

PUBLIC DISCLOSURE

January 5, 1998

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

McIlroy Bank & Trust Company

RSSD# 311845

**P.O. Box 1327
Fayetteville, Arkansas 72701-1327**

Federal Reserve Bank of St. Louis

P.O. Box 442

St. Louis, Missouri 63166-0442

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.

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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 **Mcllroy Bank & Trust Company** prepared by the **Federal Reserve System**, the institution's supervisory agency, as of January 5, 1998. The agency evaluates performance in assessment area(s), as they are delineated by this institution, rather than individual branches. This assessment area evaluation may include visits to some, but not necessarily all of the institution's branches. 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 **satisfactory**.

Mcllroy Bank & Trust Company meets the criteria for a satisfactory overall rating. The rating is based upon an analysis of the bank's lending performance, qualified investments, and retail and community development services.

An analysis of the bank's performance under the lending test revealed favorable responsiveness to assessment area credit needs. The distribution of loans among retail customers of different income levels reflects an adequate penetration and an excellent penetration among businesses and farms of different sizes. The geographic dispersion of loans reflects good penetration throughout the assessment area. A majority of the bank's loans and other lending related activities are extended within its assessment area. The loan-to-deposit ratio is excellent given the bank's size, its financial condition, the performance of its competitors, and the credit needs of the assessment area. Given the limited opportunities for community development lending, the bank has made an adequate number of community development loans.

Under the investment test, the bank's performance exhibits an adequate level of responsiveness to community development investments and grants. The bank has made periodic monetary contributions to community development organizations and agencies that benefit low- and moderate-income (LMI) individuals and families.

Lastly, the bank's performance under the service test is considered adequate. Delivery systems are reasonably accessible to essentially all portions of the assessment area. Although the bank closed a branch in a moderate-income census tract, it did not adversely affect the accessibility of its delivery systems, particularly LMI individuals or geographies. Retail services and hours of operation are reasonable and convenient. Furthermore, the bank provides an adequate level of community development services.

The following table indicates the performance level of Mcllroy Bank & Trust Company with respect to the lending, investment, and service tests.

PERFORMANCE LEVELS	McIlroy Bank & Trust Company		
	PERFORMANCE TESTS		
	Lending Test*	Investment Test	Service Test
Outstanding			
High Satisfactory	X		
Low Satisfactory		X	X
Needs to Improve			
Substantial Noncompliance			

DESCRIPTION OF INSTITUTION:

McIlroy Bank & Trust Company is a retail bank primarily focusing on 1-4 family residential and consumer loans. It offers adjustable rate and nonconforming¹ real estate loans through the bank, and it offers conventional fixed rate, Federal Housing Administration (FHA) and Veteran Administrations (VA) loans through an affiliate, Arvest Mortgage Company. The bank’s branch network consists of seven full-service branches with on-site automatic teller machines (ATMs), along with seven additional freestanding ATMs within Washington County. As of September 30, 1997, the bank reported total assets of \$393.6 million.

The bank’s primary competition consists of three locally-owned financial institutions with asset sizes ranging from \$25.8 to \$161.2 million. Also operating in the bank’s assessment area is a large multi-state institution; however, it is not considered a competitor for purposes of this evaluation due to its size and resources.

The bank is a wholly-owned subsidiary of Arvest Bank Group, Inc., a multi-bank holding company located in Bentonville, Arkansas. The holding company reported assets of \$2.8 billion as of September 30, 1997.

DESCRIPTION OF ASSESSMENT AREA:

The assessment area consists of all 30 census tracts in Washington County, which is located in the northwestern portion of Arkansas. Washington County is part of the Fayetteville-Springdale-Rogers Metropolitan Statistical Area (MSA). Each of the 30 census tracts included in the assessment area can be classified according to the

*Note: The lending test is weighted more heavily than the investment and service tests when arriving at an overall rating.

¹ Nonconforming loans are those that are underwritten using standards that do not conform to secondary market standards, and are, therefore, normally held in the bank’s loan portfolio.

income characteristics of the geography.² The following table reflects the classification of the geographies by income level, and the population distribution within those geographies.

