

# **PUBLIC DISCLOSURE**

**September 3, 2003**

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**First State Bank of Idabel  
Certificate Number: 15616**

**8 East Main Street  
P. O. Box 569  
Idabel, Oklahoma 74745**

**Federal Deposit Insurance Corporation  
Dallas Regional Office  
Division of Supervision and Consumer Protection  
1910 Pacific Avenue, 19th Floor  
Dallas, Texas 75201-9400**

**NOTE: 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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## 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 Community Reinvestment Act (CRA) performance of **First State Bank of Idabel** prepared by the **Federal Deposit Insurance Corporation**, the institution's supervisory agency, as of **September 3, 2003**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 345.

## INSTITUTION RATING

***INSTITUTION'S CRA RATING:*** This institution is rated **Satisfactory**.

The FDIC rated the institution "Satisfactory" at its previous August 25, 1998, evaluation.

The First State Bank of Idabel is headquartered in the City of Idabel, Oklahoma, and is a full service institution that meets local financial service needs by offering a variety of consumer, commercial, agricultural, and residential real estate loans as well as various deposit and investment products. The bank met the definition of "small bank" as of the current evaluation date. Therefore, examiners reviewed the small bank performance factors: loan-to-deposit ratio, lending inside the assessment area, lending to businesses of different sizes and borrowers of different incomes, geographic distribution of loans, and response to consumer complaints in assessing the bank's performance. Management did not request a review of qualified investments and services; hence, they were not evaluated in determining the bank's CRA performance rating. No consumer complaints were noted.

Of the four factors that were evaluated, more weight was placed on the bank's lending to businesses of different sizes and borrowers of different incomes, as well as the geographic distribution of loans. Because commercial and residential loans comprise the majority of the bank's loan portfolio and are considered their primary emphasis of lending, these two loan categories were utilized to establish the bank's lending characteristics. More emphasis was placed on commercial lending characteristics since this is the bank's primary product. A detailed discussion of each factor is provided elsewhere in this Performance Evaluation.

- The institution's average loan-to-deposit ratio of 58 percent is considered reasonable given the institution's size, financial condition, and assessment area credit needs.

- A substantial majority of loans both by number and dollar volume are extended within the bank's assessment area. The bank demonstrated an outstanding record of granting credit to its customers as reflected in the 90 percent by number and 81 percent by dollar volume of loans made in the assessment area. This analysis took into consideration the assessment area's size relative to the bank's asset size, office structure, and loan products reviewed.
- Given the demographics of the assessment area, the distribution of borrowers reflects reasonable penetration among individuals of different income levels and businesses of different sizes.
- The geographic distribution of loans reflects excellent dispersion throughout the assessment area, particularly within the moderate income tracts.

## **DESCRIPTION OF INSTITUTION**

First State Bank of Idabel is owned by the First National Security Company, DeQueen, Arkansas, which is a seven bank holding company. The holding company also owns 34 percent of First National Bancshares of Hempstead, Arkansas, which is a three bank holding company. The bank's main office and only full service branch are located in Idabel, Oklahoma. The main office and branch offer convenient drive-up facilities and the bank's hours of operation are reasonable, with the drive-up facilities open extended hours Monday through Friday and on Saturdays. Automated teller machines are located at the main office and the branch. The June 30, 2003, Consolidated Report of Condition reported total assets of \$50,217,000, total deposits of \$42,927,000, gross loans of \$25,030,000 and total equity capital of \$7,080,000. The investment and loan portfolios comprise 42 percent and 50 percent of the total assets, respectively. Based upon the bank's latest Consolidated Report of Condition, the primary business focus is commercial lending with residential lending comprising the second largest loan concentration. For loans originated and open on the bank's books, commercial and residential real estate loans totaled 45 and 33 percent, respectively, of total loans by dollar volume. These levels reflect the bank's lending philosophy which stresses commercial lending with residential lending being the second most promoted loan product.

<b>Table 1 – Loan Distribution as of 06/30/2003</b>		
<b>Loan Type</b>	<b>Dollar Amount (000s)</b>	<b>Percent of Total Loans (%)</b>
Construction and Land Development	160	1
Secured by Farmland	1,145	5
1-4 Family Residential	8,322	<b>33</b>
Multi-Family (5 or more) Residential	0	0
Commercial	2,316	<b>9</b>
<i>Total Real Estate Loans</i>	11,943	48
Commercial and Industrial	8,943	<b>36</b>
Agricultural	1,405	6
Consumer	2,724	11
Other	15	0
Less: Unearned Income	(329)	(1)
<b>Total Loans</b>	<b>24,701</b>	<b>100</b>

*Source: Report of Condition.*

The institution's financial condition, full line of product offerings, and lack of legal impediments allow management the ability to meet the needs of the community.

