



INTERMEDIATE SMALL BANK

Comptroller of the Currency
Administrator of National Banks
Washington, DC 20219

PUBLIC DISCLOSURE

January 29, 2007

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First National Bank
Charter Number 10004**

**Second & Court Street
Paragould, AR 72450**

**Comptroller of the Currency
Little Rock (Memphis)
Ozark National Life Building
10201 West Markham Street, Suite 105
Little Rock, Arkansas 72205**

NOTE: This document is an evaluation of this 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. 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.

INSTITUTION'S CRA RATING: This institution is rated Satisfactory.

The Lending Test is rated: **Satisfactory**.

The Community Development Test is rated: **Satisfactory**.

The following performance factors were used in determining the bank's overall CRA rating:

- The average loan-to-deposit ratio at 88% is reasonable given the bank's size, financial condition, and assessment area (AA) credit needs.
- A majority of the bank's loans are located in its AA.
- The distribution of loans reflects satisfactory penetration among individuals of different income levels and businesses of different sizes.
- Community development lending and investment activities are satisfactory, and responsive to AA needs.

Scope of Examination

An onsite examination of the bank was performed to evaluate its performance under the Community Reinvestment Act (CRA). To determine its performance, the bank elected to be evaluated using Intermediate Small Bank CRA criteria. Loan information used for this evaluation included 2006 Home Mortgage Disclosure Act (HMDA) data. A data integrity examination of the bank's 2006 HMDA report was performed during December 2006, with no deficiencies noted. This performance evaluation starts from the date of the bank's previous CRA examination, and covers a three year period from January 26, 2004, to January 29, 2007. The bank was rated "Satisfactory" at the previous examination.

DESCRIPTION OF INSTITUTION

First National Bank (FNB) was chartered in 1911 and headquartered in Paragould, Arkansas. FNB operates nine offices in three contiguous counties located in Arkansas: Greene, Clay, and Craighead. Bank offices include the main office and 2 branches located in Paragould (Greene County), three branches located in Jonesboro (Craighead County), and three branches located in or near by Corning (Clay County). Except for a limited service branch located near Corning, all branches provide a full range of products and services that include drive-up facilities, and automated teller machines (ATMs). The bank also operates a stand-alone ATM in the Arkansas Methodist Hospital in Paragould. Since the previous examination date of January 26, 2004, the bank opened a new branch in Jonesboro during 2005.

The bank is 100% owned by First Paragould Bankshares Inc., a one-bank holding company also located in Paragould, Arkansas. There are no financial impediments that would limit the bank's ability to help meet the credit needs in its AA. As of September 30, 2006, FNB had total assets of \$527 million, and capital of \$58 million. FNB offers convenient banking hours and a variety of loan and deposit products to meet the needs of the AA. The bank's primary lending focus is residential real estate, small business, consumer, and agriculture loans. Loan products include home purchase, home improvement, automobile, agricultural, commercial, and small business. The loan portfolio composition as of September 30, 2006, is as follows:

| Loan Category | \$ (000) | % |
|-----------------------|------------------|------------|
| Real Estate | \$262,000 | 71 |
| Commercial | \$26,000 | 7 |
| Agriculture | \$49,000 | 14 |
| Consumer Loans | \$30,000 | 8 |
| Total | \$367,000 | 100 |

DESCRIPTION OF ASSESSMENT AREA

The bank's AA meets the requirements of the regulation and does not arbitrarily exclude low- and moderate-income geographies. FNB's AA includes all of Greene and Craighead Counties, and the western part of Clay County. All of Craighead County is included in the Jonesboro Metropolitan Statistical Area (MSA), with all of Greene and Clay Counties located outside of the MSA. Where applicable for this evaluation, analysis was separated by MSA (Craighead County) and non-MSA (Greene and Clay Counties).

A community contact with a local government official was conducted in conjunction with this CRA evaluation. This contact revealed that local banks are meeting the primary credit needs within the bank's assessment with no additional lending needs identified.

