



Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

March 31, 1997

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First National Bank of Howard County
Charter No. 17950**

**Third and Main Streets
Dierks, Arkansas 71833**

**Office of the Comptroller of the Currency
Southwestern District
1600 Lincoln Plaza, 500 North Akard
Dallas, TX 75201**

NOTE: 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.

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 prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of March 31, 1997. 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**.

- First National Bank of Howard County's lending performance reflects reasonable responsiveness to its community credit needs. The bank's average loan-to deposit ratio for the past nine quarters was 71%, which is comparable to one bank, but considerably higher than the other bank in its assessment area.
- A substantial majority of the bank's lending is within the assessment area.
- The distribution of borrowers in the assessment area reflects a reasonable penetration among individuals of different income levels, and businesses and farmers of different sizes.

*The following table indicates the performance level of **First National Bank of Howard County** with respect to each of the five performance criteria.*

SMALL INSTITUTION ASSESSMENT CRITERIA	<u>The First National Bank of Howard County</u> PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does not meet Standards for Satisfactory Performance
Loan to Deposit Ratio		X	
Lending in Assessment Area	X		
Lending to Borrowers of Different Incomes and to Businesses of Different sizes		X	
Geographic Distribution of Loans	Not meaningful for analysis purposes since the income levels for areas are similar		
Response to Complaints	No complaints were received since the prior examination.		

DESCRIPTION OF INSTITUTION

First National Bank of Howard County 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 (ATM's). As of December 31, 1996, the bank reported total assets of \$38 million with \$33 million in deposits and \$25 million in loans (66% of total assets). The bank's lending is centered in real estate loans at almost 74% of the loan portfolio, with 14% in consumer loans, 8% in commercial loans, and 4% in agriculture production loans. Most of the real estate loan portfolio is agriculture-related loans. The bank does not originate 1-4 family residential loans that are guaranteed by an agency of the U.S. Government.

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 \$371 million as of December 31, 1996. The bank's last CRA examination was performed as of April 18, 1994 and was given a **Satisfactory** rating.

There are no financial impediments that would limit the bank's ability to help meet the credit needs in its assessment area.

ASSESSMENT AREA DESCRIPTION

First National Bank of Howard County's assessment area is a 15 mile radius of the City of Dierks. The assessment area was slightly modified to include whole Block Numbering Areas within the 15 mile radius. The assessment area meets the requirements of the regulation and does not arbitrarily exclude low or moderate-income geographies. There are three Block Numbering Areas (BNA's) in the assessment area: 9501 in Howard County; 9534 in Pike County (east of Howard County); and 9801 in Sevier County (west of Howard County). Based on the Medium Family Income (MFI) of \$22,420 for all Non-Metropolitan Statistical Area for the State of Arkansas, all BNA's in the assessment area are considered middle-income. The family income characteristics of the population within the three BNA's assessment area is as follows: low-income 17%; moderate-income 17%; middle-income 22%; and, upper-income 44%. Income levels are defined as follows: Low-Income = less than 50% of the MFI; Moderate-Income = 50%-79% of the MFI; Middle-Income = 80% to 119% of the MFI; and, Upper-Income = more than 120% of the MFI.

The economy of the area is considered to be in a slow growth mode. Unemployment as of January 31, 1997 was 4.7% for Howard County, 7.0% for Pike County and 7.4% for Sevier County. Howard County's unemployment rate is below the Arkansas average of 5.3% and the U.S. average of 5.4%; however, Pike County and Sevier County are above these averages.

The primary industries are forestry and timber, and agriculture (poultry and livestock). Weyerhaeuser Company, a forestry products company, has a lumber mill in Dierks. Weyerhaeuser is the area's primary employer and has about 1,000 employees. Tyson Foods, Inc., 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. Since 1994, Tyson Foods have become involved in swine production.

