



Comptroller of the Currency
Administrator of National Banks

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PUBLIC DISCLOSURE

COMMUNITY REINVESTMENT ACT PERFORMANCE
EVALUATION

July 11, 1996

First National Bank
Charter Number: 15665
109 East University
Siloam Springs, Arkansas 72761

<p>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.</p>

GENERAL INFORMATION

This document is an evaluation of the Community Reinvestment Act (CRA) performance of First National Bank of Siloam Springs, Arkansas prepared by the Office of the Comptroller of the Currency (OCC), the institution's supervisory agency.

The evaluation represents the OCC's current assessment and rating of the institution's CRA performance based on an examination conducted as of July 11, 1996. It does not reflect any CRA-related activities that may have been initiated or discontinued by the institution after the completion of the examination.

The purpose of the Community Reinvestment Act of 1977 (12 U.S.C. 2901), as amended, is to encourage each financial institution to help meet the credit needs of the communities in which it operates. The Act requires that in connection with its examination of a financial institution, each federal financial supervisory agency shall (1) assess the institution's record of helping to meet the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operations of the institution, and (2) take that record of performance into account when deciding whether to approve an application of the institution for a deposit facility.

The Financial Institutions Reform, Recovery and Enforcement Act of 1989, Pub. L. No. 101-73, amended the CRA to require the Agencies to make public certain portions of their CRA performance assessments of financial institutions.

Basis for the Rating

The assessment of the institution's record takes into account its financial capacity and size, legal impediments and local economic conditions and demographics, including the competitive environment in which it operates. Assessing the CRA performance is a process that does not rely on absolute standards. Institutions are not required to adopt specific activities, nor to offer specific types or amounts of credit. Each institution has considerable flexibility in determining how it can best help to meet the credit needs of its entire community. In that light, evaluations are based on a review of 12 assessment factors, which are grouped together under 5 performance categories, as detailed in the following section of this evaluation.

GLOSSARY OF TERMS AND COMMON ABBREVIATIONS

The following terms and abbreviations are used throughout this Performance Evaluation.

Metropolitan Statistical Area (MSA)- Area consisting of one or more counties, including large population centers and nearby communities that have a high degree of interaction.

Census Tract - Small, locally defined statistical areas within an MSA. These areas are determined by the United States Census Bureau in an attempt to group homogeneous populations. A census tract has defined boundaries per 10 year census and an average population of 4,000.

Median Family Income- The median income determined by the United States Census Bureau. This figure is based on estimations developed by the Department of Housing and Urban Development and is updated annually.

Low and Moderate Income (LMI)- Income levels which are less than 80% of the median family income. Low income means less than 50% of the median family income.

Community Reinvestment Act (CRA)- A statute that requires federal regulators to evaluate a financial institutions lending performance in light of the credit needs in the institution's local community. The regulator must also evaluate whether the institutions defined community is reasonable. [THIS IS A GENERIC DESCRIPTION OF THE BANK'S REQUIREMENTS AND NOT A LEGAL EXPLANATION OF THE REQUIREMENTS CONTAINED IN 12 U.S.C 2901, AS AMENDED AND 12 C.F.R 25, AS AMENDED.]

Home Mortgage Disclosure Act (HMDA)- A statute that requires certain mortgage lenders that do business or have banking offices in MSA's to file annual summary reports of their lending activity. The reports include such data as the race, gender, and income of the applicant(s), the amount of loan requested and its disposition (e.g originated, denied, withdrawn). The types of loan applications reported include governmentally guaranteed home purchase and home improvement, conventional home purchase and home improvement, refinancing of home purchase and home improvement, and the purchase of multi-family (5 or more units) dwellings. [THIS IS A GENERIC DESCRIPTION OF THE BANK'S REQUIREMENTS AND NOT A LEGAL EXPLANATION OF THE REQUIREMENTS CONTAINED IN 12 U.S.C 2801, AS AMENDED AND 12 C.F.R 203, AS AMENDED.]

First National Bank of Siloam Springs- The bank will be referred to as FNB throughout this Evaluation.

Arvest Bank Group Inc. (ABG)- ABG is the holding company for FNB and eight other banks in Northwest Arkansas and Northeast Oklahoma.

Automatic Teller Machines- This term will be referred to as ATM's throughout this Evaluation.

ASSIGNMENT OF RATING

Identification of Ratings

In connection with the assessment of each insured depository institution's CRA performance, a rating is assigned from the following groups:

Outstanding record of meeting community credit needs.

An institution in this group has an outstanding record of, and is a leader in, ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Satisfactory record of meeting community credit needs.