Economic factors and unemployment are favorable in both Craighead and Greene Counties. However, due to the high level of unemployment in Clay County, the county was recently designated as a distressed area. This designation was given by the Board of Governors of the Federal Reserve System (Federal Reserve), the Federal Deposit Insurance Corporation (FDIC), and the Office of the Comptroller of the Currency (OCC) due to the county's high unemployment rate. The charts on the following page reflect the demographic characteristics for the counties in the bank's AA and is separated by MSA, non-MSA.

Assessment Area Characteristics

| Demographic and Economic Characteristics Craighead County (Jonesboro MSA) | |
|--|----------|
| Population | |
| Craighead County Population | 82,148 |
| Number of Families | 22,283 |
| Number of Households | 32,301 |
| Geographies | |
| Number of Census Tracts/BNA | 13 |
| % Low-Income Census Tracts/BNA | 8 |
| % Moderate-Income Census Tracts/BNA | 0 |
| % Middle-Income Census Tracts/BNA | 77 |
| % Upper-Income Census Tracts/BNA | 15 |
| Median Family Income (MFI) | |
| 2000 MFI for AA | \$38,696 |
| 2006 HUD-Adjusted MFI | \$42,900 |
| Economic Indicators | |
| Unemployment Rate November 2006 | 4.1 |
| Median Housing Value as of 2000 | \$74,765 |
| % of Households Below Poverty Level | 16 |

Source: 2000 U.S. Census Data

| Demographic and Economic Characteristics Greene and Clay Counties | |
|--|----------|
| Population | |
| Population | 54,940 |
| Number of Families | 13,196 |
| Number of Households | 18,357 |
| Geographies | |
| Number of Census Tracts/BNA | 11 |
| % Low-Income Census Tracts/BNA | 0 |
| % Moderate-Income Census Tracts/BNA | 0 |
| % Middle-Income Census Tracts/BNA | 82 |
| % Upper-Income Census Tracts/BNA | 18 |
| Median Family Income (MFI) | |
| 2000 MFI for AA | \$34,263 |
| 2006 HUD-Adjusted MFI | \$38,000 |
| Economic Indicators | |
| Unemployment Rate November 2006 – Greene | 5.2 |
| Unemployment Rate November 2006 – Clay | 7.8 |
| Median Housing Value as of 2000 | \$56,704 |
| % of Households Below Poverty Level | 16 |

Source: 2000 U.S. Census Data

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

LENDING TEST

Loan-to-Deposit Ratio

FNB's loan-to-deposit ratio at 88% is satisfactory given its size, financial condition, and AA credit needs. The chart below is a comparison of the bank's average lending volume for the past three years. For purposes of this analysis, five banks conducting business in the bank's AA were used to determine the banks performance for this criteria. These banks include: Southern Bank of Commerce (local bank), Regions (regional bank), Liberty Bank of Arkansas (statewide bank), Unico (9 offices in Arkansas and Missouri), and Bancorp South (regional bank).

| Loan-To-Deposit Ratio | | | | |
|---------------------------|-----------|-----------|-----------|-----------|
| Institution | 2004 | 2005 | 2006 | Average |
| Southern | 89 | 95 | 94 | 93 |
| Regions | 98 | 96 | 96 | 97 |
| Liberty | 80 | 85 | 92 | 86 |
| Unico | 69 | 66 | 70 | 68 |
| Bancorp South | 75 | 76 | 83 | 78 |
| Competitor Average | 82 | 84 | 87 | 84 |
| FNB | 87 | 91 | 86 | 88 |

Source: Uniform Banking Performance Reports (Call Reports)

Lending in Assessment Area

A majority of FNB loans are located in the bank's AA. The chart below reflects loans granted during 2006 in the following categories. As indicated, 87% of the bank's loans were to customers located in its AA by both number, and dollar volume.

| Lending in Assessment Area | | | | | | | | |
|----------------------------|--------------------------|-----------|-----------------|-----------|------------------------------|-----------|-----------------|-----------|
| Loan Type | Loans In Assessment Area | | | | Loans Out of Assessment Area | | | |
| | # | % | \$ (000s) | % | # | % | \$ (000s) | % |
| Automobile | 111 | 85 | \$1,583 | 83 | 20 | 15 | \$315 | 17 |
| Home Purchase | 321 | 90 | \$29,486 | 91 | 37 | 10 | \$3,031 | 9 |
| Commercial | 335 | 83 | \$13,866 | 80 | 71 | 17 | \$3,412 | 20 |
| Agricultural | 267 | 90 | \$41,511 | 88 | 30 | 10 | \$5,765 | 12 |
| Total | 1,034 | 87 | \$86,445 | 87 | 158 | 13 | \$12,523 | 13 |

