



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

May 21, 2001

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First National Bank of Howard County
Charter Number 17950**

**Third & Main Streets
Dierks, AR 71833**

**Comptroller of the Currency
ADC- Little Rock (Arkansas)
10201 West Markham, Suite 105 Ozark National Life Building
Little Rock, AR 72205**

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.

TABLE OF CONTENTS

| | |
|---|----------|
| GENERAL INFORMATION..... | 3 |
| INSTITUTION'S CRA RATING: This institution is rated Satisfactory. | 4 |
| DESCRIPTION OF INSTITUTION | 4 |
| DESCRIPTION OF HOWARD, PIKE AND SEVIER COUNTIES | 5 |
| CONCLUSIONS ABOUT PERFORMANCE CRITERIA..... | 5 |

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 National Bank Of Howard County, Dierks, AR as prepared by **The Comptroller of the Currency**, the institution's supervisory agency, as of May 21, 2001. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.*

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

- ◆ The average loan-to-deposit ratio at 71% is reasonable given the bank's size, financial condition, and assessment area credit needs.
- ◆ A substantial majority of loans are in the bank's assessment area.
- ◆ The distribution of loans reflects reasonable penetration among individuals of different income levels and businesses of different sizes.

DESCRIPTION OF INSTITUTION

First National Bank of Howard County (FNBHC) is located in Dierks, Arkansas. Dierks is located in the southwestern part of the state, has a population of about 1,300 people, and serves a trade area of about 7,500 people. The bank has drive-in facilities but no branches or automated teller machines (ATMs). As of December 31, 2000, the bank reported total assets of \$42 million with \$35 million in deposits and \$25 million in loans (60% of total assets).

The bank's primary business focus is agriculture lending (poultry, swine and cattle) and forestry and timber. Most of the real estate loans are agriculture-related. The loan portfolio composition as of December 31, 2000, is as follows:

| Loan Category | \$ (000) | % |
|-------------------------------|-----------------|-------------|
| Commercial Loans | \$3,612 | 14% |
| Agriculture Loans | \$8,385 | 33% |
| Residential Real Estate Loans | \$10,033 | 39% |
| Consumer Loans | \$3,423 | 14% |
| Total | \$25,453 | 100% |

FNBHC offers convenient banking hours and has a variety of loan and deposit products to meet the service needs in the assessment area. There are no financial impediments that would limit the bank ability to help meet the credit needs in its assessment area.

The bank is 100% owned by First National Security Company, a multi-bank holding company headquartered in DeQueen, Arkansas. First National Security Company has total assets of \$437 million as of December 31, 2000. The bank's last CRA examination was performed as of March 31, 1997 and was rated **Satisfactory**.

DESCRIPTION OF HOWARD, PIKE AND SEVIER COUNTIES, ARKANSAS

First National Bank of Howard County assessment area (AA) is the three Block Numbering Areas (BNAs) in the trade area: 9501 in Howard County; 9534 in Pike County (east of Howard County); and 9801 in Sevier County (west of Howard County). The assessment area meets the requirements of the regulation and does not arbitrarily exclude low and moderate-income geographies. Based on the Medium Family Income (MFI) for 1990 of \$22,208, all BNAs in the assessment area are considered middle-income.

The economy of the area is considered to be in a slow growth mode. Unemployment as of April 2001 was 4.4% for Howard County, 4.0% for Pike County and 3.4% for Sevier County. The unemployment rates for the three counties are below the Arkansas average of 4.5% and the U.S. average of 4.5%.

The primary industries are forestry and timber, and agriculture (poultry, swine and cattle). Weyerhaeuser Company, a forestry products company, has a lumber mill in Dierks. Weyerhaeuser is the area primary employer and has about 1,000 employees. Tyson Foods, Incorporated, an integrated poultry company, has three poultry processing plants located within 50 miles of Dierks and has over 2,000 employees. In addition, Tyson and other poultry companies have numerous contracts to farmers in the area to grow chicken broilers. Tyson Foods is also involved in swine production.

The following table shows the demographic and economic characteristic of the assessment area.

| DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA | |
|---|----------|
| <i>Population</i> | |
| Number of Families | 2,813 |
| Number of Households | 3,544 |
| <i>Geographies</i> | |
| Number of Census Tracts/BNA | 3 |
| % Low-Income Census Tracts/BNA | 0 |
| % Moderate-Income Census Tracts/BNA | 0 |
| % Middle-Income Census Tracts/BNA | 100% |
| % Upper-Income Census Tracts/BNA | 0 |
| <i>Median Family Income (MFI)</i> | |
| 1990 MFI for AA | \$22,208 |
| 2000 HUD-Adjusted MFI | \$32,500 |
| <i>Economic Indicators</i> | |
| Unemployment Rate | 4.4% |
| 1970 Median Housing Value | \$31,621 |
| % of Households Below Poverty Level | 17% |