An institution in this group has a satisfactory record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Needs to improve record of meeting community credit needs.

An institution in this group needs to improve its overall record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Substantial noncompliance in meeting community credit needs.

An institution in this group has a substantially deficient record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

DISCUSSION OF INSTITUTION'S PERFORMANCE

Institution's Rating:

Based on the findings presented below, this institution is rated: “Satisfactory Record of Meeting Community Credit Needs”.

This evaluation period covers the period of May 31, 1994 through July 11, 1996. The purpose of the CRA is to ensure that financial institutions help meet the credit needs of their local communities. FNB's CRA performance is rated satisfactory because:

- We noted a high volume of lending, particularly in the residential real estate sector. In 1994, the bank held a 25% market share for residential lending within the bank's delineated community.
- There is a reasonable distribution of loans throughout the delineated community.
- The bank has taken an active role in community development activities which were recently initiated in the area.

REASONABLENESS OF DELINEATED COMMUNITY

FNB's delineated community is reasonable and does not arbitrarily exclude any LMI areas. The bank has defined its delineated community as the City of Siloam Springs and the surrounding area within the southwestern quarter of Benton County in Arkansas. The bank's delineated community also includes the adjacent southern half of Delaware and the northern half of Adair counties in northeastern Oklahoma. Benton County is part of the Fayetteville, Arkansas MSA.

The delineation consists of twelve census tracts. By income level, two tracts are moderate-income and ten tracts are middle-income. There are no low-income census tracts within the bank's delineated community.

COMMUNITY PROFILE

Siloam Springs is located in the northwestern section of Arkansas 30 miles northwest of Fayetteville, Arkansas and 85 miles east of Tulsa, Oklahoma. According to 1990 census data, the bank's delineated community has a population of 42,450. A special census was completed in early 1996, but the official results were not published at the time of this evaluation. Based on the unofficial results obtained from the Chamber of Commerce, the City of Siloam Springs grew 18% from 8,151 to 9,600 residents. The racial composition from the 1990 census reflects 85% white, 13% Native American, and 2% Hispanic. However, based on our contacts within the community and discussion with FNB management, it is estimated that the Hispanic population has grown to at least 6%.

The median family income for the delineated community in 1990 was \$27,000 and is estimated to be \$34,000 in 1996. Based on 1990 census bureau data, approximately 21% of the families in the area are considered low income (with less than 50% of median income), 22% are moderate income (with 50% to 79% of median income), and the remainder have incomes greater than 80% of the median income.

The local economic climate is very good with slightly less than 3% unemployment. The industrial base is well diversified with several major employers providing roughly 4,500 industrial jobs. Primary employers and related workforce include Simmons Foods, Inc. (1,125), Franklin Electric (850), Gates Rubber Company (782), Allen Canning Company (400+), Dayspring Cards (350), and La-Z-Boy of Arkansas (300+). Agriculture in the form of poultry production and small farming (cattle) operations continues to play a significant role in the local economy.

BANK PROFILE

FNB is located in Siloam Springs, Arkansas and reported total assets of \$165 million as of December 31, 1995. The bank is part of the multi-bank holding company - Arvest Bank Group, Inc. headquartered in Lowell, Arkansas. FNB operates two branches and five ATMs. FNB is a full service bank providing commercial, agricultural, and retail lending. As of December 31, 1995, the bank had a loan-to-deposit ratio of 77% and reported a loan portfolio comprised of the following types of loans: agriculture production and farmland 27%, residential 26%, commercial and commercial real estate 20%, consumer 17%, construction and land development 7%, and other 3%. Additionally, the bank actively originates residential real estate loans that are sold in the secondary market through its affiliate, Arvest Mortgage Company. FNB is the largest community bank in its delineated community. The local banking environment is very competitive.

I. ASCERTAINMENT OF COMMUNITY CREDIT NEEDS

Assessment Factor A - Activities conducted by the institution to ascertain the credit needs of its community, including the extent of the institution's efforts to communicate with members of its community regarding the credit services being provided by the institution.

- FNB has effectively identified community credit needs and maintains ongoing relationships with a variety of community representatives.

Management and the Board of Directors are actively involved in a number of community and civic organizations that enable them to become aware of community needs. Some of the groups that FNB maintains ongoing dialogue with include: Siloam Springs Chamber of Commerce, Siloam Springs Child Development Center, Siloam Springs Affordable Housing Task Force, Concerned Citizens, Inc. (community-based development corporation formed by the task force), Main Street Siloam Springs, Inc., city government (Mayor of Siloam Springs is employed by the bank), and various civic organizations. FNB offers a full range of credit products that are well suited for the community's credit needs.