Competition in the assessment area is provided by two state-chartered banks, Diamond State Bank with over twice the assets, and the Bank of Lockesburg with one-half of the assets of First National Bank of Howard County. Diamond State Bank, formerly Pike County Bank, is headquartered in Murfreesboro, Arkansas (27 miles east of Dierks) with total assets of \$89 million as of December 31, 1996. A full-service branch was opened in Dierks in 1994. The Bank of Lockesburg is headquartered in Lockesburg, Arkansas (17 miles southeast of Dierks) with total assets of \$19 million as of December 31, 1996. There are seven other banks within a 35 mile radius of Dierks, six of which are larger than First National Bank of Howard County.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Loan-to-Deposit Ratio

First National Bank of Howard County's loan-to-deposit ratio is reasonable given the bank's size, financial condition, assessment area credit needs, and comparison with local financial institutions. The loan-to-deposit ratio for First National Bank of Howard County as of December 31, 1996 was 74% and has averaged 71% since December 31, 1994, with the quarterly ratios ranging from 64% to 75%. Loan-to-deposit ratios for Diamond State Bank are comparable, but the loan-to-deposit ratios for the Bank of Lockesburg are considerably lower. The loan-to-deposit ratio for Diamond State Bank as of December 31, 1996 was 72% and has averaged 70% since December 31, 1994, with the ratios ranging from 67% to 73%. Bank of Lockesburg loan-to-deposit ratio was 61% as of December 31, 1996 and has averaged 56% since December 31, 1994 with the ratios ranging from 51% to 61%. The loan-to-deposit ratios for the seven banks within a 35 mile radius of Dierks as of December 31, 1996 were as follows:

- o First National Bank of DeQueen, DeQueen, AR (20 miles southeast) = 45%;
- o First State Bank of DeQueen, DeQueen, AR (20 miles southeast) = 57%;
- o Citizens National Bank of Nashville, Nashville, AR (19 miles southwest) = 57%;
- o The Bank of Glenwood, Glenwood, AR (35 miles northeast) = 72%;
- o Bank of Amity, Amity, AR (35 miles northeast) = 73%;
- o First National Bank of Nashville, Nashville, AR (19 miles southwest) = 76%; and,
- o Caddo First National Bank, Glenwood, AR (35 miles northeast) = 84%.

Lending in Assessment Area

A substantial majority of First National Bank of Howard County's loans are in the bank's assessment area. The bank has tracked all loan extensions and denials since 1990. The bank divides the assessment area arbitrarily into blocks or sections. These blocks and sections were formatted by the Bank Examiners into BNA's during the examination. For 1996, approximately 95% of the number of new loans were made in the bank's assessment area. On a self-assessment performed as of April 30, 1996, approximately 99% by number of all active loans as of that date were within the assessment area. At the April 18, 1994 CRA Performance Evaluation, about 93% of the loan portfolio by dollar volume were noted to be within the delineated area.

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. Loan distribution is divided by the bank into two levels:

low-and moderate-income; and other income. Approximately 34% of the families in the assessment area are in the low-and moderate-income levels (17% low-income and 17% moderate-income). Based on the bank's analysis, approximately 16% of the number of loans made in 1996 were low-and moderate-income level loans.

All of the agriculture loans and all of the commercial loans made in 1996 were to small farmers or small businesses. A small farm or small business is defined as a farm or business with revenues of less than \$1 million. There were 84 small farm loans for \$5.4 million made in the assessment area in 1996. There were also 69 small business loans for \$1.9 million made in the assessment area in 1996. Approximately 95%, by number, of the small farm loans and 99% of the small business loans made in 1996 were made in the assessment area.

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 BNA's in the assessment area are designated as middle-income. Management tracks lending within its assessment area by arbitrarily dividing the assessment area into 27 blocks or sections. The bank's analysis of the geographic distribution of loans reflects reasonable dispersion throughout the assessment area.

Response to Substantiated Complaints

No valid complaints have been received since the prior examination.

Discrimination or Other Illegal Credit Practices

The Fair Lending procedures performed during this evaluation disclosed no violations of the substantive provisions of the anti-discrimination laws and regulations.