Source: 2006 Bank Data

Lending to Borrowers of Different Incomes and Businesses of Different Sizes

The bank's level of lending to borrowers of different income levels is satisfactory. The following two charts reflect the distribution of home purchase, and automobile loans granted in 2006 by income levels. As indicated in the previous demographic charts, 16% of households located in the bank's AA are below the national poverty level. The bank's ability to qualify the low and moderate income sectors is somewhat limited based on loan down payment, and term requirements. While lending to different income levels varied within the bank's AA, the overall lending pattern reflects a generally satisfactory distribution.

| Borrower Distribution - Home Purchase Loans | | | | | | | | |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Borrower Income Level | Low | | Moderate | | Middle | | Upper | |
| % of AA Families Craighead County (MSA) | 19 | | 17 | | 22 | | 42 | |
| FNB Loans Made 2006 | % of Number | % of Amount | % of Number | % of Amount | % of Number | % of Amount | % of Number | % of Amount |
| | 5 | 3 | 5 | 4 | 10 | 8 | 80 | 85 |
| % of AA Families Greene & Clay Counties | 17 | | 19 | | 23 | | 41 | |
| FNB Loans Made 2006 | % of Number | % of Amount | % of Number | % of Amount | % of Number | % of Amount | % of Number | % of Amount |
| | 10 | 2 | 25 | 10 | 15 | 8 | 50 | 80 |

Source: 2006 HMDA Data and 2000 U.S. Census Data

| Borrower Distribution – Automobile Loans | | | | | | | | |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Borrower Income Level | Low | | Moderate | | Middle | | Upper | |
| % of AA Household Craighead County (MSA) | 24 | | 16 | | 18 | | 42 | |
| FBN Loans Made 2006 | % of Number | % of Amount | % of Number | % of Amount | % of Number | % of Amount | % of Number | % of Amount |
| | 28 | 8 | 6 | 3 | 19 | 14 | 47 | 75 |
| % of AA Household Greene & Clay Counties | 23 | | 16 | | 19 | | 42 | |
| FNB Loans Made 2006 | % of Number | % of Amount | % of Number | % of Amount | % of Number | % of Amount | % of Number | % of Amount |
| | 3 | 1 | 11 | 5 | 25 | 16 | 61 | 78 |

Source: 2006 Bank Data and 2000 U.S. Census Data

The distribution of loans to businesses of different incomes is satisfactory. As reflected in the following two charts, business loans granted in 2006 compare favorably when compared to overall business revenues within the bank's AA.

| Borrower Distribution - Loans To Businesses Craighead County (Jonesboro MSA) | | |
|---|---------------------|------------------------|
| Business Revenues | ≤\$1,000,000 | >\$1,000,000 |
| % of Businesses in AA | 92% | 8% |
| % of Bank Loans in AA # | 94% | 6% |
| % of Bank Loans in AA \$ | 92% | 8% |

Source: 2006 Bank Data and 2000 U.S. Census Data

| Borrower Distribution - Loans To Businesses Greene & Clay Counties | | |
|---|---------------------|------------------------|
| Business Revenues | ≤\$1,000,000 | >\$1,000,000 |
| % of Businesses in AA | 94% | 6% |
| % of Bank Loans in AA # | 88% | 12% |
| % of Bank Loans in AA \$ | 43% | 57% |

Source: 2006 Bank Data and 2000 U.S. Census Data

Lending to farms of different incomes is excellent. As reflected in the following chart, farm loans granted in 2006 is excellent when compared to overall farm revenues within the bank's AA. A large portion of the bank's loan portfolio is centered in farm loans that are primarily granted in Greene and Clay Counties.

| Borrower Distribution - Loans To Farms Greene & Clay Counties | | |
|--|---------------------|------------------------|
| Farm Revenues | ≤\$1,000,000 | >\$1,000,000 |
| % of Farms in AA | 97% | 3% |
| % of Bank Loans in AA # | 100% | 0% |
| % of Bank Loans in AA \$ | 100% | 0% |

