



## PUBLIC DISCLOSURE

March 17, 2014

## COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Fidelity National Bank  
Charter Number 15608

330 West Broadway  
West Memphis, AR 72301

Office of the Comptroller of the Currency

Victory Building  
1401 West Capitol Avenue, Suite 350  
Little Rock, AR 72201

**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.**

**The Lending Test is rated: Satisfactory.**

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

Summary of the major factors supporting the institution's rating:

- Fidelity NB's net loans-to-deposits ratio is reasonable.
- A substantial majority of home mortgage loans and small business loans originated in the bank's assessment areas.
- Borrower distribution shows reasonable penetration for home mortgage loans and small loans to businesses.
- Geographic distribution shows excellent dispersion for home mortgage loans and small loans to businesses.
- Response to consumer complaints is appropriate.
- Fidelity NB has shown excellent responsiveness to the CD needs of the AA through CD lending, qualified investments, and services.

## **Scope of Examination**

Fidelity National Bank (Fidelity NB) is evaluated as an Intermediate Small Bank. Loan products used for this evaluation include home mortgage loans (home purchase, home improvement, and home refinance) and a sample of small business loans from 2012 through 2013. Community development (CD) activities include loans, qualified investments and grants/donations, and services. The evaluation period for CD activities is March 9, 2009 through March 17, 2014. More weight is placed on the performance of home mortgage loans, as these products represent 29% of the bank's loan portfolio.

Fidelity NB has one full-scope assessment area (AA), Crittenden County, AR, which is part of the Memphis, TN-MS-AR Metropolitan Statistical Area (MSA) #32820. Loans originated in the full-scope AA represent 97% of total loan originations. The bank has one limited-scope AA located in St. Francis County, AR, which consists of census tract (CT) 9601.00. CT 9601.00 is adjacent to Crittenden County and the St. Francis River runs along the western edge of the CT, which separates this CT from the remaining five CTs within St. Francis County. The remaining five CTs in St. Francis County are serviced by four other financial institutions. Loan originations in the limited-scope AA were not evaluated, as the loan volume was too low for a meaningful analysis.

A data integrity examination was conducted January 14, 2014. A sample of residential mortgage loans originated from 2010 through 2012 was reviewed to determine the

reliability of the bank's data. The bank's loan data was determined to be reliable. A sample of CD activities was reviewed to determine if the activities qualified as community development. Additional documentation or clarification was required to determine if the activities qualified.

## Description of Institution

Fidelity NB, West Memphis, is located in Eastern Arkansas, approximately five miles west of Memphis, Tennessee. The bank's main banking office is located at 330 West Broadway, West Memphis, Arkansas. The bank also has four branches at the following locations:

- 350 West Service Road, West Memphis, Crittenden County, Arkansas
- 1200 State Highway 77, Marion, Crittenden County, Arkansas
- 330 West Military Road, Marion, Crittenden County, Arkansas
- 211 South Broadway, Hughes, Saint Francis County, Arkansas

Fidelity NB offers a full range of banking services and all branches have automated teller machines (ATM). The bank's primary lending focus is in small business, home mortgage, and consumer loans. Fidelity NB has numerous direct and indirect competitors in the Memphis, TN-MS-AR MSA and in St. Francis County. These include several large regional bank branches and community banks in Forrest City and Marion, Arkansas. There are no financial impediments that would limit the bank's ability to help meet the credit needs in its AA. Fidelity NB is 100% owned by Carlson Bancshares, Inc., West Memphis, Arkansas. Carlson Bancshares, Inc. also owns an insurance subsidiary, Fidelity Insurance Group, Inc.

As of December 31, 2013, Fidelity NB reported total assets of \$362 million and \$324 million in deposits. Gross loans totaled \$106 million or 29% of total assets and 33% of total deposits. The loan portfolio composition as of December 31, 2013, is as follows:

<b>Loan Category</b>	<b>\$ (000)</b>	<b>%</b>
Commercial Real Estate	54,448	52
Residential Real Estate	30,637	29
Commercial and Industrial	12,752	12
Agriculture	2,394	2
Consumer	5,482	5
<b>Total</b>	<b>\$105,713</b>	<b>100%</b>

*Source: December 31, 2013 Call Report.*

The prior CRA performance evaluation for Fidelity NB was dated March 9, 2009, and the bank received a rating of "Satisfactory."

## Description of Assessment Area

Fidelity NB's full-scope AA includes all 20 CTs located in Crittenden County. All CTs are located in Arkansas and represent a portion of the Memphis, TN-MS-AR MSA. The AA meets the requirements of the regulation and does not arbitrarily exclude low- and moderate-income geographies.