## **DESCRIPTION OF THE ASSESSMENT AREA**

First State Bank of Idabel has designated the eight census tracts in McCurtain County as their assessment area. According to 1990 census data, four of the tracts are moderate-income and four are middle-income tracts. Both of the institution's offices are located in middle income geographies. While the unemployment rate has dropped from approximately nine percent at the last evaluation to a current percentage of seven percent, unemployment is still approximately two percent above the state average. The per capita income is also approximately 30 percent lower than the state average. A review of housing permit statistics also indicates that home construction is stagnating. The following table outlines additional statistics for McCurtain County and Appendix A of this evaluation includes further detail on the specific tracts that comprise the assessment area. The *Glossary* provides definitions of geographic and economic terms used in this evaluation.

<b>Table 2 – Demographic &amp; Economic Characteristics of the Assessment Area</b>	
Assessment Area Population	33,433
<u>Statewide MSA Median Family Income:</u>	
1990 Median Family Income	\$24,139
1990 Households Below Poverty Level	30%
2002 Estimated Median Family Income(*)	\$34,200
<u>Percentage of Families by Income Level:</u>	
Low-Income	29%
Moderate-Income	18%
Middle-Income	20%
Upper-Income	33%
<u>Number of Total Housing Units:</u>	
1-4 Family Residential	11,604
Multi-Family	236
Mobile Home or Trailer	1,836
Vacant Housing Units	1,594
Owner-Occupied Housing Units	8,940
Occupied Rental Housing Units	3,294
Boarded Up Units	23
<u>Percentage of Total Housing Units:</u>	
1-4 Family Residential	83%
Multi-Family	1%
Mobile Home or Trailer	13%
Occupied Housing Units	88%
Owner-Occupied Housing Units	64%
Occupied Rental Housing Units	23%
Vacant Housing Units	11%

Source: 1990 US Census; \* this figure is based on estimates from the Department of Housing and Urban Development (HUD).

Business data for 2003 indicates that timber related business continues to be the primary resource of the county with three of the top six employers in the county being in that industry. U.S. Census data for 2002 indicates the population in the assessment area has remained relatively constant since the last evaluation and American Indians continue to be the primary minority representing approximately thirteen percent of the population. Employment in the assessment area is primarily service related at 32 percent with retail services being the second largest business activity at 23 percent.

A community contact within the assessment area noted that there has been one large international timber related business move to the area since the last evaluation, and Wal-Mart is expanding its store in Idabel to a super center. The contact believes that both new businesses will employ in excess of 300 individuals each. The contact indicated no derogatory comments about any area financial institutions.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

### *Examination Methodologies and Loan Sample Universe*

Examiners evaluated commercial and residential lending to determine the adequacy of the bank's lending performance. Because commercial lending is the bank's primary lending focus and represents 45 percent of the bank's dollar volume and residential real estate lending is the second largest category at 33 percent, these two loan types were utilized to evaluate lending performance. Consumer and agricultural loans were not analyzed because these products were not considered integral to the bank's business strategy and together only represented 22 percent of the loan portfolio. This percentage is not of a magnitude that would alter the conclusions derived from analyzing the bank's two major loan products. Because commercial lending is the bank's primary focus, more weight was placed on this loan product.

The bank's loan system does not maintain records of paid off loans. Examiners utilized the total loan portfolio to determine the bank's loan-to-deposit ratios and all open loans originated since the last evaluation to evaluate lending in the assessment area. A random sample of commercial and residential loans made in 2002 within the assessment area was used to determine small business and residential real estate lending characteristics. The samples of 19 commercial and 19 residential loans were derived from a universe of 28 commercial loans totaling \$1,871,746 and 28 residential loans totaling \$1,242,675. These sample sizes represent a 90 percent confidence interval and 10 percent precision.

### **Loan-to-Deposit Ratio**

First State Bank of Idabel demonstrated a satisfactory record regarding this performance factor. Examiners considered the bank's size, capacity, lending strategy, assessment area credit needs, and the ratios of similar banks when arriving at this conclusion.

