



PUBLIC DISCLOSURE

August 05, 2013

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The First National Bank of Izard County
Charter Number 21165

2184 Arkansas Highway 56
Calico Rock, AR 72519

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 major factors that support this rating include:

- The First National Bank of IZARD County (FNBIC) has a **reasonable** loan-to-deposit ratio.
- A **majority** of FNBIC's primary loan products are within the assessment area.
- FNBIC's overall borrower distribution for loans in the assessment area is **reasonable**.

Geographic distribution of the bank's lending performance during this evaluation period was not assessed. The analysis would not be meaningful since all the census tracts in the assessment area are designated as middle or upper income.

SCOPE OF EXAMINATION

First National Bank of IZARD County (FNBIC) was examined using Small Bank examination procedures. The evaluation period for this Community Reinvestment Act (CRA) Performance Evaluation (PE) is April 9, 2007 through August 5, 2013. Loan products used to assess the bank's performance under the Lending Test include agricultural real estate (farmland) loans and residential real estate loans. A sample of 20 one-to-four-family residential real estate loans and 20 farmland loans originated from January 1, 2010 through December 31, 2011, was used to assess lending performance within various income levels.

DESCRIPTION OF INSTITUTION

The First National Bank of IZARD County (FNBIC) is 100% owned by Wyatt Bancshares, a one-bank holding company. FNBIC operates five locations. The main branch is located in Calico Rock, IZARD County and four additional branches located in Mt. Pleasant, Horseshoe Bend, Melbourne, and Mountain View, Arkansas. All locations with the exception of the Mountain View branch are located in IZARD County. The Mountain View branch is located in adjacent Stone County. The Calico Rock, Mountain View, and Melbourne locations have automated teller machines (ATMs). All locations have a drive-through. The Calico Rock, Melbourne, and Mountain View locations also provide onsite-lending services. There are no stand-alone ATMs.

The bank's lending is primarily focused on residential, agricultural and commercial real estate. FNBIC also offers a range of other lending products including secured and unsecured consumer installment loans and commercial & industrial loans. FNBIC's loan portfolio composition as reported in the June 30, 2013 Report of Condition and Income is as follows:

Loan Portfolio Composition		
June 30, 2013 (in 000s)		
Loan Type	Amount (000s)	Percent
Construction and Land Development	\$4,561	6.84%
Farmland	\$14,929	22.39%
1-4 Family Residential	\$24,527	36.76%
Multifamily (5 or more) Residential	\$0	0.0%
Commercial (nonfarm, nonresidential)	\$11,188	16.77%
Total Real Estate Loans	\$55,205	82.77%
Agriculture	\$1,978	2.97%
Commercial and Industrial	\$2,582	3.88%
Consumer Loans	\$6,811	10.21%
Other Loans	\$119	0.18%
Total Gross Loans	\$66,695	100.00%

Source: June 30, 2013 Report of Condition and Income (Call Report)

FNBIC does not have any legal or financial impediments that would limit its ability to meet the credit needs within its AAs. As of June 30, 2013, the bank reported total assets of \$148 million including \$66.7 million in gross loans (45% of total assets). Deposits totaled \$98.8 million and Tier 1 Capital was \$47.5 million, or 32.5% of adjusted average assets. FNBIC’s prior CRA Periodic Examination was dated April 09, 2007 and performance was rated Satisfactory.

DESCRIPTION OF ASSESSMENT AREA

FNBIC has identified all of IZARD County and the eastern half of Stone County as its AA for purposes of the CRA. According to the 2000 Census, the total population for the bank’s AA was 20,201. IZARD County contains four census tracts (9601, 9602, 9603, and 9604) and the eastern half of Stone County has one census tract (9502). Based on 2000 Census data, all five geographies are middle income. The AA, as selected by the bank, is appropriate given the bank’s branch system and includes whole census tracts.

