



# INTERMEDIATE SMALL BANK

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## PUBLIC DISCLOSURE

December 3, 2007

### COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The First National Bank of Fort Smith  
Charter Number: 1950

Sixth and Garrison Streets  
Fort Smith, AR 72902-0000

Office of the Comptroller of the Currency

LITTLE ROCK (MEMPHIS)  
10201 West Markham, Suite 105 Ozark National Life Bld.  
Little Rock, AR 72205-2180

**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 Outstanding**

**The Lending Test is rated Outstanding.**

**The Community Development Test is rated Outstanding.**

The following performance factors were used in determining the bank's overall CRA rating:

- The average loan-to-deposit ratio at 86% is excellent given the bank's size, financial condition, and assessment area (AA) credit needs.
- The majority of the bank's loans are located within its AA.
- The distribution of loans is excellent among businesses of different sizes and individuals of different income levels.
- The geographic distribution of loans reflects excellent dispersion throughout the bank's AA.
- Community development lending is excellent and investment activities are good.

## **Scope of Examination**

An onsite examination of the bank was performed to evaluate its performance under the Community Reinvestment Act (CRA). To determine its performance, the bank elected to be evaluated using Intermediate Small Bank CRA criteria. Loan information used for this evaluation included 2004-2006 Home Mortgage Disclosure Act (HMDA) loan data, 2004-2006 CRA loan data for small businesses and small farms, and other internal loan information. A data integrity examination of the bank's HMDA and CRA loan data was performed in January 2007 to determine the accuracy of the bank's data. No deficiencies were noted. This performance evaluation starts from the date of the bank's previous CRA examination, and covers the period from February 10, 2004, to December 3, 2007. The bank was rated "**Outstanding**" at the previous examination. Community contacts were made with two local community agencies with knowledge of the overall needs within the bank's AA and used in the evaluation process.

## Description of Institution

First National Bank of Fort Smith (FNB) is the largest locally controlled bank in the city with total assets of \$812 million on September 30, 2007, and is an intrastate institution. First Bank Corporation, an interstate, non-regional, multi-bank holding company, owns FNB, which is the lead bank in the company. First Bank Corporation's assets were \$1.372 billion at September 30, 2007. Affiliate banks include the National Bank of Sallisaw, headquartered in Sallisaw, Oklahoma, Citizens Bank and Trust, headquartered in Van Buren, Arkansas, and the Bank of Rogers, Arkansas. FNB has two non-bank affiliates: BHC Insurance & Financial Services; and Realty Appraisals, Inc. Activities of the other banks were not considered in FNB's community reinvestment activity performance evaluation. During this review period, no merger or acquisition activity affected the scope of the bank's operations. Both affiliate banks and the non-bank affiliate are relatively close in proximity to Fort Smith.

FNB operates 12 locations throughout Arkansas. The main location and seven branches are in Fort Smith, one branch each in the cities of Greenwood, Lavaca, Barling, and Charleston. All branch locations are full-service with extended hours. In addition, 20 automatic teller machines (ATMs) are available throughout the AA.

As of September 30, 2007, the bank had total assets of \$812 million and total loans of \$559 million. Since the prior CRA evaluation was performed as of February 9, 2004, loan growth has been steady. The bank's primary lending focus is on commercial real estate and commercial loans. The loan portfolio composition as of September 30, 2007, is as follows:

<b>Loan Category</b>	<b>\$(000)</b>	<b>%</b>
Commercial Real Estate Loans	\$290,575	52.0%
Commercial Loans	\$162,151	29.0%
Residential Real Estate Loans	\$53,097	9.5%
Consumer Loans	\$28,147	5.1%
Agricultural Loans	\$24,641	4.4%
<b>Total</b>	<b>\$558,846</b>	<b>100%</b>

## **Description of Assessment Area(S)**

FNB's AA consists of all census tracts (CTs) in Sebastian County, Arkansas, CTs 202.02, 203, 204.1, 205, and 206 in Crawford County, Arkansas, CT 9503 in Franklin County, Arkansas, CTs 301.02, 304.01, and 304.02 in Sequoyah County, Oklahoma, and CTs 401.02 and 402.98 in LeFlore County, Oklahoma, which are all contiguous geographies comprising the Fort Smith MSA. The main office is located in northwest Arkansas adjacent to the Oklahoma border. Branches are all located in Arkansas. There are no low-income CTs, four moderate-income CTs, 24 middle-income CTs, and eight upper-income CTs in the AA. All four moderate-income CTs are concentrated in and around the downtown area of Fort Smith and are comprised mostly of commercial real estate. FNB defined these CTs as their AA because of their proximity to their branches. FNB's AA is reasonable.