Source: 2006 Bank Data and 2000 U.S. Census Data

Geographic Distribution of Loans

The geographic distribution of loans was not meaningful for the purposes of this evaluation. Of the 13 census tracts located in the Jonesboro MSA, all but one are classified as upper or middle income. The one remaining tract in the MSA is classified as low income. Geographically this tract is small, and primarily consists of student housing and land surrounding the campus of Arkansas State University. All census tracts located in Greene and Clay Counties are classified as upper or middle income.

Community Development Test

FNB's performance under the community development test is satisfactory. The bank provides a satisfactory level of community development lending, CRA qualified investments, and community development services in relation to the overall needs and opportunities within its AA.

Community Development Lending

The definition of community development includes the following: affordable housing for low-and-moderate-income individuals; community services targeted toward low- and moderate-income individuals; activities that promote economic development by financing small businesses or farms; or activities that revitalize or stabilize low- and moderate-income geographies. As of September 1, 2005, the following activities were added to the definition: activities that revitalize or stabilize low-or-moderate-income areas; designated disaster areas; or distressed or underserved non-metropolitan middle-income geographies that have been designated by the Federal Reserve, the FDIC, and the OCC.

FNB's performance for granting community development loans during the current evaluation period is satisfactory. The bank's AA includes parts of Clay County, AR. Clay County has been designated as a distressed area based on the high level of unemployment in the county. For November 2006, the unemployment rate for Clay County was 7.8% and increased to 9.4% during January 2007.

For purposes of the CRA, the bank granted the following qualifying community development loans totaling \$6.7 million during the evaluation period. This equates to approximately 12% of the bank's capital.

- A \$4.5 million loan to a publishing company located in Clay County (distressed area). The loan also has a below market interest rate. This company employs about 100 workers, which includes low- and moderate-income persons.
- FNB granted 42 loans totaling \$2.1 million under the Arkansas Agriculture Water Quality Loan Program, with each loan at \$100 thousand or less. This program is a low-interest rate loan to small farms for water pollution control. Within Arkansas, FNB made approximately 20% of the loans allocated under this program.

- A \$50 thousand operating line of credit to a non-profit organization serving disabled individuals by teaching them life skills and providing opportunities for employment. Virtually all are low- and moderate-income individuals.
- FNB participated with three other local financial institutions in a \$210 thousand loan to a non-profit organization to help rehabilitate adults with a history of drug addiction and/or emotional problems. A majority of these individuals are low- and moderate-income. FNB's portion of the total loan totaled \$53 thousand.

Community Development Investments

FNB's performance of purchasing qualified CRA investments is satisfactory. Total qualifying investments purchased during the evaluation period includes a \$625 thousand bond, and \$105 thousand in total CRA-related donations. Investments and donations represent 1% of the bank's capital.

- FNB purchased a \$625 thousand Pocahontas School District Bond on August 23, 2006. Pocahontas is located in adjacent Randolph County. Randolph County has been designated as an underserved non- metropolitan middle-income geography by the Federal Reserve, the FDIC, and the OCC.
- CRA donations include a \$78 thousand in kind contribution of a former bank branch in Corning, Arkansas, to a non-profit organization that assists women with a history of drug addiction and/or emotional problems. A majority of these individuals are low- and moderate-income.
- FNB made 41 various donations totaling \$27 thousand to non-profit organizations that serve low and moderate income individuals and families.

Community Development Services

FNB offers a satisfactory level of community development services based on the capacity of the bank, and the need and availability of opportunities in the AA.

- FNB employees provide technical assistance and financial services by serving on boards, committees, or as members in organizations that provide community service to low-and-moderate individuals. Although none of the activities are innovative or complex, these activities are encouraged by the bank by allowing the attendance of meeting and activities during normal banking hours and payment of membership dues.

Responses to Complaints

The bank has not received any formal CRA complaints since the prior examination.

Fair Lending or Other Illegal Credit Practices Review

No evidence was found of illegal discrimination or other illegal credit practices inconsistent with helping to meet community credit needs.