

FEDERAL RESERVE SYSTEM

Mountain Home Bancshares, Inc.
Mountain Home, Arkansas

Order Approving the Acquisition of a Bank Holding Company

Mountain Home Bancshares, Inc. (“Mountain Home”), a bank holding company within the meaning of the Bank Holding Company Act (“BHC Act”), has requested the Board’s approval under section 3 of the BHC Act (12 U.S.C. § 1842) to acquire Pocahontas Bankstock, Inc. (“Pocahontas”) and its subsidiary bank, Bank of Pocahontas (“BOP”), both in Pocahontas, Arkansas.¹

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published (69 Federal Register 20,623 (2004)). The time for filing comments has expired, and the Board has considered the proposal and all comments received in light of the factors set forth in section 3 of the BHC Act.

Mountain Home is the 33rd largest depository organization in Arkansas, with total consolidated assets of \$268.4 million. It controls First National Bank and Trust Company of Mountain Home (“First National”), Mountain Home, Arkansas, with deposits of \$205.1 million, which represents less than 1 percent of total deposits of insured depository institutions in Arkansas (“state deposits”).² Pocahontas, with total consolidated assets of \$129.7 million, is the 73rd largest depository organization in Arkansas, controlling deposits of \$108 million. On consummation of the proposal, Mountain Home would become the 22nd largest depository organization in Arkansas, with total consolidated assets

¹ After consummation of the proposal, Mountain Home would operate BOP as a subsidiary bank for a period of time.

² Asset data are as of December 31, 2003, and statewide deposit and ranking data are as of June 30, 2003.

of approximately \$398 million and deposits of approximately \$313.2 million, which represents less than 1 percent of state deposits.

Competitive Considerations

Section 3 of the BHC Act prohibits the Board from approving a proposal that would result in a monopoly or would be in furtherance of any attempt to monopolize the business of banking in any relevant banking market. The BHC Act also prohibits the Board from approving a proposed bank acquisition that would substantially lessen competition in any relevant banking market, unless the Board finds that the anticompetitive effects of the proposal clearly are outweighed in the public interest by the probable effect of the proposal in meeting the convenience and needs of the community to be served.³

Mountain Home and Pocahontas do not compete directly in any relevant banking market. Based on all the facts of record, the Board has concluded that consummation of the proposal would have no adverse effect on competition or on the concentration of banking resources in any relevant banking market. Accordingly, the Board has determined that competitive factors are consistent with approval of the proposal.

Financial, Managerial, and Supervisory Considerations

Section 3 of the BHC Act requires the Board to consider the financial and managerial resources and future prospects of the companies and banks involved in the proposal and certain other supervisory factors. The Board has carefully considered these factors in light of all the facts of record, including reports of examination, other confidential supervisory information received from the primary federal banking agencies that supervise the institutions, information provided by Mountain Home, and public comment on the proposal.

³ 12 U.S.C. § 1842(c)(1).

Mountain Home is well capitalized and will remain so on consummation of the proposal. In addition, the Board has consulted with the Office of the Comptroller of the Currency (“OCC”), the primary federal supervisor of First National, about the proposal. The Board also has considered the managerial resources of Mountain Home and Pocahontas, including the management officials proposed for Pocahontas, and the examination records of those organizations and BOP, including their risk management systems and other policies.

A commenter opposing the proposal asserted that Pocahontas and BOP did not comply with a Cease and Desist Order issued to Pocahontas by the Federal Deposit Insurance Corporation (“FDIC”) regarding shareholder reporting requirements. The Cease and Desist Order was terminated by the FDIC on August 28, 2003.⁴ The Board has considered the information provided by Mountain Home and Pocahontas in response to the comment and has reviewed confidential supervisory information about these matters.

Based on all the facts of record, the Board has concluded that considerations relating to the financial and managerial resources and future

⁴ The commenter also contended that Pocahontas and BOP violated provisions of state law on minority shareholder rights and shareholder meeting requirements. In addition, the commenter alleged that he has not been provided with sufficient financial information about the proposed transaction to be able to determine the value of his stock ownership as a result of the proposal. Mountain Home stated that in accordance with its bylaws and with Arkansas law, Pocahontas will send advance notice of a special meeting to its shareholders that will include all the information necessary to vote on the proposal. The Board has consulted with the Arkansas State Banking Commission in light of the commenter’s concerns. Moreover, courts have concluded that the Board’s limited jurisdiction to review applications under the BHC Act does not authorize it to consider matters relating to shareholder relations and appropriate shareholder compensation. See Western Bancshares, Inc. v. Board of Governors, 480 F.2d 749 (10th Cir. 1973). These matters are governed by state corporate law and may be adjudicated by a court with jurisdiction to provide commenter with relief, if appropriate.

prospects of Mountain Home, Pocahontas, and BOP are consistent with approval, as are the other supervisory factors under the BHC Act.

Convenience and Needs Considerations

In acting on a proposal under section 3 of the BHC Act, the Board is required to consider the effects of the proposal on the convenience and needs of the communities to be served and to take into account the records of the relevant insured depository institution under the Community Reinvestment Act (“CRA”).⁵ The CRA requires the federal financial supervisory agencies to encourage financial institutions to help meet the credit needs of the local communities in which they operate, consistent with their safe and sound operation, and requires the appropriate federal financial supervisory agency to take into account an institution’s record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, in evaluating bank expansionary proposals.

The Board has considered carefully the convenience and needs factor and the CRA performance records of the subsidiary banks of Mountain Home and Pocahontas in light of all the facts of record. Considerations relating to the convenience and needs of the community, including the performance records of First National and BOP, are consistent with approval.⁶

Conclusion

Based on the foregoing and all the facts of record, the Board has determined that the application should be, and hereby is, approved. In

⁵ 12 U.S.C. § 2901 et seq.

⁶ At its most recent CRA evaluation by the OCC, First National received an overall “outstanding” rating, as of November 4, 2002. BOP received an overall “satisfactory” rating at its most recent CRA performance evaluation by the FDIC, as of November 1, 2002.

reaching its conclusion, the Board has considered all the facts of record in light of the factors that it is required to consider under the BHC Act and other applicable statutes. The Board's approval is specifically conditioned on compliance by Mountain Home with the conditions imposed in this order and the commitments made to the Board in connection with the application. For purposes of these actions, the commitments and conditions are deemed to be conditions imposed in writing by the Board in connection with its findings and decision and, as such, may be enforced in proceedings under applicable law.

The acquisition of Pocahontas may not be consummated before the fifteenth calendar day after the effective date of this order, or later than three months after the effective date of this order, unless such period is extended for good cause by the Board or the Federal Reserve Bank of St. Louis, acting pursuant to delegated authority.

By order of the Board of Governors,⁷ effective June 7, 2004.

(signed)

Robert deV. Frierson
Deputy Secretary of the Board

⁷ Voting for this action: Chairman Greenspan, Vice Chairman Ferguson, and Governors Gramlich, Bies, Olson, Bernanke, and Kohn.