



PUBLIC DISCLOSURE

November 27, 2006

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**INTERBANK
RSSD# 433354**

**1620 WEST THIRD STREET
ELK CITY, OKLAHOMA 73644**

**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.*

InterBank has a satisfactory record of helping to meet the credit needs of its entire assessment area (AA), including moderate-income neighborhoods, and low- and moderate-income (LMI) families in a manner consistent with its resources, operating philosophy, and credit needs of the community. Four of the five criteria used to evaluate small bank lending performance were relevant to this review and are as follows:

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

The bank's responsiveness to complaints under the Community Reinvestment Act (CRA), the fifth core criteria used to assess small bank performance, was not evaluated because the bank has not received any such complaints.

The bank's net loan-to-deposit (NLTD) ratio indicated a good effort to extend credit in a rural market and a majority of its lending activity occurred within the AA. The bank's distribution of loans among borrowers of different income levels and to businesses of different revenue sizes was reasonable and the geographic distribution of loans reflected a reasonable dispersion throughout its AA. The bank's CRA performance was previously evaluated at the November 18, 2002 examination at which time it also was assigned a satisfactory rating.

SCOPE OF EXAMINATION

The bank's CRA performance was evaluated using the interagency small bank examination procedures. Conclusions about the performance criteria were based on data compiled from a statistically-derived sample of loan files for each major product line. The major product lines were determined through discussions with bank management, a review of the Report of Condition and Income (Call Report), and a review of the number of loan originations since the bank's last CRA examination in November 2002. The product types selected for review were small business and residential real estate loans originated between March 1, 2006 and August 31, 2006. The small business sample included 39 loans from a universe of 170 originations and the residential real estate sample included 38 loans from a universe of 159 originations. In addition, discussions about local economic conditions were conducted with community members to augment the analysis of the loan samples. The contacts were members of the local business and housing communities.

DESCRIPTION OF INSTITUTION

The bank is headquartered in Elk City, Oklahoma, a rural community located in the southwestern portion of the state. The bank has three branches located in Clinton, Hobart, and Sayre, Oklahoma. Each office is full-service with drive-through facilities and cash-

dispensing only automated teller machines (ATMs). InterBank also has cash-dispensing ATMs in Bar-S Food Stores in Elk City and Clinton, Oklahoma. The bank's Web site provides limited on-line banking services such as the ability to make loan payments and transfer funds between a customer's accounts at InterBank. In addition, the bank provides automated telephone banking services with a toll-free phone number available 24 hours a day.

The bank is owned by InterBank, Inc., a one-bank holding company headquartered in Sayre, Oklahoma. The analysis of CRA performance identified no legal impediments to the bank's ability to lend and the bank has the ability to meet the credit needs of its AA based on its size, financial condition, and resources. According to the September 30, 2006 Call Report, the bank reported total assets of \$159.9 million, total loans of \$111.7 million, and total deposits of \$146.2 million. Table 1 indicates the distribution of the bank's loan portfolio by product type.

Loan Type	Amount (\$000)	Percent of Total
Commercial	44,693	40.0
Residential Real Estate	28,390	25.4
Agriculture	20,160	18.0
Consumer	17,451	15.6
Other	987	1.0
<i>TOTAL Gross Loans</i>	111,681	100.0

DESCRIPTION OF THE BANK'S ASSESSMENT AREA

The bank's AA is comprised of 14 census tracts (tracts) located in Beckham, Custer, Kiowa, and Washita Counties, Oklahoma. The AA is located in the southwestern portion of Oklahoma and borders the Texas state line. Hobart and Sayre are the county seats of Kiowa and Beckham counties, respectively. In 2006, the AA contained one moderate- and 13 middle-income tracts. The bank's AA appears reasonably designated because it does not arbitrarily exclude any LMI areas.

The AA had a population of 55,762 according to the 2000 Census. From 1990 to 2000, the AA's population declined by 1.3 percent, while the populations of other nonmetropolitan areas of the state grew by 1.4 percent for the same period. Beckham County's population, where the main bank is located, grew by 1.1 percent over the same time frame.

The AA's economy is diverse and industries vary from agriculture to mining and oil production. The AA was slightly less affluent than other rural areas of Oklahoma. The AA's median family income of \$34,795 was slightly lower than the statewide rural average of \$35,517. The percentage of AA families living below the poverty level, at 14.1 percent, is also slightly higher than the statewide rural area level, at 13.2 percent. However, the AA's unemployment rate, at 5.4 percent was lower than other statewide nonmetropolitan areas at 5.95 percent.

The AA's median housing value of \$45,625 is well below the statewide nonmetropolitan area average of \$54,030. Consequently, the AA's affordability ratio¹ is higher, at 61.0 percent, compared to the statewide ratio at 53.0 percent, indicating that AA homes are relatively more affordable. AA housing stock is older than the statewide areas at 40 years and 30 years, respectively. Although AA housing is more affordable than other statewide nonmetropolitan areas, members of the community indicated that there were fewer affordably priced homes on the market and that these homes typically had low turnover rates because their owners generally occupied them for long periods of time. One community contact stated there were few new homes being constructed in the AA, and those that were built were selling for over \$150,000, which are generally not affordable by LMI families.

¹ The affordability ratio is calculated by dividing the Median Household Income by the Median Housing Value; the higher the ratio, the more affordable the housing.

Table 2 summarizes the characteristics of the bank's AA based on 2000 Census and 2005 Dun and Bradstreet data.