Distribution of Census Tracts in Assessment Area by Income Level					
Census Tracts	Income Level Classification				Total
	Low-	Moderate	Middle-	Upper-	
Number of Census Tracts	1 3.3%	4 13.3%	22 73.3%	3 10.0%	30 100%
Population Distribution	-0-	13.3%	72.2%	14.5%	100%

As illustrated in the table above, there is one low-income geography, four moderate – income, twenty-two middle-income, and three upper-income geographies. The one low-income tract represents 3.3 percent of the number of census tracts and has no population residing in it.³ Approximately 13.3 percent of the census tracts in the assessment area are classified as moderate-income, with 13.3 percent of the area's families residing within those tracts. Similarly, upper-income census tracts account for 10.0 percent of the geographies, while 14.5 percent of the area's families reside within those tracts.

The following table displays population percentages of assessment area families by income level compared to the MSA population.

Assessment Area Income Stratification⁴		
1990 Census Data	Metropolitan Statistical Area (MSA 2580)	Assessment Area (Washington County)
Low-Income Families	17.0%	19.1%
Moderate-Income Families	19.9%	19.5%

² Low-income is defined as individual income, or in the case of a geography, a median family income that is less than 50 percent of the MSA median family income.

Moderate-income is defined as individual income, or in the case of a geography, a median family income that is at least 50 percent and less than 80 percent of the MSA median family income.

Middle-income is defined as individual income, or in the case of geography, a median family income that is at least 80 percent and less than 120 percent of the MSA median family income.

Upper-income is defined as individual income, or in the case of geography, a median family income that is 120 percent or more of the MSA median family income.

³ The one low-income census tract had no population at the time of the 1990 census, but it is now being developed. However, there are no statistics yet available regarding the specific number of housing units built or the number of businesses operating in the tract.

⁴ Population income levels were determined using the 1990 census median family income.

Middle-Income Families	25.1%	24.8%
Upper-Income Families	37.9%	36.6%

As depicted in the table, assessment area population percentages are very similar to the MSA percentages.

Although five of the census tracts within the bank's assessment area are classified as low- or moderate-income (LMI) census tracts, concentrations of LMI families are difficult to identify. Contacts made outside the bank indicated that LMI families are dispersed throughout the assessment area.

The assessment area, as well as the entire MSA, has experienced a large population growth over the last six years. Statistics provided by the Northwest Arkansas Regional Planning Commission demonstrate the region's population has grown by about 7,000 people per year since 1990. In 1990, the MSA had a population of 210,908 and had grown to about 259,782 at the end of 1996.

Outside contacts stated that the reason for the population growth is due to a relatively low cost of living combined with many companies locating in Fayetteville or the surrounding MSA. Because of the increased availability of jobs in the area, the unemployment rate for Washington County is well below the state average. The most recent unemployment figures reflect a statewide unemployment rate of 5.2 percent while Washington County had an unemployment rate of only 2.7 percent.

The growth and prosperity experienced by the region's employers and low unemployment have led to low-skilled jobs being filled by workers who are recruited from outside the immediate region. This increase in the labor force has caused an immediate need for affordable housing. Outside contacts indicated that the demand for housing has driven up the cost of the average house. Consequently, LMI families have difficulty affording a house as evidenced by the assessment area affordability ratio⁵ of 41 percent.

CONCLUSIONS WITH RESPECT TO THE PERFORMANCE TESTS:

LENDING TEST

Mclroy Bank & Trust Company meets the standards of a high satisfactory rating under the lending performance test. Lending levels reflect good responsiveness to assessment area credit needs. A high percentage of loans are made in the bank's assessment area. Further, the distributions reveal reasonable lending penetration to borrowers of different income levels, to businesses of different sizes, and by geography. Given local opportunities for community development lending, the bank has made an adequate level of community development loans. Lastly, the bank periodically uses innovative and/or flexible lending practices in order to better serve the assessment area's credit needs.

⁵ This figure is calculated by dividing the median household income by the median housing value and represents the amount of single family owner-occupied housing that a dollar of income can purchase for the median household in the geography. Values closer to 100 percent indicate greater affordability.

The bank's performance under the lending test was evaluated using 1996 and 1997 Home Mortgage Disclosure Act (HMDA) data; 1996 and the first six months of 1997 small business and small farm data; and a sample of consumer loans originated in the last six months of 1997. These three loan categories are considered the bank's primary lines of business and, therefore, are indicative of the overall lending performance of the bank.