Crittenden County (population 50,902) is located directly across the Mississippi River and to the west of Memphis, Shelby County, Tennessee. Crittenden County is part of the Memphis, TN-MS-AR MSA #32820. The 2010 Median Family Income (MFI) for Crittenden County was \$56,557. This income figure is used to determine the income level of each of the individual CTs within Crittenden County. The income level of the 20 CTs located in Crittenden County are as follows - six (30%) are low-income; seven (35%) are moderate-income; four (20%) are middle-income; and three (15%) are upper-income. The Department of Housing and Urban Development (HUD) estimated 2013 MFI for Crittenden County is \$58,000. The HUD MFI is updated annually and used to determine the income level of individual applicants within the MSA portion of the bank's AA. The income level of families located in Crittenden County is as follows – 35% are low-income; 18% are moderate-income; 18% are middle-income; and 29% are upper-income. Approximately 24% of the families in Crittenden County have incomes below poverty level, which is a high level. As of January 2014, the unemployment rate for Crittenden County was 11.8%, compared to 7.3% for the State of Arkansas and 6.7% for the United States. Major employers in Crittenden County include education, health care, retail, trucking, and gaming.

A community contact was conducted with the City of West Memphis Community Development Division. The contact stated that the city has a cycle of poverty that is hard to overcome. The contact identified immediate credit needs as affordable housing and venture capital for start-up businesses. The contact stated that local banks should try to work with developers in creating affordable owner-occupied housing, assist with the incubator program to train low- and moderate-income citizens to learn job skills, and provide capital to start-up businesses in the community.

<b>DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA MEMPHIS, TN-MS-AR MSA (CRITTENDEN COUNTY) 2010 CENSUS</b>	
<i>Population</i>	
Number of Families	13,304
Number of Households	18,717
<i>Geographies</i>	
Number of Census Tracts	20
% Low-Income Census Tracts	30.00%
% Moderate-Income Census Tracts	35.00%
% Middle-Income Census Tracts	20.00%
% Upper-Income Census Tracts	15.00%
<i>Median Family Income (MFI)</i>	
2010 MFI for Assessment Area	\$56,557
2013 HUD-Adjusted MFI	\$58,000
<i>Economic Indicators</i>	
Unemployment Rate, January 2014, (Non-seasonally Adjusted)	
Crittenden County	11.8%
State of Arkansas	7.3%
United States	6.7%
Median Housing Value as of 2013	\$98,982
Median Housing Year Built as of 2010	1980
% of Households Below Poverty Level	24.14%

*Source: 2010 U.S. Census Data, 2013 HUD Data, and 2013 Bureau of Labor Statistics*

## Conclusions with Respect to Performance Tests

### LENDING TEST

The lending test is rated satisfactory. The loan-to-deposit ratio is reasonable. A substantial majority of loans originated inside Fidelity NB's AAs. Borrower distribution shows reasonable penetration. Geographic distribution shows excellent dispersion. Bank management has shown an appropriate response to consumer complaints.

### Loan-to-Deposit Ratio

Fidelity NB's average loan-to-deposit ratio is reasonable.

The bank's quarterly average ratio was calculated at 35% over 19 quarters. Compared to other financial institutions in the AAs, Fidelity NB has the lowest average net loan-to-deposit ratio. However, Fidelity NB also has a significant volume of public funds compared to the other financial institutions in the area. The majority of these public funds are not obtained through a competitive bidding process and are held at the institution on a discretionary basis. At December 31, 2013, Fidelity NB had \$116.5 million in public funds, which represented 36% of total deposits. The average ratio of

public funds to total deposits for the similarly situated institutions within the area was 11%. Arkansas Code of 1987 Annotated (ACA), § 19-8-203 requires any financial institution in the State of Arkansas to furnish security for the deposit of any public funds. This legal requirement increases investment security pledging activity and effectively limits a bank’s ability to use public funds for lending activities.

Institution	Total Assets (000s) 12/31/2013	Average Net Loan-to- Deposit Ratio
First Community Bank of Eastern Arkansas	\$149,031	82.05%
Forrest City Bank, National Association	\$ 54,569	56.47%
First National Bank of Eastern Arkansas	\$369,635	41.13%
<b>Fidelity National Bank</b>	<b>\$361,923</b>	<b>35.32%</b>

Source: 12/31/2013 Call Report

### Lending in Assessment Area

A substantial majority of Fidelity NB’s loans originated inside the designated AAs.

Overall, 90% of the number of loans and 79% of the dollar volume of loans originated within the bank’s AAs. For home mortgage loans, 91% of the number and 81% of the dollar volume of loans originated in the AAs. For small business loans, 85% of the number and 78% of the dollar volume originated in the AAs.