Competitors include a number of financial institutions consisting of branches of larger national and state banks and savings and loan institutions operating in the Fort Smith MSA. During the evaluation period, the primary competitors for financial services included Arvest, Bank of the Ozarks, Simmons First National Bank, and Armstrong Bank. First National Bank of Fort Smith has the largest deposit market share in the AA at approximately 17 percent.

Based on 2000 census data, the population of FNB's AA was 191,263. Fort Smith's 2003 estimated population was 80,562. It is the largest city in Sebastian County and the second largest in the state. Fort Smith is the major manufacturing center in Western Arkansas.

The Fort Smith area relies on appliance manufacturing and food processing. The unemployment rate for the Fort Smith MSA was less than just over 5 percent in 2007 per the Bureau of Labor Statistics. Leading industries include animal slaughtering and processing, general medical and surgical hospitals, household appliance manufacturing, semi and other electrical component manufacturing and employment services. Major employers include Whirlpool Corporation, Sparks Regional Medical Center, Rheem Rudd Air Conditioning, City of Fort Smith, Gerber Foods, and St. Edward Mercy Medical Center.

Two members of the Fort Smith community were contacted to determine the credit needs of the area. Their perception of local financial institutions' performance in meeting the credit needs of the community is generally favorable.

<b>Demographic and Economic Characteristics</b>	
<b>Population</b>	
Number of Families	52,721
Number of Households	73,751
<b>Geographies</b>	
Number of Census Tracts	36
% Low-Income Census Tracts	0%
% Moderate-Income Census Tracts	11%
% Middle-Income Census Tracts	67%
% Upper-Income Census Tracts	22%
<b>Median Family Income (MFI)</b>	
2000 MFI for AA	\$32,157
2007 HUD-Adjusted MFI	\$42,000
<b>Economic Indicators</b>	
Unemployment Rate – Arkansas	5.3%
Unemployment Rate – AA	5.1%
Unemployment Rate – US	4.4%
2000 Median Housing Value	\$51,801
% of Households Below Poverty Level	14%

*Source: 2000 Census Data*

## Conclusions with Respect to Performance Tests

### LENDING TEST

#### Loan-to-Deposit Ratio

FNB's loan-to-deposit ratio (LTD ratio) of 86% is excellent given its size, financial condition, and AA credit needs. The loan-to-deposit ratio was calculated since last examination through September 30, 2007. The bank's LTD ratio was then compared to other financial institutions which have branches located within the bank's AA.

<b>Loan-to-Deposit Ratio</b>		
<b>Institution</b>	<b>Assets (as of 9/30/07) \$(000)</b>	<b>Average LTD Ratio %</b>
Regions Bank	\$94,216 *	99.31% *
Arvest Bank	\$9,260 *	83.05% *
Bancorp South Bank	\$9,051 *	88.99% *
Bank of the Ozarks	\$2,641 *	81.60% *
Simmons First National Bank	\$1,348 *	81.70% *
<b>First National Bank of Fort Smith</b>	<b>\$812</b>	<b>86.13%</b>
Armstrong Bank	\$427	83.74%

*Source: Uniform Banking Performance Reports (Call Reports)*

*\*These institutions are widely dispersed geographically, with most assets outside of FNB's AA.*

### **Lending in Assessment Area**

The majority of FNB's loans are located within its AA. The chart below reflects total loans made during the assessment period in the following categories. As indicated, 86% of the number of loans made and 76% of the dollar volume was to borrowers located within the bank's AA.