Loan Distribution by Borrower Income/Revenues

HMDA reportable real estate loans and consumer loans were reviewed to determine the level of penetration among borrowers of different income levels. Separately, small business and small farm loans originated by the bank were evaluated for distribution among businesses and farms of different revenue sizes. The following table shows the distribution of HMDA loans and consumer loans by income level of the borrower.

Loan Type	Distribution by Borrower Income Level Number of Loans and Dollar Amount				
	Low-	Moderate-	Middle-	Upper-	Total ⁶
1996 HMDA	12 7%	24 13%	40 22%	103 58%	179 100%
	\$544,000 4%	\$1,161,000 9%	\$2,342,000 17%	\$9,321,000 70%	\$13,368,000 100%
1997 HMDA	11 5%	16 8%	36 18%	144 70%	207 100%
	\$294,000 2%	\$681,000 5%	\$1,807,000 13%	\$10,911,000 80%	\$13,693,000 100%
Consumer	32 24%	44 33%	20 15%	37 28%	133 100%
	\$184,617 16%	\$224,943 20%	\$171,082 15%	\$569,685 50%	\$1,150,327 100%
Total Loans Reviewed	55 11%	84 16%	96 19%	284 55%	519 100%
	\$1,022,617 4%	\$2,066,943 7%	\$4,320,082 15%	\$20,801,685 74%	\$28,211,327 100%
Assessment Area Family Population	19.1%	19.5%	24.8%	36.6%	100%

When both 1996 and 1997 are combined, the bank only originated 16 percent of the number and 10 percent of the dollar volume of its HMDA reportable loans to LMI borrowers. In comparison, the assessment area population of LMI families is 38.6 percent. For additional comparison, the 1996 MSA Aggregate HMDA data indicates that 22 percent of all HMDA loans originated by all institutions in the MSA were to LMI borrowers. While the bank's loan distribution to LMI borrowers appears low based on these comparisons, the local housing market must be considered. As discussed in the description of the assessment area, housing costs are quite high, making it difficult for LMI families to afford owner-occupied housing.

The bank, in an effort to accommodate LMI real estate borrowers, originates FHA and VA loans through an affiliate, Arvest Mortgage Company. These loans are not reflected in the above figures in the table and are discussed later under the "Affiliate Lending" section. Also, the bank participated in programs designed to assist LMI borrowers with closing costs. These programs are discussed in detail in the "Innovative or Flexible Lending Practice" section of this evaluation.

When analyzed separately, the bank originated 57 percent of the number and 36 percent of the dollar volume of consumer loans to LMI borrowers, compared to an LMI family population of 38.6 percent. Many of these loans were for an amount less than \$1,000, which management indicates is an identified credit need of LMI residents of the assessment area. The bank has a high level of penetration of consumer lending among LMI individuals.

⁶ Due to rounding, individual percentages of each income category do not always add to exactly 100 percent in the total column.

Lastly, when all of the loans reviewed are combined, the bank originated 27 percent of the number and 11 percent of the dollar volume to LMI borrowers. Given the population percentage of LMI families and product lines offered by the bank, the distribution of borrowers reflects adequate penetration among retail customers of different income levels.

While the distribution of borrowers of different income levels is adequate, the bank's overall level of performance is enhanced by its lending to businesses and farms of different revenue sizes. The following table reflects the distribution of small business loans by revenue and loan amount.

Distribution of Small Business Loans				
Gross Revenue	Loan Origination Amount \$(000's)			Total Loans
	#\$100	>\$100#\$250	>\$250<\$1,000	
Less than \$1 million	281 67%	32 8%	18 4%	331 79%
\$1 million or more	44 10%	16 4%	31 7%	91 21%
Total Loans	325 77%	48 11%	49 12%	422 100%

The next table reflects the distribution of small farm loans by revenue level and loan amount.

