



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

December 5, 2003

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The Eastman National Bank Of Newkirk
Charter Number 9011**

**102 South Main Street
Newkirk, OK 74647**

**Comptroller of the Currency
C. Scott Schainost, Assistant Deputy Comptroller
3450 North Rock Road, Suite 505
Wichita, KS 67226**

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.

INSTITUTION'S CRA RATING

This institution is rated Satisfactory.

DESCRIPTION OF INSTITUTION

The Eastman National Bank of Newkirk (Eastman) is a \$49 million financial institution located in Newkirk, Oklahoma. Eastman does not have any branches; however, the main office has a drive-through facility and a cash-only dispensing automated teller machine. Eastman National Bancshares, a one-bank holding company, owns 100% of the bank. As of December 31, 2002, the holding company had total assets of nearly \$7 million.

Eastman is a full service financial institution offering a variety of loan products with an emphasis on residential real estate, agriculture, and consumer loans. As of September 30, 2003, net loans and leases represented 30% of total assets. Eastman's \$15 million loan and leases portfolio has the following composition: 33% residential real estate; 29% agriculture; 15% consumer; 7% financial institutions; 6% commercial and industrial; 5% lease financing receivables; 3% commercial real estate; and 2% other. In 2003, the bank entered into a contract with American Capital Mortgage (ACM) to offer a fixed rate secondary market residential real estate loan program. The program allows the bank to compete with similar products offered by competing institutions. The loans are funded by ACM and are not included in the bank's loan portfolio. Eastman has not changed any existing loan products since the previous CRA examination. Examiners determined the primary loan products, based on the number and dollar volume of loans granted between November 15, 1999, and December 31, 2002, were consumer loans and residential real estate loans.

Eastman's financial condition, size, local economic conditions, and other factors allow it to help meet the credit needs of its assessment area. At the November 15, 1999, CRA examination, examiners assigned a "Satisfactory" rating.

DESCRIPTION OF ASSESSMENT AREA

Eastman has one assessment area (AA), which is comprised of census tracts seven and eight in Kay County, Oklahoma. Census tract seven is an upper-income tract while eight is a middle-income tract. The bank's AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income tracts. The AA is not part of a Metropolitan Statistical Area (MSA). The 1990 census data show the AA has a population of 4,449. The median housing value is \$42,569 and 65% of the housing units are owner-occupied. The Oklahoma statewide non-MSA median family income for 2002 is \$34,200. The income distribution for families in the AA is 14% low-income, 17% moderate-income, 21% middle-income, and 48% upper-income. Fourteen percent of households in the AA have incomes below the poverty level.

Eastman faces strong competition from 10 other banks and several financial institutions with offices in Kay County, Oklahoma, and in neighboring Arkansas City, Kansas. Eastman is the only bank headquartered in the AA. Some of the competing banks are large institutions that offer a wider variety of competing products. For a peer group, examiners selected three banks management considers competition. The asset sizes for the three peer banks range from \$166 million to \$11 billion. With eight percent of the area's deposits, Eastman ranks fifth in deposit

market share.

The AA does not have a major industry; however, employment opportunities are available in nearby towns. Some of these employers include Conoco and Smith International in Ponca City, Oklahoma, and General Electric Aircraft Engines Plant in Arkansas City, Kansas. Other major employers are local governments and school districts. Management indicated agriculture is becoming a secondary source of income for an increasing number of local residents. The Kay County, Oklahoma unemployment rate for October 2003 is high, at 6.4%, compared with 5.3% statewide and 6% nationwide.

Examiners made one community contact with a local business in the AA. The contact identified consumer loans and residential real estate loans, as the area's primary credit needs. The contact also stated area banks are meeting these needs.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

Eastman's level of lending is satisfactory. The quarterly average loan-to-deposit (LTD) ratio over the past 17 quarters ending September 30, 2003, is 37% compared with 86% for peer banks.