Table 1 - Lending in Memphis, TN-MS-AR MSA #32820 (Crittenden County) & St. Francis County CT 9601.00 2010 Census										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Purchase	46	90.20	5	9.80	51	\$2,514	81.78	\$560	18.22	\$3,074
Home Improvement	85	93.41	6	6.59	91	\$1,321	91.74	\$119	8.26	\$1,440
Refinance	15	78.95	4	21.05	19	\$1,905	72.88	\$709	27.12	\$2,614
Small Business	17	85.00	3	15.00	20	\$3,515	77.77	1,005	22.23	\$4,520
<b>Totals</b>	<b>163</b>	<b>90.06</b>	<b>18</b>	<b>9.94</b>	<b>181</b>	<b>\$9,255</b>	<b>79.46</b>	<b>\$2,393</b>	<b>20.54</b>	<b>\$11,648</b>

Source: Data reported under 2012-2013 HMDA, 2012-2013 sample of loans for small business.

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

Fidelity NB’s borrower distribution shows reasonable penetration to borrowers of different income and to businesses of different sizes within the full-scope AA.

Home Purchase

Borrower distribution of home purchase loans shows reasonable penetration. For home purchase loans, the percentage of bank loans to low-income borrowers is lower than the percentage of low-income families. The percentage of households below the poverty level for the 2010 Census was 24.14%, which is a very high level. The bank’s ability to originate any loans to low-income borrowers is considered positive due to the high poverty level. The percentage of home purchase loans to moderate-income borrowers exceeded the percentage of moderate-income families.

Home Improvement

Borrower distribution of home improvement loans shows reasonable penetration. For home improvement loans, the percentage of bank loans to low-income borrowers was somewhat lower than the percentage of low-income families. The bank’s ability to lend to low-income borrowers is positive, considering the high percentage of households below the poverty level. The percentage of bank loans to moderate-income borrowers exceeded the percentage of moderate-income families.

Refinance

Borrower distribution of refinance loans shows poor penetration. For refinance loans, the percentage of bank loans to low- and moderate-income borrowers is lower than the percentage of low- and moderate-income families.

<b>Table 2 - Borrower Distribution of Residential Real Estate Loans in Memphis, TN-MS-AR MSA #32820 (Crittenden County) 2010 Census</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Purchase	35.54	5.41	17.57	27.03	17.84	13.51	29.06	54.05
Home Improvement	35.54	18.18	17.57	29.87	17.84	22.08	29.06	29.87
Refinance	35.54	14.29	17.57	7.14	17.84	21.43	29.06	57.14

Source: Data reported under 2012-2013 HMDA; 2010 U.S. Census data.

Small Business

Borrower distribution for small business loans shows reasonable penetration to businesses with revenues of \$1 million or less. The percentage of bank loans (by number) with revenues of \$1 million or less is near to the percentage of businesses in the AA with revenues of \$1 million or less. By dollar volume, the percentage of bank loans with revenues of \$1 million or less is near to the percentage of businesses in the AA with revenues of \$1 million or less.

<b>Table 2A - Borrower Distribution of Loans to Businesses in Memphis, TN-MS-AR MSA #32820 (Crittenden County) 2010 Census</b>		
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000
% of AA Businesses*	67.56	3.65
% of Bank Loans in AA by #	65.00	35.00
% of Bank Loans in AA by \$	64.02	35.98

*Source: Loan sample; 2013 Dunn and Bradstreet data. \* 28.79% of AA businesses did not report revenue data*

**Geographic Distribution of Loans**

Fidelity NB’s geographic distribution shows excellent dispersion throughout the full-scope AA. The analysis reflects lending in all CTs and no significant gaps in lending coverage.

Home Purchase

Geographic distribution of home purchase loans is excellent. The percentage of bank loans to low-income CTs is near to the percentage of owner-occupied housing units in low-income CTs. The percentage of bank loans in moderate-income CTs exceeds the percentage of owner-occupied housing units in moderate-income CTs.

Home Improvement

Geographic dispersion of home improvement loans is excellent. The percentage of home improvement loans in low- and moderate-income CTs exceeded the percentage of owner-occupied housing units in low- and moderate-income CTs.

Refinance

Geographic dispersion of refinance loans is excellent. The percentage of refinance loans in low- and moderate-income CTs exceeded the percentage of owner-occupied housing units in low- and moderate-income CTs.

<b>Table 3 - Geographic Distribution of Residential Real Estate Loans in Memphis, TN-MS-AR MSA #32820 2010 Census</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Purchase	21.88	20.00	32.33	37.78	21.10	15.56	24.70	26.67
Home Improvement	21.88	22.50	32.33	32.50	21.10	12.50	24.70	32.50
Refinance	21.88	26.67	32.33	40.00	21.10	13.33	24.70	20.00

Source: Data reported under 2012-2013 HMDA; 2010 U.S. Census data.