Since loans are primarily funded through a bank's deposits, a bank's loan-to-deposit ratio is an indicator of an institution's level of lending activity. As of June 30, 2003, the bank's average loan-to-deposit ratio since the prior evaluation (consisting of 20 quarters) was 58 percent as compared to the state average of 60 percent for banks with assets of less than 50 million dollars. This ratio is similar to other banks within the assessment area. Data for these comparable banks is listed in Table 4 with no inference of ranking.

<b>Table 4- Net Loan-to-Deposit Ratio ( 6/30/03)</b>		
<b>Bank Name and Location</b>	<b>Total Assets \$(000)</b>	<b>Average Loan- to-Deposit Ratio (%)</b>
First State Bank of Idabel Idabel, Oklahoma	50,217	<b>58</b>
<b>Comparable Area Banks</b>		
The Idabel National Bank Idabel, Oklahoma	80,124	62
First State Bank Valliant, Oklahoma	33,620	94
First Bank and Trust Broken Bow, Oklahoma	81,605	67
American State Bank Broken Bow, Oklahoma	46,650	69
McCurtain County National Bank Broken Bow, Oklahoma	86,232	64

*Source: Call Reports September 30, 1998 through June 30, 2003.*

First State Bank of Idabel's ratio although lower than comparable banks, depicts reasonable response to the assessment area's credit needs.

### **Lending in the Assessment Area**

The institution displayed an excellent record of granting loans inside its assessment area. Examiners considered the assessment area size relative to the bank's asset size, office structure, and the loan products offered when arriving at this conclusion. The following table details the bank's lending in the assessment area.

<b>Table 5 – Distribution of Loans inside and Outside the Assessment Area</b>										
<b>Loan Category Or Type</b>	<b>Number of Loans Sampled</b>					<b>Dollars in Loans Sampled</b>				
	<b>Inside</b>		<b>Outside</b>		<b>Total</b>	<b>Inside</b>		<b>Outside</b>		<b>Total \$(000)</b>
	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>		<b>\$(000)</b>	<b>%</b>	<b>\$(000)</b>	<b>%</b>	
Residential	134	91	14	9	148	7,747,825	77	2,374,480	23	10,122,305
Commercial	49	88	7	12	56	4,219,664	75	1,418,476	25	5,638,140
Agricultural	14	100	0	0	14	2,383,898	100	0	0	2,383,898
Total Real Estate	197	90	21	10	218	14,351,387	79	3,792,956	21	18,144,343
Commercial	74	90	8	10	82	7,006,211	77	2,067,504	23	9,073,715
Agricultural	0	0	0	0	0	0	0	0	0	0
Consumer	453	90	48	10	501	4,641,930	92	408,484	8	5,050,414
<b>Total</b>	<b>724</b>	<b>90</b>	<b>77</b>	<b>10</b>	<b>801</b>	<b>25,999,528</b>	<b>81</b>	<b>6,268,944</b>	<b>19</b>	<b>32,268,472</b>

Source: Current origination values of all active loans made since the last evaluation.

As Table 5 shows, the bank originated a substantial majority, 90 percent by number and 81 percent by dollar volume, of its loans to borrowers residing within the assessment area.

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

The bank exhibited a reasonable record of dispersing loans to businesses and borrowers of different revenues and incomes. In arriving at the overall conclusion for this factor, more weight was placed on the bank’s record regarding small business lending than residential lending. Overall, the performance factor is considered satisfactory.

Conclusions were derived through a random sample of commercial and residential real estate loans originated inside the assessment area in 2002. Emphasis for this analysis was placed on the loan distribution to smaller-sized businesses as well as low- and moderate-income residential real estate borrowers.

#### ***Small Business Lending***

The institution displayed an overall satisfactory record of lending to small businesses. Examiners focused primarily upon gross annual revenues as a direct indication of the bank’s efforts to originate credit to smaller businesses. The bank’s performance regarding loan size, which is an indirect measure of the bank’s record, was also reviewed.

The data in Table 6 depicts the bank’s lending practices with regard to the size of the businesses that received loans from First State Bank of Idabel and this component exhibits an outstanding level of performance.