Banking competition within the AA is high. There are currently nine banks operating in the two counties that make up the AA: five locally based community banks and four multi-state regional banks. The following table illustrates the deposit market share within the AA as of June 30, 2012:

	Market Share
Centennial Bank	25.40%
The First National Bank of IZARD County	22.14%
BancorpSouth Bank	13.78%
Ozark Heritage Bank, N.A.	10.84%
First National Banking Company	9.48%
The Citizens Bank	6.14%

Source: FDIC.gov

The assessment area is located in north central Arkansas and is mostly rural. Izard and Stone Counties are large in terms of land coverage with large tracts of farm and timberland. Both counties have large agricultural communities with income derived from cattle, poultry, and timber industries. The vast majority of businesses in the area are small business operations. As in other areas of North Arkansas, both counties benefit from tourism and retirement relocation.

A community contact interview was conducted during the evaluation to help identify possible needs within the community. The contact works to provide affordable housing options to low- and moderate-income residents. The contact indicated that economic conditions in the area are weaker than the state of Arkansas as a whole, primarily due to the rural nature of the area. Many citizens living in the area have to travel about two hours round trip each day to find employment. It was also indicated that there are opportunities for financial institutions to meet the credit needs of the community and assist in economic development and that local banks as a whole are helpful and have partnered with the contact on several efforts. The key needs identified by the contact were for a larger supply of quality, affordable housing options and improved job skills to foster economic growth.

The following table reflects demographic data for the AA and is derived from the 2000 Census. Income and unemployment data was obtained from government agencies from their most recent reports.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS	
	2000 Census
Population	
Number of Families	6,013
Number of Households	8,563
Geographies	
Number of Census Tracts/BNA	5
% Low-Income Census Tracts/BNA	0.00%
% Moderate-Income Census Tracts/BNA	0.00%
% Middle-Income Census Tracts/BNA	100.00%
% Upper-Income Census Tracts/BNA	0.00%
Not Applicable	0.00%
Median Family Income (MFI)	
MFI for AA	\$30,593
2011 HUD-Adjusted MFI	\$43,300
Economic Indicators	
Median Housing Value	\$60,210
% of Households Below Poverty Level	18.38%

Source: 2000 Census

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

FNBIC's average loan-to-deposit (LTD) ratio of 74.46% is reasonable given its size, financial condition, funding sources, and credit needs of its AAs. This is an increase from the previous 2007 CRA exam, noted at 68%. The average LTD ratio was derived from a twenty-five quarter average taken from March 2007 to March 2013.

For purposes of this analysis, four banks with comparable asset sizes and/or conducting business within the bank's AA were reviewed to determine the bank's performance relative to its competition. These banks include First Service Bank in Greenbrier, First National Banking Company in Ash Flat, The Citizens Bank in Batesville, and Ozark Heritage Bank, National Association, in Mountain View. In addition, four regional banks operate within FNBIC's AA (primarily in Stone County); however, these banks are considerably larger and are not considered direct competitors for this analysis. The four comparable institutions had an overall average LTD ratio of 84.02% during the same period. These institutions had average LTDs ranging from a high of 89.71% percent to a low of 79.73%.

The following table illustrates FNBIC's average LTD ratio and that of similarly situated institutions:

Financial Institution	Assets (000s) as of March 31, 2013	Average LTD Ratio
First Service Bank	\$218,438	89.71%
First National Banking Company	\$373,300	86.11%
The Citizens Bank	\$544,629	80.54%
Ozark Heritage Bank, National Association	\$67,840	79.73%
Average Arkansas FDIC Insured Banks	\$488,000	75.10%
The First National Bank of IZARD County	\$147,378	74.46%
Interagency News Release 2013-107: Arkansas LTD Avg.	-	73%

Source: Call Report; OCC.gov

FNBIC had the lowest LTD ratio in this peer group; however, due to its rural location and small market in which it operates, the loan to deposit ratio is reasonable in comparison to the bank's overall statewide competitors. On July 1, 2013, the interagency news release noted the Banking Agencies Host Loan-to-Deposit Ratios – indicating an average LTD ratio of 73% as of June 2012. As noted above, the 25 quarter average LTD ratio for all Arkansas FDIC insured banks was 75% and the average asset size was \$488 million, which is on par with FNBIC's LTD ratio. The institutions noted above operate within one or two areas within FNBIC's assessment area, but also operate in additional markets, where loan demand is higher and more diversified. FNBIC's branches are all located within a 40 mile radius of the main branch located in Calico Rock which limits the bank's ability to make loans, as loan demand is lower and more saturated.

