

# **PUBLIC DISCLOSURE**

June 10, 1996

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**First Bank of Arkansas  
RSSD #459046**

**P.O. Box 3010**

**Russellville, Arkansas 72811**

**Federal Reserve Bank of St. Louis**

**P.O. Box 442**

**St. Louis, Missouri 63166**

**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 Reserve 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 CRA performance of **First Bank of Arkansas**, prepared by the **Federal Reserve System**, the institution's supervisory agency, as of June 10, 1996. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 228.*

**INSTITUTION'S CRA RATING:** This institution is rated **Outstanding**.

First Bank of Arkansas meets the standards required to receive an outstanding CRA performance rating. The bank's loan-to-deposit ratio is reasonable, given the institution's size, financial condition, capacity to lend, and assessment area credit needs. A substantial majority of its loans are extended within its assessment area, and these loans are reasonably dispersed throughout the assessment area to borrowers of different incomes and businesses of different sizes. In addition, the bank's investments and services offered enhance credit availability in its assessment area and lend sufficient support to achieve an outstanding rating.

The following table indicates the performance level of First Bank of Arkansas with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	FIRST BANK OF ARKANSAS 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 relevant. See comments on page 6.		
Response to Complaints	No complaints were received since the prior examination.		

## DESCRIPTION OF INSTITUTION

The First Bank of Arkansas is owned by Southwest Bancshares, Incorporated, which is located in Jonesboro, Arkansas. The bank's main office and three branches are located in Russellville. Along with these facilities, the bank has branches in the Arkansas towns of Clarksville, Dover, Hector, and London. An automated teller machine (ATM) is located at each office except Hector and London. As of December 31, 1995, the bank reported approximately \$233 million in assets. Primary loan products include agricultural loans, commercial loans, consumer loans, and residential loans. The bank has two local competitors whose assets on December 31, 1995, were approximately \$164 million and \$193 million.

## **DESCRIPTION OF THE BANK'S ASSESSMENT AREA**

The assessment area is the contiguous Arkansas counties of Pope and Johnson. The major towns in these counties are Russellville and Clarksville, respectively. Pope County contains more population, housing units, and business establishments because the entire northern half of Johnson County is covered by the Ozark National Forest.

The assessment area contains only middle- and upper-income block numbering areas (BNAs). The middle-income BNAs in Pope County are 9507, 9508, 9510, 9511, 9513, 9514, and 9516. The only three upper-income BNAs in the assessment area are in Pope County, and they are BNAs 9509, 9512, and 9515. The middle-income BNAs in Johnson County are 9517, 9518, 9519, 1920, 1921, and 1922. Unless otherwise noted, the demographic information presented below is from the 1990 United States Census, and all percentages are rounded to the nearest whole unit.

The nonmetropolitan median family income for the state was \$22,420, which compares to a median family income of \$24,865 for the assessment area. Of the 371,559 families in the state's nonmetropolitan areas, 21 percent are low income and 17 percent are moderate income. Of the 17,748 families in the assessment area, 17 percent were low income and 16 percent were moderate income.

Sixty-four percent of the housing units in the state's nonmetropolitan areas were owner occupied, 24 percent were rental, and 12 percent were vacant. These figures are quite similar to the assessment area's numbers of 65 percent, 25 percent, and 10 percent, respectively. Seventy percent of the assessment area's housing units were located in Pope County. Pope County contains 72 percent of the assessment area's total population.

The median home value was \$39,710 for statewide nonmetropolitan areas and \$44,540 for the assessment area. The median gross rent was \$287 for statewide nonmetropolitan areas and \$310 for the assessment area. There are more mobile homes (3,800) in the assessment area than multi-family units (1,304); however, this situation is consistent throughout the state of Arkansas. The median age for housing units in Pope County was 20 years, and the median age in Johnson County was 17 years.

There are 49,592 persons 16 or older in the assessment area, and 60 percent of these people are in the labor force. The assessment area's unemployment rate was approximately 7 percent compared to 8 percent for the state's nonmetropolitan areas. According to the 1992 County Business Patterns, there were 1,463 business establishments in the assessment area. Manufacturing was the major employment sector, which was followed by the services sector, and then retail trade. Ninety-four percent of the assessment area's businesses employed less than 50 people, and only three businesses employed more than 500 people.

Two community contacts were made as part of this examination. They revealed pertinent

information regarding the local banks= community involvement and the credit needs of the assessment area=s residents and businesses. These comments were helpful in determining the context in which to evaluate the bank=s performance.

## **CONCLUSIONS WITH RESPECT TO THE PERFORMANCE CRITERIA**

### **Loan-to-Deposit Ratio**

The bank=s loan-to-deposit ratio is reasonable. The bank=s average loan-to-deposit ratio since the previous examination is 80 percent. The two local competitors= average loan-to-deposit ratios over the same time period are 78 percent and 82 percent. First Bank of Arkansas is active in loan sales on the secondary market, but these transactions are not reflected in the bank=s average loan-to-deposit ratio. Without these sales, the bank=s loan-to-deposit ratio could be higher.