The following credit-related needs have been identified within the community:

Housing for LMI individuals working in lower paying industrial jobs -This primary need was identified by bank management through their ascertainment efforts and confirmed by examiners during community outreach activities. The bank is the market leader in originating and refinancing residential loans throughout the local community. Additionally, the bank has originated loans to local developers and builders for the construction of affordable homes benefitting LMI individuals.

Home improvement loans -This need was identified through the efforts of President Warren Fields and his work on the affordable housing task force. In response, President Fields is working in concert with the Siloam Springs Housing Authority to secure a bond issue through Arkansas Development Finance Authority (ADFA) for housing rehabilitation. FNB actively originates second mortgage residential and home equity loans, but has not developed any unique products targeted specifically for home improvement.

President Fields is a participating member of the Siloam Springs Chamber of Commerce Affordable Housing Task Force. President Fields also serves as a Board member on the community-based development corporation (CDC) entitled Concerned Citizens, Inc. The not for profit 501(C)(3) CDC was recently formed as a result of a recommendation made by the task force to address the community's housing concerns. The newly formed CDC is scheduling a meeting with representatives of the Federal Home Loan Bank and the Federal Reserve (Little Rock) to educate members on the services and programs that are available to improve the housing conditions in their local community.

Assessment Factor C - The extent of participation by the institution's board of directors in

formulating the institution's policies and reviewing its performance with respect to the purposes of the Community Reinvestment Act.

- FNB's Board of Directors are actively involved in the CRA process and effectively monitor the bank's performance

Board members and senior management are actively involved in the CRA process, as evidenced by their involvement throughout the community, the bank's leadership role in originating residential loans, participation in state and government sponsored programs such as guaranteed student loans and SBA loans, annual approval of the CRA Statement and Public Notice, and quarterly analyses of loan distribution.

The bank has provided financing to local real estate developers in order to increase the supply of affordable housing. Through their needs assessment activities, management identified the need for homes in the \$50,000 to \$75,000 price range. Refer to Assessment Factor H for a description of activities to address this need. Once the CDC becomes better organized and in full operation, President Fields is optimistic the bank will have an increased role in financing affordable housing.

II. MARKETING AND TYPES OF CREDIT OFFERED AND EXTENDED

Assessment Factor B - The extent of the institution's marketing and special credit-related programs to make members of the community aware of the credit services offered by the institution.

- The bank's marketing program, while informal, has been effective in informing the local community of available credit services.

The bank uses widely distributed media to advertise products and services. Newspaper and radio are the dominant forms of advertising. Recent advertisements have been targeted toward specific deposit products. In March 1996, a 30 day campaign was instituted to promote home equity loans. The program was directed toward existing bank customers. A minimal fee of \$100 was assessed for each approved loan. This campaign generated \$1.3 million in new loans.

As an additional way to market credit programs and assist the community, the bank either sponsored or participated in outreach activities. For example:

- The bank paid for the costs of publishing a newsletter distributed by the Multicultural Center of Northwest Arkansas. The newsletter contained an article written by management on the benefits of establishing a banking relationship.
- A seminar in spanish was held in April 1995 which targeted the Hispanic population. The seminar provided information on general banking services as well

as the process of applying for a home loan and other loan products. The presentation was made by two Spanish speaking employees of the bank.

- The bank printed their Price and Service Guide in Spanish. Also, the bank distributed a pamphlet that translated instructions on how to fill out a check, dollar amounts, and months into spanish.
- President Warren Fields participated on a task force which targeted affordable housing in Siloam Springs.

Assessment Factor I - The institution's origination of residential mortgage loans, housing rehabilitation loans, home improvement loans, and small business or small farm loans within its community, or the purchase of such loans originated in its community.

- FNB's lending reflects a high level of responsiveness to the community's credit needs through the origination of home purchase, home improvement, small business, and consumer loans.

FNB is the market leader for residential real estate loans. In 1994, FNB accounted for approximately 25% of all residential lending within the delineated community. Through its affiliation with Arvest Mortgage Company, the bank offers various residential mortgage loan products including FHA, VA, and conventional underwriting. Market share information for 1995 on residential real estate lending was not available at the time of our analysis. However, we noted that the bank's trend did not decline. As illustrated on the following table, almost 35% of the loan originations for 1995 were related to residential real estate.