Lending in Assessment Area								
Loan Type	Loans In Assessment Area				Loans Out of Assessment Area			
	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Home Purchase (2004 - 2006)	162	89	21,943	80	19	11	5,379	20
Home Improvement (2004 - 2006)	218	95	4,343	93	12	5	326	7
Home Refinance (2004 - 2006)	122	92	11,113	90	11	8	1,186	10
Small Business (2004 - 2006)	1898	87	171,065	75	275	13	57,705	25
Small Farm (2004 - 2005)	20	77	1,487	83	6	23	286	17
Total	2,420	88	209,951	76	323	12	64,882	24

*Source: 2004 – 2006 bank loan data*

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

The bank's level of lending to borrowers of different income levels is excellent. The following charts reflect the distribution of home improvement and automobile loans made by the bank in 2004 through 2006 by borrower income levels. Home improvement and auto loans were selected because these loans best demonstrated FNB's lending activity to low- and moderate- income borrowers. FNB's distribution of the number of home improvement loans these made to low-income individuals was comparable to the distribution of low-income individuals and exceeded the distribution of moderate-income individuals AA. Also, the distribution of FNB's automobile lending also exceeded the distribution of low- and moderate-income individuals in the AA.

<b>Borrower Distribution – Home Improvement Loans</b>								
<b>Borrower Income Level</b>	<b>Low Income (less than \$21,000)</b>		<b>Moderate Income (\$22,001 to \$33,600)</b>		<b>Middle Income (\$33,601 to \$55,400)</b>		<b>Upper Income (over \$55,401)</b>	
% of AA Families	18%		17%		23%		42%	
FNB Home Improvement Loans 2004 - 2006	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
	17	9	22	12	22	17	35	45

Source: 2006 Bank Data and 2000 Census Data

<b>Borrower Distribution – Automobile Loans</b>								
<b>Borrower Income Level</b>	<b>Low Income (less than \$21,000)</b>		<b>Moderate Income (\$22,001 to \$33,600)</b>		<b>Middle Income (\$33,601 to \$55,400)</b>		<b>Upper Income (over \$55,401)</b>	
% of AA Families	18%		17%		23%		42%	
FNB Loans Made 2006	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
	33	26	43	50	10	7	13	17

Source: 2006 Bank Data and 2000 Census Data

Loan data was reviewed for business originated during the assessment period to determine the level of loans made to businesses of different revenues as compared to business revenue data from the 2000 census. FNB’s lending to small businesses with revenues less than \$1 million exceeds the AA’s distribution of small businesses with revenues less than \$1 million.

<b>Borrower Distribution of Small Loans to Businesses</b>		
<b>Business Revenues</b>	<b>≤\$1,000,000</b>	<b>&gt;\$1,000,000</b>
% of AA Businesses	58%	42%
% of Bank Loans in AA # (2004 & 2006)	83%	16%
% of Bank Loans in AA \$ (2004 - 2006)	73%	27%

Source: 2006 Bank Data and 2000 Census Data



## Geographic Distribution of Loans

The geographic distribution of loans made by the bank reflects good dispersion throughout its AA. The following charts compare the geographic distribution of home improvement and automobile loans made by the bank in 2006. While the number and volume of home improvement and automobile loans were generally centered in middle CTs, FNB's distribution of these made in moderate income CTs exceeded the distribution of owner occupied households and all households located in moderate-income CTs.

Geographic Distribution – Home Improvement Loans								
Census Tracts Income Level	Low Income Tracts		Moderate Income Tracts		Middle Income Tracts		Upper Income Tracts	
% of AA Owner Occupied	None		5%		77%		18%	
FNB Loans Made 2006	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
	N/A	N/A	16	11	67	65	17	24

Source: 2006 Bank Data and 2000 Census Data

Geographic Distribution – Automobile Loans								
Borrower Income Level	Low Income Tracts		Moderate Income Tracts		Middle Income Tracts		Upper Income Tracts	
% of AA Households	None		11%		67%		22%	
FNB Loans Made 2006	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
	N/A	N/A	33%	33%	43%	40%	23%	27%

Source: 2006 Bank Data and 2000 Census Data

## Responses to Complaints

No formal CRA complaints have been received since the prior examination. The bank has a formal process of receiving and responding to customer complaints.

## **COMMUNITY DEVELOPMENT TEST**

Performance under the community development test is excellent. FNB has taken a leadership role in community development projects that include downtown revitalization, affordable housing, economic development, and local non-profit agencies that provide social services to low- and moderate-income families.

### **Number and Amount of Community Development Loans**

The definition of community development includes the following: affordable housing for low- and moderate-income individuals, community services targeted toward low- and moderate-income individuals, activities that promote economic development by financing small businesses or farms, and activities that revitalize or stabilize low- and moderate-income geographies. As of September 1, 2005, the following activities were added to the definition: activities that revitalize or stabilize low-or-moderate-income areas, designated disaster areas, and distressed or underserved non-metropolitan middle-income geographies that have been designated by the Federal Reserve, the OTS, the FDIC, and the OCC.