Table 6 – Distribution of Commercial Loans by Gross Annual Revenues						
Gross Annual Revenue \$(000)	2002 % Assessment Area Businesses*/ Aggregate Data**	Gross Annual Revenue of Sample \$(000)	2002 Loan Sample			
			#	%	\$ (000)	%
≤ 1,000	73*/26**	≤ 100	10	53	916	57
		> 100 ≤ 250	4	21	368	23
		> 250 ≤ 1000	2	11	100	6
		Subtotal	16	85	1,384	86
> 1,000	27*/74**	>1,000	3	15	228	14
Total	100	Total	19	100	1,612	100

Source: Commercial loan sample; \* Dun & Bradstreet for number of businesses; \*\* 2002 Aggregate CRA Data.

As Table 6 indicates, the bank’s lending to small businesses is heavily weighted to small businesses with gross annual revenues of less than \$1 million. This is evidenced by 85 percent of the sampled loans by number and 86 percent by dollar amount made to businesses with gross annual revenues less than \$1 million. This performance exceeds the Dun & Bradstreet data that shows 73 percent of non-farm businesses in the assessment area have revenues of less than \$1 million. Aggregate data indicates other institutions originate 26 percent of their loans to businesses with gross annual revenues of less than or equal to \$1,000,000. The aggregate data represents all other loans made in the assessment area by institutions required to report CRA small business loan data. CRA small business loan data for 2002 is the most recent aggregate information available. Based on the comparison of the bank’s performance with respect to the aggregate data and comparable business data, the bank has an excellent record of meeting the credit needs of small businesses.

The distribution of the bank's origination of small business loans by loan size is summarized in Table 7 below.

<b>Table 7 – Distribution of Small Business Loans under \$1,000,000 by Loan Size</b>						
<b>Loan Size \$(000)</b>	<b>Aggregate Lending Data 2002</b>		<b>2002 Loan Sample</b>			
	<b>% #</b>	<b>% \$</b>	<b>#</b>	<b>%</b>	<b>\$(000)</b>	<b>%</b>
≤ 100	<b>99</b>	<b>62</b>	10	<b>53</b>	916	<b>57</b>
> 100 ≤ 250	<b>1</b>	<b>20</b>	4	<b>21</b>	368	<b>23</b>
> 250	0	18	5	26	328	20
Total	100	100	19	100	1,612	100

Source: CRA Aggregate Data; 2002 Commercial loan sample.

The bank originated 74 percent of its commercial loans in amounts less than \$250,000. Recognizing the bank's performance regarding the above two factors which address small business lending by gross revenues and loan size, the bank's performance is considered to be satisfactory.

### ***Residential Lending***

The bank's distribution of residential loans to borrowers of different incomes reflects satisfactory performance. Examiners compared the bank's lending characteristics to the number of low- and moderate-income families within the assessment area as well as aggregate lending characteristics to support this conclusion.

An analysis of the distribution of residential loans by borrower's income was conducted by comparing the bank's lending patterns to the number of low- and moderate-income families in the assessment area as well as the lending characteristics of other lenders within the assessment area. Family income classifications were derived from the 1990 U.S. Census data. Examiners utilized the four income levels described in the *Glossary* and applied the 2002 HUD adjusted median family incomes described in Table 2 to perform this analysis.

Table 8 details the bank's lending as compared to aggregate lenders and the percent of total families with incomes in these ranges within the bank's assessment area.

<b>Table 8 – Distribution of Residential Loans by Borrower Income</b>						
<b>Borrower Income Level</b>	<b>% of Total Families</b>	<b>Aggregate Lending Data (% of #)</b>	<b>2002 Loan Sample</b>			
		2001	#	%	\$ (000)	%
Low	<b>29</b>	<b>2</b>	2	<b>10</b>	112	<b>13</b>
Moderate	<b>18</b>	<b>13</b>	1	<b>5</b>	72	<b>9</b>
Middle	20	18	6	32	308	37
Upper	33	40	10	53	335	41
Total	100	73*	19	100	827	100

*Source: Residential loans from 2002; U.S. Census; \*HMDA Aggregate Data for which information is available.*

While the number of loans originated by the bank to low-income borrowers is less than the number of families in the assessment area, it exceeds that exhibited by other institutions. Lending by these other institutions to moderate-income borrowers exceeds that exhibited by First State Bank of Idabel. Recognizing the bank's lending to both income categories, the bank's lending characteristics are reasonable.

Considering the bank's performance regarding both loan products analyzed, the bank exhibited an overall satisfactory record of dispersing loans to businesses and borrowers of different revenues and incomes.

### **Geographic Distribution of Loans**

First State Bank of Idabel exhibited an excellent geographic dispersion of lending to businesses and borrowers residing in the moderate-income tracts within its assessment area. This analysis is based upon the bank's level lending within the four tracts designated by 1990 census data as being moderate-income tracts.