Distribution of Small Farm Loans				
Gross Revenue	Loan Origination Amount \$(000's)			Total Loans
	#\$100	>\$100#\$250	>\$250<\$500	
Less than \$1 million	127 97%	3 2%	0 N/A	130 99%
\$1 million or more	0 N/A	0 N/A	1 1%	1 1%
Total Loans	127 97%	3 2%	1 1%	131 100%

Both tables demonstrate a large volume of loans made to small businesses and small farms, which are defined as entities having gross annual revenues of less than \$1 million. The bank originated 79 percent of its business loans to small businesses and 99 percent of its farm loans to small farms. These figures surpass the 1996 CRA Aggregate data⁷ percentages, which show that of all business loans and farm loans reported in Washington County, 71 percent were made to small businesses and 93 percent were to small farms.

⁷ Aggregate information is taken from the 1996 Community Reinvestment Act Aggregate and Disclosure data which is derived from data reported by all institutions in the market.

Furthermore, of these loans to small businesses, 67 percent were for loan amounts of \$100,000 or less. Of these small farm loans, 97 percent were for loan amounts of \$100,000 or less.

Loan Distribution by Geography

The bank's assessment area contains one low-income tract, four moderate-income tracts, twenty-two middle-income tracts, and three upper-income tracts. The following table illustrates the distribution of the bank's consumer loans, HMDA reportable loans, small business, and small farm loans across these geographies.

Geographic Distribution of Loans (Number and Dollar Volume) Across Assessment Area by Income Level of Census Tracts					
	Census Tract Income Classification				
Loan Type	Low-	Moderate-	Middle-	Upper-	Total
Consumer	3 2%	17 13%	91 68%	22 17%	133 100%
	\$30,300 3%	\$75,888 7%	\$818,948 71%	\$225,192 20%	\$1,150,328 100%
HMDA ⁸	6 1%	23 6%	274 67%	106 26%	409 100%
	\$417,000 2%	\$1,153,000 4%	\$19,439,000 69%	\$7,054,000 25%	\$28,063,000 100%
Small Business	14 3%	83 20%	225 53%	100 24%	422 100%
	\$786,450 2%	\$10,288,080 22%	\$23,294,764 51%	\$11,590,024 25%	\$45,959,318 100%
Small Farm	0 N/A	8 6%	112 86%	11 8%	131 100%
	\$0 N/A	\$102,088 3%	\$2,825,813 91%	\$183,323 6%	\$3,111,224 100%
Total Loans Reviewed	23 2%	131 12%	702 64%	239 22%	1,095 100%
	\$1,233,750 2%	\$11,619,056 15%	\$46,378,525 59%	\$19,052,539 24%	\$78,283,870 100%
Population Residing in Census Tracts	0%	13%	72%	15%	100%

Mcllroy Bank's overall lending in LMI census tracts is good. As the table demonstrates, the number of consumer loans originated in LMI census tracts, 15 percent, slightly exceeds the family population of 13 percent residing in those tracts. However, the 7 percent of HMDA related real estate loans is low compared to the family population residing in LMI tracts. The reason for the low lending level of real estate loans in LMI tracts may be attributed to the low owner occupancy rates. According to 1990 census data only 22.1 percent of the housing units in LMI census tracts are owner occupied.

⁸ HMDA data for 1996 and 1997 are combined for this table.

Also, as previously mentioned, the high cost of housing in the assessment area makes home ownership very difficult for LMI community members.

The number of small business and small farms located in LMI census tracts is not readily available to be used as a comparison to the bank's lending activity. However, the small business and small farm lending is reasonable. Approximately 23 percent of the number and 24 percent of the dollar amount of small business loans originated is in LMI census tracts. As discussed earlier, only 17 percent of assessment area census tracts are LMI. The number and dollar amount of small farm loans, six and three percent, respectively, is adequate. A very small percentage of the assessment area's economy relates to farming.

Lending in the Assessment Area

The following table demonstrates that a high percentage of loans were extended to borrowers inside the assessment area. Of the total loans reviewed, 1,095, or 84 percent, are located within the assessment area.