TABLE 2 ASSESSMENT AREA DEMOGRAPHICS BECKHAM, KIOWA, WASHITA, & CUSTER (PARTIAL) COUNTIES IN OKLAHOMA								
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	3,152	21.0
Moderate-income	1	7.1	948	6.3	174	18.4	2,746	18.4
Middle-income	13	92.9	14,016	93.7	1,922	13.7	3,367	22.5
Upper-income	0	0.0	0	0.0	0	0.0	5,699	38.1
Total AA	14	100.0	14,964	100.0	2,096	14.0	14,964	100.0
	Housing Units by Tract	Housing Types by Tract						
		Owner-occupied			Rental		Vacant	
		#	% by Tract	% by Unit	#	% by Unit	#	% by Unit
Moderate-income	1,686	808	5.2	47.9	555	32.9	323	19.2
Middle-income	24,291	14,764	94.8	60.8	5,373	22.1	4,154	17.1
Total AA	25,977	15,572	100.0	59.9	5,928	22.8	4,477	17.2
	Total Businesses by Tract	Businesses by Tract & Revenue Size						
		Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported		
		#	%	#	%	#	%	#
Moderate-income	271	11.2	241	11.4	20	11.7	10	6.9
Middle-income	2,158	88.8	1,873	88.6	151	88.3	134	93.1
Total AA	2,429	100.0	2,114	100.0	171	100.0	144	100.0
Percentage of Total Businesses:				87.0		7.0		6.0

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The bank's average NLTD ratio is considered reasonable in view of its size, financial condition, and AA credit needs. Since the previous CRA examination, the bank's NLTD ratios fluctuated from the mid-70s to a high of 83.6 percent and averaged 80.7 percent. During the eight-quarter period ending September 30, 2006, the NLTD ratio averaged 79.5 percent. This NLTD ratio is higher than the average NLTD ratios for three out of six peer banks operating within the AA and comparable to the bank's state and national peer groups during the same time period. The average NLTD ratios for the local, state, and national peer groups ranged from a low of 35.6 percent to a high of 109.4 percent.

**TABLE 3
INTERBANK'S LENDING PERFORMANCE**

Lending within the Assessment Area

Loan Type	Inside AA*				Outside AA			
	#	%	\$(000)	%	#	%	\$(000)	%
Small Businesses	31	79.5	1,719	68.6	8	20.5	785	31.4
Residential Real Estate	33	86.8	1,161	87.4	5	13.2	168	12.6
TOTAL	64	83.1	2,880	75.1	13	16.9	953	24.9

* Note: Only the loans made within the bank's AAs are considered for the remaining lending distribution tests.

Distribution by Income Level of Geographies

Loan Type	% of Bank Loans		% of Owner-Occupied Units	
	Moderate	Middle	Moderate	Middle
Residential Real Estate	6 1	93 9	5 2	94 8
Small Businesses	% of Bank Loans		% of Small Businesses	
	9 7	90 3	11 4	88 6

Distribution by Borrower Income Level and Revenue Size of Businesses

Loan Type	% of Bank Loans				% of Families			
	Low	Moderate	Middle	Upper	Low	Moderate	Middle	Upper
Residential Real Estate	15 2	6 1	36 4	42 3	21 0	18 4	22 5	38 1
Small Businesses	% of Bank Loans				% of Small Businesses			
	87 1				87 0			

Lending in the Bank's Assessment Area

As indicated in Table 3, a majority of the bank's residential real estate and small business loans were originated inside the AA. The bank's performance in this component is therefore considered satisfactory.

Geographic Distribution of Loans

The bank's distribution of loans among geographies of various income levels is compared to the percentages of small businesses and families that operate and live in those areas. As depicted in Table 3, the bank's commercial lending to the moderate-income tract in its AA is slightly less than the percentage of small businesses located in this tract, but its residential real estate penetration exceeds the percentage of families located in this tract. The bank's performance in this criterion is considered reasonable.

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

The bank's distribution of loans represents a reasonable penetration among individuals of different income levels and to businesses of different revenue sizes based on the economic conditions of the AA. The analysis of small business and residential lending focused on the number of loans originated, rather than the dollar volume, as it is a better indicator of the number of people and businesses benefiting from these products. The results of the loan reviews are summarized in Table 3.

Small Business Loans

Table 3 illustrates the bank's lending to businesses with gross annual revenues less than \$1,000,000 is nearly identical to the percentage of small businesses in the AA, at 87.1 percent, and is therefore considered reasonable. In addition, 100.0 percent of the loans to small businesses were for amounts of \$100,000 or less, indicating the bank's willingness to meet the credit needs of smaller area businesses.

Residential Real Estate Loans

Although the bank's lending to LMI families was substantially lower than the percentage of LMI families living in the AA, the bank's lending to borrowers of different income levels was reasonable given its credit market. The AA has a higher percentage of families living below the poverty level than other rural areas of the state. As previously mentioned, members of the community indicated there were fewer affordable housing units available for sale, which inhibits the bank's ability to make residential loans to LMI families. Refer to Table 3 for specific information on the distribution of lending to borrowers of various income levels.

FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

The bank is in compliance with the substantive provisions of the antidiscrimination laws and regulations. A review of bank policies, credit applications, loans, and interview procedures revealed no prohibited practices designed to discourage loan applicants. Further, the bank has not engaged in other illegal practices inconsistent with helping to meet community credit needs.

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.

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 1,500 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