### ***Business Lending***

First State Bank of Idabel's record of business lending for this performance component reflects outstanding performance.

Examiners focused on the bank’s lending by both number and dollar amount and compared this performance to both the number of businesses and aggregate lending levels within the moderate-income geographies.

The proportion of commercial loans originated by First State Bank of Idabel in the moderate-income geography is considered outstanding when compared to these two criteria. The following table details the bank’s performance.

Census Tract Income Level	Assessment Area Businesses	Aggregate Lending Data (%)		2002 Loan Sample			
	% of #	#	\$	#	%	\$(000)	%
Moderate	20	<b>19</b>	<b>32</b>	13	<b>68</b>	1,008	<b>63</b>
Middle	80	81	68	6	32	604	37
Total*	100	100	100	19	100	1,612	100

*Source: 2002 Dun and Bradstreet; Commercial Loan Sample.*

### ***Residential Mortgage Lending***

The bank has a satisfactory record of geographically distributing 1-4 family residential real estate loans in moderate-income geographies. Examiners focused on First State Bank of Idabel’s lending patterns compared to aggregate information and the percentage of families residing in the moderate-income tracts when arriving at this conclusion.

Census Tract Income Level	Assessment Area Families	Aggregate Lending Data (%)		2002 Loans			
	% of #	#	\$	#	%	\$(000)	%
Moderate	<b>49</b>	<b>31</b>	<b>26</b>	9	<b>47</b>	455	<b>55</b>
Middle	51	69	74	10	53	372	45
Total	100	100	100	19	100	827	100

The bank exhibited an outstanding record of loan dispersion to businesses and a satisfactory dispersion to residents residing in moderate-income tracts. Overall, this factor of lending to the

various income geographies in the assessment area is considered outstanding, particularly since both offices are located in middle income geographies.

### **Response to Complaints**

The bank has not received any CRA-related complaints since the previous examination.

### **Compliance with Anti-Discrimination Laws and Regulations**

No violations of the substantive provisions of the anti-discrimination laws and regulations were identified during the examination.

## APPENDIX A - ASSESSMENT AREA DESCRIPTION

<b>State</b>	<b>MSA</b>	<b>County</b>	<b>County</b>	<b>Census Tract</b>	<b>Income Level</b>
OK	9999	089	McCurtain	9982.00	Moderate
OK	9999	089	McCurtain	9983.00	Middle
OK	9999	089	McCurtain	9984.00	Middle
OK	9999	089	McCurtain	9985.00	Moderate
OK	9999	089	McCurtain	9986.00	Middle
OK	9999	089	McCurtain	9987.00	Moderate
OK	9999	089	McCurtain	9988.00	Middle
OK	9999	089	McCurtain	9989.00	Moderate

## GLOSSARY

**Census Tract** - a small locally demarcated area, usually in a metropolitan neighborhood, defined by the Census Bureau to generally consist of stable boundaries and an average population of 4,000.

**CRA Reporter**- a CRA reporter is a bank that has total assets of greater than \$250 million or belongs to a bank holding company that has total banking and thrift assets of greater than \$1 billion and is required to annually report certain small business and small farm loans. Although subject bank is not a CRA reporter, the CRA aggregate data compiled from these reporters serves as a comparison to review subject bank's performance. This factor is referenced within the evaluation as aggregate data.

**Dun & Bradstreet** – a leading provider of business information for credit, marketing and purchasing decisions in the U.S. and worldwide.

**Low-income** -

- for a census tract - this refers to income levels less than 50% of the MFI for the MSA in which the tract is located.
- for individuals - this refers to income levels less than 50% of the most recent year's estimation of the MFI by the Department of Housing and Urban Development (HUD).

**MFI** - median family income as determined by the Census Bureau or HUD.

**Middle-income** - determined using the same methodology as for low-income. The percentage used for middle-income designation is  $80\% \leq 120\%$ .

**Moderate-income** - determined using the same methodology as for low-income. The percentage used for moderate-income designation is  $50\% \leq 80\%$ .

**MSA** - metropolitan statistical area as determined by the Census Bureau. Usually consists of contiguous census tracts and block numbering areas comprising one or more counties including a large population nucleus and nearby communities that have a high degree of interaction and which usually have a combined population of greater than 50,000.

**Upper-income** - determined using the same methodology as for low-income. The percentage used for upper-income designation is 120% or greater.