of the families were below the poverty level compared to 21.6 percent for the entire assessment area. Moreover, almost a quarter of the housing units within these BNAs were renter-occupied, making the effective lending demand less. Community contacts also indicated that these areas together had approximately the 4th highest unemployment rates in the state.

The bank's distribution of small loans was strong. A review of the bank's small farm loans revealed that 72 percent of these loans were located within the two moderate-income tracts. However, the bank's distribution of loans to small businesses showed opportunities for improvement. Community contacts indicated that the local economy, especially in Coal County, was experiencing some deterioration. The decline is attributed to the shortage of quality high paying jobs and a stagnant population base. Management indicated that there are plans for a large company to locate in Coal County, which should provide an economic boost to the area.

Table 6								
DISTRIBUTION OF LOANS ACROSS THE ASSESSMENT AREA BY INCOME LEVEL OF BNA								
Loan Type	Low-Income		Moderate-Income		Middle-Income		Upper-Income	
	#	\$	#	\$	#	\$	#	\$
Home Loans	0	0	6	196	21	819	0	0
Percent of Total	0	0	22.2	19.3	77.8	80.7	0	0
Small Farm Lending	0	0	18	215	7	226	0	0
Percent of Total	0	0	72	48.8	28	51.2	0	0
Small Business Lending	0	0	5	31	20	404	0	0
Percent of Total	0	0	25	7.1	75	92.9	0	0
Percentage of Housing Units	0.0		57.4		42.6		0.0	
Percentage of Small Farms	0.0		50.0		50.0		0.0	
Percentage of Small Businesses	0.0		66.5		33.5		0.0	

Compliance with Antidiscrimination Laws and Regulations

The bank is in compliance with the substantive provisions of the antidiscrimination laws and regulations. Furthermore, reviews of bank policies credit applications, loans and denials, and staff interviews revealed no prohibited practices designed to discourage loan applicants.

GLOSSARY OF COMMON CRA TERMS

(For additional information, please see the Definitions section of Regulation BB at 12 CFR 228.12.)

Assessment Area – The geographic area(s) delineated by the bank and used in evaluating the bank’s record of helping to meet the credit needs of its community. The assessment area must include the geographies where the main office, branches, and deposit-taking automated tellers machines are located. The assessment area must consist only of whole geographies, may not reflect illegal discrimination, and may not arbitrarily exclude low- or moderate-income geographies.

Block Numbering Areas (BNAs) – BNAs are geographic entities similar to census tracts. Metropolitan areas are most often delineated into census tracts, while rural areas are delineated into BNAs.

Census Tracts – Census tracts are small, relatively permanent geographic entities within counties delineated by a committee of local data users. Generally, census tracts have between 2,500 and 8,000 residents and boundaries that follow visible features.

Community Development – Includes affordable housing (including multifamily rental housing) for low- and moderate-income individuals, community services targeted to low- and moderate-income individuals, activities that promote economic development by financing businesses or farms that have gross annual revenues of \$1 million or less, or activities that revitalize or stabilize low- or moderate-income geographies.

Community Development Loan – A loan that has community development as its primary purpose and (except in the case of a wholesale or limited-purpose bank).

1. Has not been reported or collected by the bank or an affiliate as a home mortgage, small business, small farm, or consumer loan, unless it is a multifamily dwelling loan and
2. Benefits the bank’s assessment area(s) or a broader statewide or regional area that includes the bank’s assessment area(s).

Community Development Service – A service that has as its primary purpose community development, is related to the provision of financial services, has not been considered in the evaluation of the bank’s retail banking services, benefits the bank’s assessment area(s) or a broader statewide or regional area that includes the bank’s assessment area and has not been claimed by other affiliated institutions.

Consumer Loans – Loans to individuals for household, family and other personal expenditures. These loans do not include real estate-secured loans.

Dun & Bradstreet Data – Data collected by Dun & Bradstreet regarding types of businesses and their respective gross annual revenues. The data can be sorted by geographies.

Geography – A census tract or a block numbering area.

Income Level – Both geographies and individuals can be described in terms of their income levels. In MSAs, the level is based on the MSA median income. In nonMSA areas, the level is based on the statewide, nonMSA median income.

Low-Income – Less than 50 percent of the area median income

Moderate-Income – At least 50 percent and less than 80 percent of the area median income

Middle-Income – At least 80 percent and less than 120 percent of the area median income

Upper-Income – At least 120 percent or more of the area median income

Metropolitan Statistical Area (MSA) - The general concept of an MSA is that of a core area containing a large population nucleus, together with adjacent communities having a high degree of economic and social integration with that core. Generally, a single city with at least 50,000 inhabitants or an urbanized area with a total population of at least 100,000 would meet the definition of an MSA.

Qualified Investment – A lawful investment, deposit, membership share or grant that has as its primary purpose community development.

Small Business – A business with gross annual revenues of \$1 million or less.

Small Business Loan – A loan with an original amount of \$1 million or less that has been reported in the Consolidated Report of Condition and Income in the category “Loans secured by nonfarm nonresidential properties” or “Commercial and industrial loans.”

Small Farm – A farm with gross annual revenues of \$1 million or less.

Small Farm Loan – A loan with an original amount of \$500,000 or less that has been reported in the Consolidated Report of Condition and Income in the category “Loans secured by farmland” or “Loans to finance agricultural production and other loans to farmers.”