### Small Business

Geographic distribution for small business loans shows excellent dispersion. The percentage of bank loans in low-income CTs is near to the percentage of businesses located in low-income CTs. The percentage of bank loans in moderate-income CTs exceeded the percentage of businesses located in moderate-income CTs.

<b>Table 3A - Geographic Distribution of Loans to Businesses in Memphis, TN-MS-AR MSA #32820</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Small Business	28.75	28.30	37.43	51.53	15.15	4.46	18.67	15.71

Source: Loan sample or data collected by bank; 2013 Dunn & Bradstreet data.

### **Conclusion for limited-scope AA**

An analysis of lending activity was not conducted for the limited-scope AA. The limited-scope area consists only of CT 9601.00 in St. Francis County. Due to the low volume of home mortgage loans and small loans to businesses in CT 9601.00, lending activity was not evaluated.

### **Responses to Complaints**

Fidelity NB has not received any Community Reinvestment Act (CRA) related complaints since the previous CRA evaluation dated March 9, 2009.

## **COMMUNITY DEVELOPMENT TEST**

Fidelity NB demonstrates excellent responsiveness to community development through its level of community development loans, qualified investments, and community development services.

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

Fidelity NB demonstrated excellent responsiveness to CD needs through lending activities within the AAs during the evaluation period. Fidelity NB originated 16 loans totaling \$15.7 million that qualify as CD loans between March 9, 2009, and December 31, 2013. The majority of the loans were to finance activities that revitalize or stabilize low- and moderate-income geographies. Four of the 16 (25%) CD loans were to finance businesses that employ residents and are located in a low-income geography. An additional four of the 16 (25%) CD loans were to finance local government activities including the Crittenden County Landfill and the West Memphis Police Department, essential to revitalize and stabilize low- to moderate-income geographies within the AAs. Five of the 16 (31%) CD loans were to promote economic development by financing businesses or farms that meet size eligibility standards for Small Business Administration (SBA) participation or have annual gross revenues of \$1 million or less.

### **Number and Amount of Qualified Investments**

Fidelity NB demonstrated excellent responsiveness to CD needs through qualified investment and donation activities. During the evaluation period, Fidelity NB purchased 22 municipal bonds totaling \$3.0 million from school districts located within its AAs. The number of issuances within the bank's AAs is limited, and the bank purchased a portion of most all issuances from the AAs during the evaluation period. An additional 55 municipal bonds totaling \$16.4 million from Arkansas school districts located in distressed counties outside the AAs were purchased. Bank management purchased a \$1.2 million Government National Mortgage Association (GNMA) mortgage-backed security containing 12 residential mortgages to primarily low- and moderate-income borrowers throughout the state of Arkansas. Of the 12 mortgages, one mortgage totaling \$98 thousand is secured by a residence located in the AAs.

Fidelity NB donated funds to organizations that provide services to low- and moderate-income individuals as well as perform activities to revitalize and stabilize low- and moderate-income geographies. During the evaluation period, donations totaling \$28 thousand were made to 16 organizations throughout the AAs. Donations included numerous school supply drives targeted to benefit low- and moderate-income children in the AAs. In 2012 and 2013, the Bank donated \$5 thousand to the West Memphis Parks and Recreation Department for the revitalization of city parks, several of which are in disrepair. Historically, these parks have gone without maintenance and essential upgrades due to a variety of factors including decreased funding and vandalism.

This donation funded upgrades to two local parks in low-income census tracts, providing recreational facilities for low- and moderate-income children in the neighborhood.

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

Fidelity NB demonstrated excellent responsiveness to CD needs by offering qualifying services to low- and moderate-income individuals within the AAs. Bank officers and employees are actively involved in greater than 20 CD service activities. Bank employees used their banking experience and expertise to assist these organizations through board membership, youth financial literacy programs, and homebuyer and small business education conferences. These organizations provide basic living needs, educational opportunities, and youth mentoring opportunities to low- and moderate-income individuals and families.

The distribution of Fidelity NB's branches throughout the AAs is good. Fidelity NB branch distribution shows one branch (20%) in a low-income CT, two branches (40%) in moderate-income CTs, one branch (20%) in a middle-income CT, and one branch (20%) in an upper-income CT. The main office is located in a low-income CT. Each branch location has an ATM, and debit cards are offered at no cost.

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

Pursuant to 12 C.F.R. 25.28(c), or 12 C.F.R. 195.28(c), in determining a national bank's (bank) or Federal savings association's (FSA) CRA rating, respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or FSA, or in any assessment area by an affiliate whose loans have been considered as part of the bank's or FSA's lending performance.

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.