Distribution of Lending Inside Assessment Area					
Loan Type	Total Number/Dollars	Number in Assessment Area		Dollar Amount in Assessment Area	
Consumer	154 \$1,342,079	133	86%	\$1,150,327	86%
HMDA	464 \$31,400,000	409	88%	\$28,063,000	89%
Small Farm	206 \$3,985,377	131	64%	\$3,111,224	78%
Small Business	472 \$50,736,766	422	89%	\$45,959,318	91%
Total	1,296 \$87,464,222	1,095	84%	\$78,283,869	90%

Lending Activity

An indication of the bank's overall level of lending activity is its loan-to-deposit ratio. For the last eight quarters, the bank has had an average loan-to-deposit ratio of 84.0 percent. The bank appears to have a high level of lending when compared to three local competitors of similar asset size and resources whose average loan-to-deposit ratios ranged from 56.7 to 78.8 percent over the same time period.

Community Development Lending

Opportunities within the bank's assessment area are limited for community development lending. Very few initiatives have been made in the Fayetteville Spingdale-Rogers MSA to promote multi-family or single-family affordable housing or to promote small business growth. However, the bank has participated in community development projects when available. In the last two years, the bank has made 15 loans totaling \$886,850 in conjunction with outside agencies in an effort to satisfy the need for affordable housing. The table below summarizes these loans.

Qualified Community Development Loans			
Loan Type	Purpose	Number	Dollar Volume
First Time Bond	Designed to help LMI borrowers qualify as first-time homebuyers by charging a below market interest rate.	4	\$262,100
Arkansas Development Finance Authority (ADFA)	ADFA pays one-half the down payment and all of the closing costs for LMI borrowers.	6	\$350,200
Federal Home Loan Bank (FHLB) Helping Hands	FHLB provides assistance to LMI borrowers for payment closing costs.	4	\$217,400
Community Development Block Grant	The bank provided a portion of the financing for renovation of a dilapidated house.	1	\$57,150

Given the limited opportunities with the bank's assessment area, the bank has made an adequate level of community development loans.

Innovative or Flexible Lending Practices

The bank uses innovative and flexible lending practices, when appropriate, in order to serve assessment area credit needs. The bank is a member of the Federal Home Loan Bank in order to participate in special loan programs designed to promote home loans to LMI borrowers and promote community development loans including small business programs. This membership has yielded four "Helping Hands" home loans as discussed alone. This program provides money to pay for the closing costs for qualified LMI borrowers.

Other programs in which the bank participates in order to qualify LMI borrowers are ADFA and First Time Bond Loan. The ADFA program will provide up to \$3,000 for the down payment and closings costs in an effort to qualify LMI borrowers that would not otherwise qualify under typical underwriting standards. Applicants must participate in home ownership counseling and must not surpass certain income ceilings. The First Time Bond Loan program is state funded and provides loan money to first time homebuyers at a below market interest rate. The lower interest rate reduces monthly payments and consequently makes qualifying easier for LMI applicants.

Affiliate Lending

In an effort to limit the interest rate risk in the bank's loan portfolio, the bank itself only originates adjustable rate mortgage loans. It offers conventional fixed rate, FHA, and VA real estate loans through Arvest Mortgage Company. The bank opted to have these loans considered to enhance its overall 1-4 family residential lending performance. Fixed rate and government issued applications are taken by the bank and underwritten by bank personnel, but are closed and funded by Arvest Mortgage for later sale in the secondary market. The mortgage company maintains records indicating the aggregate number and dollar volume of each type of loan coming from each affiliate bank. The following table shows the number of dollar volume of loans originated through the bank during 1997.

Affiliate Lending		
Loan Type	Number	Dollar Volume (millions)
Conventional	241	\$27.8
FHA	64	\$4.5
VA	13	\$1.2
Total	318	\$33.5

The large volume of loans originated through the bank's affiliate augments the overall performance of the bank in the lending test.

INVESTMENT TEST

Qualified Investments

The bank's qualified investments consist of community development grants. Through its provision of qualified community development grants, the bank exhibits an adequate responsiveness to credit and community economic development needs within its assessment area. As a result, the bank's performance in the investment test is considered low satisfactory.

The following table lists the bank's total qualified community development grants for 1997 and 1996.