Lending in Assessment Area

A majority of loans, 68% of the number and 65% of the dollar volume, originated by FNBIC are located inside the AA. A sample of 20 loans from each of the bank’s primary loan products: residential real estate loans and agricultural real estate (farmland), was used to determine the lending in the assessment area. A majority, 65% of the number and 69% of the dollar volume, of residential real estate loans originated inside the AA. In addition, a majority, 70% of the number and 63% of the dollar volume, of farmland loans originated within the AA.

Lending in Assessment Area										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
						(in 000s)		(in 000s)		
Farmland	14	70.00%	6	30.00%	20	\$1,116,016	62.75%	\$662,529	37.25%	\$1,778,545
1 to 4 Family Residential	13	65.00%	7	35.00%	20	\$777,910	69.28%	\$344,947	30.72%	\$1,122,856
Total	27	67.50%	13	32.50%	40	\$1,893,925	65.28%	\$1,007,476	34.72%	\$2,901,402

Source: Loan sample

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

Lending to borrowers of different incomes and to businesses of different sizes meets the standard for satisfactory performance. The distribution of loans to borrowers of different incomes (including low-and moderate-income) and businesses of different sizes is reasonable considering the demographic and economic trends within the AA.

The following tables show the distribution of residential real estate and farmland loans made to borrowers within the various income levels.

Lending to Borrowers of Different Income Levels - Residential Real Estate

The distribution of residential real estate loans sampled that were made to low- and moderate-income borrowers is satisfactory.

Borrower Distribution of Residential Real Estate Loans in AA								
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
Residential R/E	22.04	15.00%	21.55	30.00%	24.05	20.00%	32.36	35.00%

Source: Loan sample; 2000 census data

The percentage of the number of residential real estate loans sampled that were originated to low-income borrowers in 2010 - 2011 is somewhat lower than the percentage of low-income families within the AA; however, the percentage of the number of loans that originated to

moderate-income borrowers in 2010-2011 exceeds the percentage of moderate-income families within the AA. A majority of the sample, 11 or 55%, of the 20 residential real estate loans originated in 2010-2011 were made to upper- and middle-income borrowers. There were three residential real estate loans made to low-income borrowers and six residential real estate loans made to moderate-income borrowers.

Lending to Small Farms

Lending to farmers is satisfactory. FNBIC has a reasonable penetration of loans to farms with revenues of \$1 million or less within the AA, as noted by the table below. The number of loans to farms with revenues of \$1 million or less is near to the percentage of farms in the AA that reported revenues of \$1 million or less.

Borrower Distribution of Loans to Farms in AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unknown	Total
% of AA Farms	100.00	0.00	0.00	100.00
% of Bank Loans in AA by #	85.00	0.00	15.00	100.00
% of Bank Loans in AA by \$	87.16	0.00	12.84	100.00

Source: Loan Sample; Dunn & Bradstreet data

Due to the level of sampled loans with unknown income, the distribution of loans by loan size was utilized as a proxy for business size. The business loan sample primarily consisted of loans less than \$250 thousand, which is indicative of a reasonable level of lending to small businesses.

Borrower Distribution of Loans to Farms by Loan Size in AA				
Loan Size (000s)	Number of Loans	Percent of Number	Dollar Volume of Loans	Percent of Dollar Volume
\$0 - \$50,000	7	35.00%	\$231,910	10.04%
\$50,000 - \$100,000	6	30.00%	\$421,607	18.25%
\$100,001 - \$250,000	5	25.00%	\$784,868	33.98%
\$250,001 - \$500,000	1	5.00%	\$269,629	11.67%
\$500,001 - \$1,000,000	1	5.00%	\$601,585	26.06%
Over \$1,000,000	0	0.00%	\$0	0.00%

Source: Loan sample

Geographic Distributions of Loans

FNBIC’s AA consists solely of middle income CTs, five in total. Due to this, an analysis of the geographic dispersion of the bank’s loan portfolio would not provide meaningful data. As a result, this examination did not include an analysis of the geographic dispersion of the bank’s lending. The loan sample identified that loans are made within all CT located in the assessment area.

Responses to Complaints

FNBIC has not had any complaints made relating to its lending practices since the prior examination dated April 9, 2007.

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.