During the review period, FNB originated 69 loans totaling \$35.9 million that qualify as community development loans. Most of the loans were for interim financing for affordable housing, to include both multi-family and single-family housing. A majority of the loans are to builders that specialize in constructing affordable housing for low- and moderate-income families. Builders have tied closing costs or down payment assistance for the buyers into many of these projects. Examples of community development loans are described below:

#### ***Ronald Ragon, LLC***

One loan totaling \$500 thousand funded to this corporation for construction of affordable single-family housing. The purchasers of these homes usually receive down payment assistance. Ronald Ragon, LLC is a local builder who targets single-family affordable housing.

#### ***Rausch Coleman Clements, LLC***

Five loans totaling \$4.1 million were extended for the purchase and development of Phase 2 of Southfield Heights and Maple Ridge projects. The homes will be entry-level and targeted at low- to moderate-income buyers.

#### ***Clarksville Housing Authority***

This entity was formed to provide affordable housing in Clarksville, Arkansas. A \$1.2 million loan was made to construct 45 single-family rental units targeted at low-income renters.

#### ***Sequoyah Homes, LLC***

A \$300 thousand loan was extended to construct 14 single-family homes in the Bright Creek Crossing subdivision located in Barling, Arkansas. These will be affordable homes targeted at low- to moderate-income buyers.

***Lend A Hand, Inc.***

The bank originated five loans to this organization totaling \$379 thousand to purchase lots for affordable single-family housing. Lend A Hand, Inc. is a non-profit organization that provides affordable housing for low-income individuals and the homeless.

***Village Park Apartments, LLC***

A \$4.1 million loan was extended to purchase two apartment complexes to be rented to low- to moderate-income individuals.

**Number and Amount of Qualified Investments  
Community Development Investments**

FNB's performance under the investment test is good. During the evaluation period the FNB purchased investments totaling \$2.1 million. The bank's investments are primarily comprised of low-income housing tax credits (LIHTCs), in addition to donations and contributions.

Qualified investments are investments, deposits, grants, donations, or in-kind contributions of property that have as their primary purpose "Community Development" as defined in the CRA regulation.

Fort Smith has historically had limited community development investment opportunities. The bank purchased \$1.1 million in LIHTCs associated with affordable housing projects designed to encourage the construction and rehabilitation of housing for low- and moderate-income families. FNB also has prior period LIHTCs totaling \$929 thousand, which were associated with FNB's community development loans for construction and rehabilitation of housing for low- and moderate-income families.

In addition to the above qualified investments, FNB contributed approximately \$818 thousand to various organizations that provide social services and housing primarily for low- and moderate-income individuals and promote economic revitalization. Most notably, the bank donated \$275 thousand in need-based scholarships to students at University of Arkansas of Fort Smith. Also, the bank donated \$20 thousand toward the construction of the Women's Crisis Center in Fort Smith. The center is located in a moderate-income census tract.

**Extent to Which the Bank Provides Community Development Services**

FNB offers an excellent level of community development services based on its capacity and the needs of the AA. Based on full-scope review, the distribution of branches in the Fort Smith MSA is excellent. Delivery systems are readily accessible to geographies and individuals of different income levels in its AA. Business hours and services are convenient and accessible to all segments in the AA. FNB officers and employees are actively involved in community development projects and events, fund raising activities, and civic organizations as leaders and or volunteers.

## **Responsiveness to Community Development Needs**

The branch system is the primary delivery system. There are 12 offices including the main office. The AA has two moderate-income census tracts and the main location is located in one of the moderate-income tracts. Two branches are located in the other moderate-income geography. There are four branches located in middle-income and five branches are upper-income geographies. Branch penetration is excellent when compared with the percentage of AA population in each income level.

There have been no branch openings or closings since the February 9, 2004 CRA examination. Banking hours provide good accessibility throughout the AA. Most of the branches are open until 6:00 P.M, and ten branches, including two in moderate-income geographies, are open on Saturdays.