Qualified Community Development Grants		
Recipient	Purpose	Total Amount of Grants
Habitat for Humanity	Housing for LMI persons.	\$350
United Way of Washington County	Provide necessities and services to LMI persons.	\$2,854
Big Brothers/Big Sisters of Northwestern Arkansas	Provide counseling and tutoring services for LMI children.	\$500
The M&N Augustine Foundation	Provide clothing and necessities to LMI children.	\$1,000
Richardson Center, Inc.	Provide recreational facilities to LMI children and teens.	\$100
Northwest Arkansas Free Health and Dental Center	Provide medical care for LMI families.	\$200
Economic Opportunity Agency	Promote small business ventures in Fayetteville.	\$25
	Provide scholarship for LMI	

Single Parent Scholarship	persons.	\$400
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The bank made a total of \$5,429 of qualified community development grants in 1996 and 1997.

The Walton Family Foundation, an affiliate of the bank, made two grants in the name of the bank in addition to these discussed above. The Walton Family Foundation is a non-profit philanthropic organization established to make donations in its own name and the name of various affiliated companies. Specifically, the two qualified community development grants made in the name of Mcllroy Bank & Trust were a \$2,500 donation to the Junior Service League of Northwest Arkansas and \$4,000 donation to the Junior Civic League. The Junior Service League provides monetary and voluntary support for mentoring programs targeting needy children in public schools. It also provides monetary support for the homeless of northwest Arkansas. The grant to the Junior Civic League was used to assist the Big Brothers/Big Sisters program.

SERVICE TEST

Given the bank's branch network, hours of operation, and comprehensive loan and deposit product offerings, the bank's delivery systems are reasonably accessible to essentially all portions of the assessment area. Services do not vary in a way that inconveniences portions of the assessment area, particularly LMI geographies or individuals. The bank's opening and closing branches have not adversely affected the accessibility of its delivery systems, particularly in LMI geographies and individuals. Provision of community development services is also adequate. In summary, the bank's performance under the service test is considered low satisfactory.

Reasonableness of Business Hours and Services/Accessibility of Delivery Systems

As discussed in the description of the institution, the bank offers a wide range of deposit and loan products. Loan products include consumer loans, both direct and indirect; real estate loans, adjustable and nonconforming loans; and commercial and industrial loans. Through Arvest Mortgage, the bank offers secondary market real estate loans including fixed rate and government guaranteed loans. The bank operates seven full-service banking locations including the main office in downtown Fayetteville. Deposit-taking ATMs are located at each branch location. In addition to these ATMs, the bank also operates seven free-standing ATMs strategically located throughout Washington County.

The bank's hours of operation vary between branches. The main bank's lobby is open from 8 a.m. to 5 p.m., Monday through Friday, and the drive-through windows are open from 7 a.m. to 5 p.m., Monday through Thursday, and until 6 p.m. on Friday. Four of the branches are open from 7 a.m. to 7 p.m., Monday through Friday, and from 8 a.m. to 12 noon on Saturday. The two branches, located in Wal-Mart Supercenters, are open from 9 a.m. to 7 p.m., Monday through Friday, and from 9 a.m. to 4 p.m. on Saturday.

Four of the bank's seven branches are located in upper-income census tracts and three are located in middle-income tracts. In comparison, four of the 30 census tracts within

the assessment area are upper-income. However, this disproportionate number of branches in upper-income tracts, compared to the percentage of upper-income tracts in the assessment area, does not adversely affect the bank's ability to provide retail services to all sections of its assessment area for two reasons. The first is that two of the branches located in upper-income tracts are within Wal-Mart Supercenters. Bank management believes that these locations offer the greatest opportunity to serve all of its customers within its assessment area no matter what their income level. These locations provide the bank a great deal of exposure and provide a non-traditional banking environment from which to operate. Further, as mentioned in the description of the assessment area, LMI families are dispersed throughout the community and these locations offer convenient central locations to serve these people. The extended hours at these locations also offer additional convenience. The second reason that these locations do not have any adverse affects is that all seven locations are strategically located on or near the main streets and highways throughout Washington County. These locations provide easy access for customers to utilize branches on daily commutes to work and home. Although the bank does not have any branch locations in low- or moderate-income census tracts, branches are located in a close proximity to these tracts.

McIlroy's Account Connection provides 24-hour telephone access to customer account balances, check clearings, deposit activity, interest information, and allows electronic withdrawals and fund transfers. Direct deposit, ATM cards, and check/point of sale cards are also offered. Customers can make deposits at any Arvest Bank, as well as utilize over 100 Arvest ATM locations. In addition, the holding company has a web site on the Internet with information about each bank and its products. These items enhance the accessibility of the bank's products and services.