For peer banks, examiners analyzed the ratios for the three banks noted above in the description of the AA that management considers their competition. The ratios for the peer banks range from 76% to 95%. Although the bank's LTD is significantly below peer, examiners consider the bank's performance reasonable. None of the peer banks are headquartered in the AA and each peer bank has multiple branches in locations that provide more lending opportunities. Eastman has a large amount of public funds, which require investment securities to be pledged as collateral; therefore, the public funds are not available to fund credit needs. Eastman's LTD ratio, excluding the public funds, is 46%. Eastman also faces declining loan demand due to declining employment levels. Employment levels are down 7.23% since the first quarter 2001, resulting in a 6.25% decline in total wages. Strong competition from larger banks and financial institutions has impacted Eastman's lending level. Eastman offers a number of different loan products designed to help improve its lending volume. Eastman participates in Small Business Administration loan, Federal Housing Association (FHA) Title 1 loan, FMHA-guaranteed loan, and Indian Housing Loan Guarantee programs. The residential real estate loan partnership with ACM noted above in the description of the institution and a no-interest consumer loan program are two additional examples of Eastman's efforts to make credit accessible to borrowers. However, the combination of declining loan demand, declining wages, and strong competition continue to limit Eastman's efforts to significantly improve its lending volume.

Lending in Assessment Area

Eastman's lending in its AA is excellent. Eastman extends 90% of the number and 96% of the dollar amount of its primary loan products in the AA. Examiners selected a sample of 20 consumer loans and 20 residential real estate loans granted between November 15, 1999, and December 31, 2002. Examiners used outstanding loans, as the bank's data processing system was unable to produce information on loans that have been paid. The outstanding loan report did not include any of the no-interest consumer loans noted above in the LTD analysis, where loans below \$740 are available for a small fee. This loan program is targeted towards borrowers in the AA who otherwise would not be able to obtain a small loan.

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

The level of lending to individuals of different incomes for consumer and for residential real estate is satisfactory. Examiners utilized a sample of residential real estate loans and consumer loans. These products represent the majority of loans granted between November 15, 1999, and December 31, 2002. The community contact also identified consumer loans and residential real estate loans, as the area's primary credit needs.

Eastman's lending to individuals of different income levels is satisfactory. Eastman does not routinely collect income information on consumer loan applications; therefore, we used loan size as a proxy for income. Examiners reviewed all loans with outstanding balances that originated between November 15, 1999, and December 31, 2002. Demographic data shows 21% of households in the AA are low-income and 14% are moderate-income. Consumer loans with original balance of \$2,000 or less represent 20% of the outstanding loans originated between November 15, 1999, and December 31, 2002. However, the outstanding loan report does not include the no-interest loans noted above in the analysis of lending in the AA. Eastman granted 132 no-interest loans totaling \$61M between December 1, 1999, and December 31, 2002, with an average loan amount of \$466.

Eastman's lending to individuals of different incomes for residential real estate is satisfactory. Demographic data shows 14% of families in the AA are low-income and 17% are moderate-income. Examiners' loan sample indicates the bank's lending to low-income families is good with 20% of the loan sample to low-income borrowers. While the loan sample reflects only 5% of residential real estate loans to moderate-income borrowers, we still consider this level adequate given the limited opportunity to extend residential real estate loans to moderate-income families. Management stated large portions of moderate-income families are Native American belonging to the Kaw Nation. The Kaw Nation Housing Authority provides residential real estate loan financing to its members, which limits Eastman's lending opportunities to moderate-income families. Management maintains records of all real estate mortgages filed in Kay County, Oklahoma. The records reflect Eastman filed 44% of all real estate mortgages filed between December 1, 1999 and December 31, 2002. In addition, bank records show an 87% approval rate for residential real estate loans during the same time frame.

Geographic Distribution of Loans

Eastman's AA does not contain any low- or moderate-income tracts; therefore, a geographic analysis would not be meaningful.

Responses to Complaints

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

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of illegal discrimination or other illegal credit practices.