The branch system is augmented by ATMs, telephone banking, banking by mail, Internet banking services, and VISA check card. Twenty ATMs supplement the branch system and two ATMs have opened since the last performance evaluation. There are three ATMs that are located in branches in low- and moderate-income geographies, and one stand-alone ATM that is located in a moderate-income census tract. Free access is also available through twelve ATMs of affiliate banks. These services are available to all bank customers and are not specifically targeted to low- and moderate-income customers or locations and do not carry significant weight in the overall Services Test rating.

Services do not cause inconvenience to any portion of the AA, particularly in low- and moderate-income geographies. Most services are available at all offices. Consumer loans are made at the branch level, while commercial loans are made at the main bank.

The Midland Boulevard Branch has four employees that speak Spanish. The Midland Boulevard Branch is located in a moderate-income census tract. The tract has about 28 percent Hispanic population. There is a billboard in Spanish near the Midland Boulevard Branch directing Hispanic customers to the Midland Boulevard Branch. There are two signs in the branch lobby stating that Spanish is spoken here. The Grand Avenue Branch location also has two employees that speak Spanish. In addition, all ATMs have instructions in both English and Spanish. The bank also has a 31-page handbook on "How to Do Your Banking" printed in Spanish.

A variety of deposit products are available. The bank's basic checking requires \$100 to open and has no monthly fee. The Non-Profit Account is available for unincorporated non-profit organizations and also requires \$100 to open with no monthly fee.

During the evaluation period, FNB provided technical assistance for various community development activities and also provided banking education for its AA. There were 60 bank officers involved with 101 community-based organizations, events, forums, boards and other CRA related groups. Some of the more notable community development activities FNB participated in were:

### ***Arkansas Technology Equipment Revolving Loan Fund***

This program provides qualified individuals with disabilities and their family members with the financial opportunity to purchase or modify equipment, facilities, and related services used by one or more persons with a disability to enhance independence, productivity, and full participation in the community. A bank representative is a committee member who provides technical assistance with the fund. The program is targeted to low- and moderate-income individuals with disabilities.

### ***Central Business Improvement District***

This organization is a non-profit group dedicated to revitalizing the downtown improvement area, which is in a low-income census tract. A bank representative serves as Chairman of the Board and provides technical expertise to this agency.

### ***Dollars & Sense School Partnership***

The bank started a dollar and sense savings account program with Sunnymede Elementary School. This school is located in a moderate-income area with a variety of ethnic students from low- and moderate-income families. The bank opened a \$5.00 savings account for every 6<sup>th</sup> grader in the school (53 accounts) to teach them the value of savings. The accounts started with \$809 in deposits in September 2003. The program has now expanded to include 8 schools and deposits have grown to \$29,643.03 at year-end 2006.

### ***Downtown Action Committee***

This committee was formed under the Chamber of Commerce Civic Affairs Committee. The committee worked on key issues of transportation, neighborhood improvements, downtown revitalization, and city and county planning. The Committee's most recent focus has been on downtown residential development, which is a low-income area. A bank representative serves as the only banker on this committee.

### ***Downtown Volunteers of Fort Smith***

This non-profits mission is the revitalization and promotion of the downtown and river front area, which is in a low-income geography. The organization was started by a bank representative and has a board of seven members and over 100 volunteers. A recently retired bank officer is Chairman and was named volunteer of the year for the third year in a row. This group has brought multiple events to the downtown area and helped develop a park at the end of the avenue.

### ***Girls Scouts of America - A.I.R.E. Program***

This program provides a variety of life skills courses to underprivileged girls living in various low-income housing projects in the community. A bank representative is on the Board of the Girls Scouts. One particular course provides financial literacy education and includes banking, investing, credit cards, managing bills, financial aid, and loans.

***High School Seminars-"How to Do Your Banking"***

The course curriculum includes financial planning, explains banking accounts and how to get a loan. A bank representative instructed the seminars to both Fort Smith high schools, as well as Lavaca High School, to reach all low-to-moderate income students in these cities.

***United Way of Fort Smith Area, Inc.***

This organization manages a collection of 29 agencies to provide assistance to individuals and families in six counties in Western Arkansas and Eastern Oklahoma. Approximately 80 percent of the individuals and families served through the United Way agencies are low-and moderate-income. Several bank representatives serve on the committees for this organization.

**Fair Lending or Other Illegal Credit Practices Review**

There was no evidence found of illegal discrimination or other illegal credit practices..