Changes in Branch Locations

The bank closed one branch and opened two additional branches in the last two years. However, these changes in branch locations did not adversely affect LMI residents in the assessment area.

In May of 1997, the bank closed a branch located at 1560 South School Road, which was located in moderate-income census tract 111.01. Management indicated that it closed this branch because the property owner quadrupled the monthly lease payment so that the property would no longer be attractive to the bank, based on traffic congestion on commercial property adjacent to the branch during peak business hours. Bank management was unsuccessful in buying the property or other commercial property near this location. Management performed an informal analysis and discovered that most of the branch's business was commercial deposit business with very few consumer credit applications originating from this branch. Based on this information, a decision was made to extend business hours at the main office, which is located 1.3 miles from the South School location. A decision was also made to open a new branch in a new Wal-Mart Supercenter, located in upper-income census tract 101.03, approximately two miles from the South School location, in order to accommodate those customers that would be affected by the branch closing.

In June of 1996, the bank opened the Crossover Branch located in middle-income census tract 101.02, in the northeastern corner of the assessment area. New 1-4 family residential construction in the area increased the need for a branch in this location.

Community Development Services

The bank provides a satisfactory level of community development services to its assessment area. Bank personnel have conducted a number of seminars in the community concerning home buying and the importance of maintaining good credit history.

Two such seminars were conducted at a local realtor's office and provided information concerning the application process for first-time homebuyers. These seminars also provided information regarding items to look for and problems to avoid when purchasing a home. In 1997, the bank provided a real estate loan officer to the university to teach a class explaining the home buying process. This class was targeted to low-income individuals.

The bank sponsors an ongoing program in which young mothers are taught the importance of maintaining good credit history and steps to follow when purchasing a home. The students then spend a half-day with the loan officer at the bank observing the loan application process. These seminars are held at a local high school and are targeted to low-income individuals.

Bank employees, along with other Arvest employees, painted the house of a low-income individual free of charge. This event took place as a start to a new marketing plan that the bank was implementing.

ADDITIONAL INFORMATION

A fair lending analysis focusing on Regulation B (Equal Credit Opportunity) and the Fair Housing Act was performed during the examination. The analysis revealed that the bank is in compliance with the substantive provisions of anti-discrimination laws and regulations.

SCOPE OF EXAMINATION			
The bank's three major product lines were reviewed for analysis under the lending test. The loans used in the analysis included all of the bank's HMDA data for reporting years 1996 and 1997, 1996 and the first six months of 1997 data regarding small business and small farm loans, and a sample of consumer loans originated in the last six months of 1997. Also, the bank was asked to provide information concerning the number and dollar volume of community development loans, the number and dollar amount of qualified community development investments, and retail services including any qualified community development services. The bank has one assessment area, and bank activities in the area were reviewed using the large bank examination procedures.			
TIME PERIOD REVIEWED		January 1, 1996 to December 31, 1997	
FINANCIAL INSTITUTION			PRODUCTS REVIEWED
McIlroy Bank & Trust Company Fayetteville, Arkansas			Small Farm Small Business Residential Consumer
AFFILIATE(S) REVIEWED	AFFILIATE RELATIONSHIP	PRODUCTS REVIEWED	
Arvest Mortgage Company	Owned by same holding company	Residential	
Walton Foundation	Owned by individuals who own holding company	Grants	
LIST OF ASSESMENT AREAS AND TYPE OF EXAMINATION			
ASSESSMENT AREA	TYPE OF EXAMINATION	BRANCHES VISITED	OTHER INFORMATION
<u>Northwestern Arkansas</u> Washington County 101.00, 101.01, 101.02, 101.03, 101.04 101.05, 102.00, 103.00, 104.01, 104.02 104.03, 105.01, 105.02, 105.03, 105.04 105.05, 105.06, 106.00, 107.01, 107.02 108.00, 109.00, 110.01, 110.02, 110.03 110.04, 111.01, 111.02, 111.03, 112.00	On site	Main Office Both Wal-mart locations	