Aggregate Loan Originations By Loan Type - 1994 and 1995

LOAN TYPE	Total Loans Originated in 1994		Total Loans Originated in 1995	
	#	\$	#	\$
Residential Purchase *	166	9,763,000	172	11,004,000
Residential Refinance *	72	4,760,000	118	8,728,000
Home Improvement	25	633,000	37	438,000
Commercial Loans	209	9,921,000	280	12,614,000
Small Farm Loans	307	13,178,000	325	9,859,000
Other	1,315	21,221,000	1,743	22,294,000
Total	1,990	50,266,000	2,594	59,095,000

* Includes home purchase loans and refinances sold on the secondary market.

** Includes consumer loans. In 1994, the bank originated 1,134 consumer loans totaling \$10,105,000. In 1995, 1,534

consumer loans were made for \$13,449,000.

FNB actively provides financing to small business and small farming operations. Management indicated that most of the bank's commercial lending is to small businesses. Based on reports furnished by management, the following chart reflects a recap of the commercial loan portfolio by loan size. This information shows that 89% of the number and 43% of the dollar volume of commercial loans are less than \$100 thousand.

Stratification of Commercial Loan Portfolio

CATEGORY	# OF LOANS	%	DOLLAR AMOUNT	%
>100M	120	11	33,029,763	57
>50M and <100M	162	15	11,994,344	21
>25M and <50M	156	14	5,802,790	10
>10M and <25M	259	24	4,366,116	8
<10M	394	36	2,120,955	4
TOTAL	1,091	100%	57,313,968	100%

FNB continues to originate the types of loans noted above. In 1995, loan originations to small farming operations represented 20% of all lending activity. In addition, the low cost Home Equity promotion in April 1996 generated an additional 75 loans totaling \$1.3 million.

Assessment Factor J -- The institution's participation in governmentally-insured, guaranteed or subsidized loan programs for housing, small businesses, or small farms.

- FNB actively participates in government-insured, guaranteed, and subsidized loan programs for housing and small business.

The bank participates in several government-backed loan programs and is an authorized VA and FHA lender. FNB also offers SBA loans, guaranteed student loans, loans using grant money issued by the Federal Home Loan Bank, loans under the Arkansas Development Finance Authority (ADFA) bond issues when available, and participates in the Rural Housing & Community Development Service program. FNB is currently working with the Siloam Springs Housing Authority to obtain funds from the ADFA for housing rehabilitation.

Since our May 1994 CRA examination, the bank has made 28 Small Business

Administration (SBA) loans totaling \$1.3 million with two additional commitments pending for \$1.1 million. The bank was ranked as the 8th leading SBA lender in February 1996 by the Arkansas Business magazine.

During 1995 the bank made 39 FHA loans totaling \$2.3 million (includes 4 loans underwritten utilizing a ADFA bond issue) and 3 VA loans totaling almost \$1 million.

As of May 1996 the bank had total borrowings of \$8.1 million from the Federal Home Loan Bank to provide longer-term fixed rate financing. This lending activity is up substantially from \$1 million in May 1995.

The bank actively participates in a guaranteed student loan program administered through the State of Arkansas. As of April 1996, the bank had 835 guaranteed student loans with \$2.5 million outstanding.

III. GEOGRAPHIC DISTRIBUTION AND RECORD OF OPENING AND CLOSING OFFICES

Assessment Factor E - The geographic distribution of the institution's credit extensions, credit applications, and credit denials.

- FNB's lending analysis reflects a good distribution of loans throughout its delineated community.

Bank management performs a quarterly analysis of consumer, commercial, and real estate loans. Loan originations are monitored using both census tracts and zip codes. In addition, the bank monitors the level of credit denials within each census tract. The analysis is reasonable and is reviewed by senior management and the Board to assess loan distribution. In 1995, 80% of loan originations were within the bank's delineated community.

Assessment Factor G - The institution's record of opening and closing offices and providing services at offices.

- FNB's offices are readily accessible to all segments of the community, including moderate-income areas. Branch closing/opening activities have not adversely affected the bank's ability to provide services.

FNB has three offices, including the main office and drive-in facility, in downtown Siloam Springs. The branch offices are located in Siloam Springs and Gentry. Gentry is 8 miles north of Siloam Springs and has a population of less than two thousand. The bank operates five ATM machines, including one at Gates Robber Company. Additionally, the bank offers 24-hour telephone banking service which allows customers to access account

information. Banking hours are reasonable and include Saturday hours at the Westside Branch in Siloam Springs.

The bank plans to add two additional ATM's during 1996. Bank customers will have ATM access at the local IGA Supercenter and John Brown University Mabee Center.

IV. DISCRIMINATION AND OTHER ILLEGAL CREDIT PRACTICES

Assessment Factor D - Any practices intended to discourage applications for types of credit set forth in the institution's CRA Statement(s).