A community contact with the current mayor of Dierks, AR, was conducted in conjunction with this CRA examination. This contact revealed that housing and small business loans are the

primary needs in the area. The mayor feels that both banks in the city are meeting these needs.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

First National Bank of Howard County loan-to-deposit ratio is reasonable given the bank's size, financial condition, and assessment area credit needs. The bank's primary competitor is Diamond State Bank, which is headquartered in Murfreesboro, Arkansas (27 miles east of Dierks), and has a full-service branch in Dierks that opened in 1994. The following table shows total assets as of December 31, 2000 and the average loan-to-deposit ratio from December 31, 1997 through December 31, 2000 (13 quarters) for these two banks.

| Institution | Assets (as of 12/31/00) | Average LTD Ratio |
|--------------------|-------------------------|-------------------|
| Diamond State Bank | \$132 million | 74% |
| FNBHC | \$42 million | 71% |

Lending in Assessment Area

A substantial majority of FNBHC loans is in the bank's assessment area. A sample of 30 consumer loans made during 2001, and a sample of 30 residential real estate and mobile home loans, and 30 agriculture and commercial loans made in the past 12 months was taken to determine lending within the assessment area. Lending within the assessment area is detailed in the following table.

| TOTAL LOANS REVIEWED | | | | | | | | |
|----------------------|--------------------|-----|-----------|-----|------------------------|-----|-----------|----|
| LOAN TYPE | IN ASSESSMENT AREA | | | | OUT OF ASSESSMENT AREA | | | |
| | # | % | \$ (000s) | % | # | % | \$ (000s) | % |
| Consumer | 27 | 90% | \$151 | 91% | 3 | 10% | \$15 | 9% |
| Residential | 29 | 97% | \$757 | 97% | 1 | 3% | \$24 | 3% |
| Agri & Com'l | 27 | 90% | \$5,298 | 97% | 3 | 10% | \$180 | 3% |
| Total Reviewed | 83 | 92% | \$6,206 | 97% | 7 | 8% | \$219 | 3% |

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

The distribution of borrowers reflects, given the demographics of the assessment area,

reasonable penetration among individuals of different income levels (including low-and moderate-income) and businesses of different sizes. A sample of 30 consumer loans made during 2001, and a sample of 30 residential real estate and mobile home loans, and 30 agriculture and commercial loans made in the past 12 months was taken to determine lending within the various income levels. The following tables show the distribution of residential real estate and mobile home loans, and consumer loans within the various income levels.

| RESIDENTIAL REAL ESTATE | | | | | | | | |
|-------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Borrower Income Level | LOW | | MODERATE | | MIDDLE | | UPPER | |
| % of AA Families | 17% | | 17% | | 22% | | 44% | |
| LOANS BY YEAR | % of Number | % of Amount | % of Number | % of Amount | % of Number | % of Amount | % of Number | % of Amount |
| Past 12 MONTHS | 7% | 2% | 21% | 16% | 24% | 11% | 48% | 71% |

| CONSUMER | | | | | | | | |
|-----------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Borrower Income Level | LOW | | MODERATE | | MIDDLE | | UPPER | |
| % of AA Households | 22% | | 13% | | 19% | | 46% | |
| LOANS BY YEAR | % of Number | % of Amount | % of Number | % of Amount | % of Number | % of Amount | % of Number | % of Amount |
| 2001 | 11% | 3% | 19% | 15% | 30% | 31% | 40% | 51% |

The sample of 30 business and farm loans was all of the new loans originated during the past 12 months. Eight were business loans with the remaining 22 being farm loans. Six of the eight businesses had revenues under \$1 million and all 22 farms had revenues under \$1 million. The following table shows lending to small businesses and small farms.

| BORROWER DISTRIBUTION OF SMALL LOANS TO BUSINESSES AND FARMS | | |
|--|--------------|--------------|
| Business Revenues | ≤\$1,000,000 | >\$1,000,000 |
| % of AA Businesses | 92% | 8% |
| % of Bank Loans in AA # | 93% | 7% |
| % of Bank Loans in AA \$ | 80% | 20% |

Geographic Distribution of Loans

This Office did not perform an analysis of the geographic distribution of the bank's lending during this examination. The analysis would not be meaningful since all the BNAs in the assessment area are designated as middle-income.

Responses to Complaints

First National Bank of Howard County has not received a formal CRA complaint since the previous examination.

Fair Lending Review

An analysis of public comments and consumer complaint information was performed according to the OCC's risk based fair lending approach. Based on its analysis of the information, the OCC decided that a comprehensive fair lending examination would not need to be conducted in connection with the CRA evaluation this year. The latest comprehensive fair lending exam was performed in 1997.