The bank offers various home mortgage products. One such product, the Rural Economic and Community Develop Service=s (formerly the Farmer=s Home Administration) guaranteed loan is tailored to meet the needs of low- and moderate-income home buyers. For loans that do not meet the secondary market underwriting criteria, the bank offers two mortgage products that are maintained in its portfolio.

As a member of the Federal Home Loan Bank (FHLB) of Dallas, the First Bank of Arkansas has extensively used the Community Investment Program (CIP) and the Affordable Housing Program (AHP), which are available only to FHLB bank members. Through the CIP, the bank has offered fixed-rate, long-term financing to businesses in order to create new jobs, and to nonprofit housing developers to construct housing for low- and moderate-income home buyers. A grant from the AHP is helping to reduce the closing costs and to provide down payment assistance to low- and moderate-income home buyers.

Management also used the CIP to establish a revolving loan pool to originate nonconforming single-family mortgages. This product primarily funds small dollar mortgage loans, and aids self-employed home buyers who often do not meet secondary market underwriting criteria. In addition to small term loans, the bank offers credit cards.

The bank has made economic development loans in excess of \$12.9 million that helped create more than 200 jobs. Three of the loans were made at below market rates, and two of the loans were made to local governments of low- and moderate-income communities.

First Bank of Arkansas participates in government guaranteed loan programs, other than the aforementioned Rural Economic and Community Develop Service program, that enhance lending to low- and moderate-income borrowers and small businesses. The bank uses the Arkansas Development Finance Authority=s Bond programs to provide first-time, low-and moderate-income home buyers with low-interest loans. In addition, the bank

provides financing to its qualifying business customers through the Small Business Administration (SBA) Guaranteed Loan Program.

### **Lending in Assessment Area**

The bank's efforts to lend within its assessment area exceed the standards for satisfactory performance. Of the 262 loans sampled, 253 ,or 97 percent were located within the assessment area.

**Number and Percent of Loans by Location**

<b>Type</b>	<b>Sample Size</b>	<b>Inside</b>	<b>Percent</b>	<b>Outside</b>	<b>Percent</b>
Consumer	164	155	95%	9	5%
Commercial	98	98	100%	0	0%

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

Loan originations located within the assessment area were analyzed by income of the loan applicant to determine if loans are being made to individuals of all income levels.<sup>1</sup> The four different levels of income categories are low, moderate, middle, and upper. These categories are derived from a percentage of the statewide nonmetropolitan median family income which is \$22,420.

The bank's lending distribution to borrowers reflects a reasonable penetration among individuals of different income levels. Loans to low- and moderate-income (LMI) individuals represent 30 percent of the loans in the assessment area. Since the area's LMI population is 39 percent, the sample was reevaluated using the assessment area's median family income of \$24,865. Using this figure, 41 percent of loans sampled were to LMI individuals. The difference in numbers results from the bank's assessment area having a higher median family income than the statewide nonmetropolitan area.

The bank is also successful in penetrating the small business sector of the local economy. Of the commercial loans sampled, 78 percent were extended to businesses with gross annual revenues of \$1 million or less.

### **Geographic Distribution**

---

<sup>1</sup>The amount of income used to categorize a borrower is the income the bank relied on to make the credit decision.

The bank's assessment area does not have any BNA's designated as low- or moderate-income. An analysis of loan dispersion among geographies of different income levels would not provide meaningful information. Thus, such an analysis was not performed.

### **Review of Complaints**

No CRA-related complaints have been received since the previous examination.

### **Investments and Services**

At management's request, investments and services were reviewed to determine the potential impact of the investments and services on the bank's overall rating. Bank management has done a good job of seeking out the few opportunities that exist and creating innovative and flexible services that enhance credit availability in the assessment area.

The bank also provides annual grants to nonprofit economic development organizations. The organizations focus on business recruitment, job creation, and providing technical assistance to small businesses. One organization's activities are narrowly targeted to revitalizing a distressed area and have resulted in 30 new businesses that created 70 jobs.

The bank has an excellent distribution of branches throughout its assessment area. Management stated the bank has opened one branch in each of the previous three years, while competitors have been closing branches. In responding to the community's needs, the bank's hours of operation have been extended. The Dover community has many residents who commute to work in Russellville and need banking services earlier than 8 a.m. Consequently, management extended the branch's operating hours from 7 a.m. to 5 p.m.

Bank personnel have provided many hours of technical assistance. In addition, bank personnel have conducted or participated in five home-buyer workshops whose topics included credit counseling, budgeting, and familiarizing potential home buyers with the loan application process.

### **Record of Compliance with Anti-Discrimination Laws**

The examination included a review of the bank's compliance with the Regulation B - Equal Credit Opportunity and the Fair Housing Act. No violations of a substantive nature were identified.