- FNB does not engage in any practices to discourage loan applicants.

Credit applications are solicited from all segments of the community, including LMI areas and individuals. The bank's policies, procedures, and training programs address the requirements of the Fair Housing Act, the Equal Credit Opportunity Act, and the Home Mortgage Disclosure Act. No practices or policies were identified that would tend to discourage individuals from applying for credit.

Assessment Factor F -- Evidence of prohibited discriminatory or other illegal credit practices.

- No evidence of prohibited discrimination or other illegal credit practices was found.

A fair lending examination was performed as a part of the concurrent compliance examination. We conducted a comparative analysis of 30 home improvement loans, based on gender, to determine if loan terms and conditions were consistently applied. In addition, we tested a sample of used automobile loan applications processed during all of 1995 and the first quarter of 1996. We compared 7 loan applications denied to Hispanic applicants (representing 100% of the Hispanic denials) and 32 loans approved to white applicants. Based on examination results, we found no instances of illegal discrimination or other illegal credit practices.

V. COMMUNITY DEVELOPMENT

Assessment Factor H - The institution's participation, including investments, in local community development and redevelopment projects or programs.

- FNB has taken a leadership role in promoting community development and redevelopment.

Through regular contact with a number of community organizations, FNB has effectively

identified community development needs. FNB is an active participant in community development programs and in the development or implementation of activities that benefit LMI individuals throughout the community. Bank employees and officers participate in a wide range of nonprofit organizations promoting economic growth and supporting the needs of LMI individuals. Examples of community development activities include the following:

- \$100,000 grant from the Federal Home Loan Bank- This grant money is a direct subsidy to help individuals with the down payment and closing costs to purchase single family homes. The bank is currently working with the Siloam Springs Housing Authority to obtain funding from the ADFA to purchase homes and to provide rehabilitation.
- Loan to Hispanic Church - Bank made a significant loan at favorable terms to payoff existing construction loans on the church building and to finance the purchase and installation of a modular home to be used as a parsonage for the church pastor.
- Siloam Springs Child Center - FNB is a 50% participant with another local bank in this Center's construction loan. FNB contributed \$7,300 in 1995 and approximately \$30,000 since the center was established. Recently, the bank pledged to donate \$9,000 a year for three years beginning in 1997. The purpose of the pledge was to help the center's foundation raise matching funds to receive a \$157,000 private donation.
- Woodcreek I and II residential development- In addition to providing the financing to develop both phases of these affordable housing projects, the bank financed pre-sold houses at 85% of the construction costs. Phase I consists of 20 lots and Phase II has 19 lots. FNB provided the construction financing for approximately 25 homes which sold for \$65,000 to \$75,000.
- Quail Run - Phase I consists of 8 lots and FNB provided financing to construct 7 homes. The bank also established a loan commitment to develop Phase II which has 29 lots. The homes in this affordable housing subdivision sell for \$50,000 to \$65,000.
- Dogwood Park - FNB financed the construction of 11 homes secured by a permanent take-out through the bank's mortgage department. The homes in this affordable housing subdivision are selling in the low \$60,000.

Assessment Factor K - The institution's ability to meet various community credit needs based on its financial condition and size, legal impediments, local economic conditions and other factors.

- FNB's efforts to meet credit needs are consistent with its size and financial

resources.

FNB has the financial capacity, resources, and willingness to meet the credit needs of the local community. For additional information, please refer to the “Bank Profile” and “Community Profile” sections located at the beginning of this evaluation.

Assessment Factor L - Any other factors that, in the regulatory authority's judgment, reasonably bear upon the extent to which an institution is helping to meet the credit needs of its entire community.

- FNB is engaged in other meaningful activities which contribute to the bank’s efforts to help meet community credit needs.

FNB participates in the following community activities:

Free Checking. FNB offers a free checking product to the local community. The account has no minimum balance requirements and unlimited check writing privileges. The opening deposit is \$100.

“How to Do Your Banking”. FNB sponsors “How To Do Your Banking”, an educational course for high school students. The program is a short course in banking skills taught by high school faculty as a supplement to their regular curriculum. The teachers can request the materials and the bank provides them free-of-charge to the school.

“Bank Products and Services” seminar - In April 1995, the bank conducted a seminar entitled “Bank Products and Services”. The seminar was held at a local Hispanic church and presented by two Spanish speaking employees of the bank. The purpose of the seminar was to provide information about bank products and services, particularly the process of applying for a loan.

ADDITIONAL INFORMATION

None.