



Public Disclosure

April 26, 1999

Community Reinvestment Act Performance Evaluation

The Bank of Fayetteville, National Association
Charter Number #21206

One South Block
Fayetteville, Arkansas 72702

Comptroller of the Currency
Midwestern District
Kansas City South Field Office
1710 East 32nd Street, Suite H
Joplin, Missouri 64804

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.

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 **The Bank of Fayetteville, National Association** prepared by the Office of the Comptroller of the Currency, the institution's supervisory agency, as of April 26, 1999. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR part 25.

Institution's CRA Rating: This institution is rated Satisfactory.

The Bank of Fayetteville, National Association (The Bank of Fayetteville) is helping to meet the credit needs of its assessment area.

- C The bank's loans are reasonably distributed to borrowers of various income levels.
- C The bank's geographic distribution of credit within the assessment area is excellent.
- C The bank has an excellent record of lending within the assessment area. Approximately 94% of extensions of credit reviewed are granted to borrowers located within the bank's assessment area.
- C The bank's loan-to-deposit ratio is reasonable based on its competitive environment and the opportunities for loan growth within the assessment area. The loan-to-deposit ratio since the last Performance Evaluation (August 1996) has averaged 69%.

DESCRIPTION OF INSTITUTION

Bankshares of Fayetteville, Inc., a one-bank holding company, controls 100% of The Bank of Fayetteville. The bank owns a community development corporation established to build affordable housing in downtown Fayetteville. The bank, holding company, and community development corporation are located in Fayetteville, Arkansas. The Bank of Fayetteville's total assets were \$189 million, of which loans were \$92 million, according to the December 31, 1998, Report of Condition. The main branch is the only location that offers loan products. The three branch locations are deposit taking facilities that offer drive up services and automated teller machines (ATMs) at each location. The bank offers a full range of traditional personal and commercial banking services. Residential and commercial real estate are the primary focus of the bank's loan portfolio. There are no legal or financial impediments limiting the bank's ability to help meet the credit needs of the community. The Bank of Fayetteville was rated "Outstanding record of meeting community credit needs" at its last Performance Evaluation dated August 1996.

Loan Portfolio as of December 31, 1998		
Loan Type	Dollar Amount (\$000)	Portion of Portfolio
Construction & Development	5,359	6%
1 - 4 Family Residential	22,690	25%
Farmland	5,152	6%
Commercial Real Estate	24,457	26%
Agricultural Production	391	0%
Commercial	20,949	23%
Consumer	13,384	14%
Other Purposes	85	0%
Total	92,467	100%

DESCRIPTION OF ASSESSMENT AREA

The bank's assessment area (AA) consists of Washington County, except census tracts located in the city of Springdale, in the Fayetteville-Springdale-Rogers Metropolitan Statistical Area (MSA) 2580. It includes 3 moderate-income, 18 middle-income, and 3 upper-income census tracts. There are no low-income census tracts in the AA. The moderate-income tracts represent 12.5% of all census tracts, with middle-income and upper-income tracts equaling 75% and 12.5%, respectively. The AA meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income geographies. The main bank and branch locations are located within the assessment area. Eight locally owned banks and several large bank branches of provide competition within the AA.

The population of the AA is 96,139 people. Low-income families represent 20% of the AA

population with the remainder as follows: 19% moderate-income, 24% middle-income, and 37% upper income families. 17% of total households are below the poverty level. The estimated 1998 median family income for the MSA is \$40,300. Owner occupied housing represents 55% of total housing in the AA, with a median housing value of \$54,020. The local economy is well diversified. Manufacturing, service, retail, wholesale, transportation and utilities, finance and real estate, education, health care, and construction are all important elements of the economy. Fayetteville is also the home of the University of Arkansas. Unemployment is low at approximately 2%.

Examiners from bank regulatory agencies spoke with two community contacts located within the AA during the last year. One additional contact was made during this evaluation. The contacts included two community development organizations and a local merchant association. The contacts indicated housing and small business loans are the credit needs in this community. And, they stated the credit needs are being met. The contacts said the level of community development opportunities are limited for banks. One community development corporation exists that is owned by The Bank of Fayetteville.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

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

The Bank of Fayetteville's performance of lending to borrowers of different incomes and businesses of different sizes is reasonable. The primary product types are one to four family residential and commercial real estate loans. Based on June through December 1996, all of 1997, and 1998 Home Mortgage Disclosure Act (HMDA) reports, management has responded favorably to the credit needs of its assessment area by originating loans to low- and moderate-income borrowers, as well as small businesses. The following tables summarize originations by number and dollar amount of loans to each income designation within the AA.

June - Dec. 1996 HMDA Originations					
Income Designation for Borrower	Families in Income Category	Originations by \$(000)	Dollars as a percent of total	Originations by #	Number of loans as percent of total
Low	19.82%	\$557	9.74%	38	18.63%
Moderate	19.16%	\$894	15.63%	57	27.94%
Middle	24.34%	\$1,296	22.66%	45	22.06%
Upper	36.67%	\$2,972	51.97%	64	31.37%
Total	100%	\$5,719	100%	204	100%

1997 HMDA Originations					
Income Designation for Borrower	Families in Income Category	Originations by \$(000)	Dollars as a percent of total	Originations by #	Number of loans as percent of total
Low	19.82%	\$647	5.92%	42	14.29%
Moderate	19.16%	\$1,145	10.47%	58	19.73%
Middle	24.34%	\$2,273	20.78%	70	23.81%
Upper	36.67%	\$6,873	62.84%	124	42.18%
Total	100%	\$10,938	100%	294	100%

1998 HMDA Originations					
Income Designation for Borrower	Families in Income Category	Originations by \$(000)	Dollars as a percent of total	Originations by #	Number of loans as percent of total
Low	19.82%	\$393	5.20%	30	16.76%
Moderate	19.16%	\$627	8.30%	32	17.88%
Middle	24.34%	\$2,329	30.83%	45	25.14%
Upper	36.67%	\$4,206	55.67%	72	40.22%
Total	100%	\$7,555	100%	179	100%

Examiners also sampled 30 commercial/industrial loan originations for the same time period. The following table shows 77% of the commercial/industrial originations were to borrowers with revenues less than \$1 million.

Commercial/Industrial Loan Originations				
Revenue Size	# in AA	% of Borrowers	# of Originations	% of Originations
Borrowers w/revenues < \$1MM	2,937	90.15%	23	76.67%
Borrowers w/revenues > \$1MM	321	9.85%	7	23.33%
Totals	3,258	100%	30	100%

Geographic Distribution of Loans

The Bank of Fayetteville's geographic distribution of credit within the assessment area exceeds the standard. The analysis below reflects lending to borrowers in all census tracts. The bank's lending in moderate-income tracts is excellent. Examiners used the bank's HMDA loan originations to assess performance with this category. Specific census tract location was not available for the commercial loan sample. The following table illustrates our findings.

HMDA Origination Distribution by Census Tract (CT)					
Census Tract Designation	% of Owner Occupied Housing	Number of originations	% of total originations	\$ of originations	% of \$ originations
Low-income CT	0.00%	0	0.00%	\$0	0.00%
Moderate-income CT	5.49%	77	11.90%	\$3,066	11.84%
Middle-income CT	74.66%	496	76.66%	\$19,805	76.47%
Upper-income CT	19.85%	74	11.44%	\$3,028	11.69%
Totals	100%	647	100%	\$25,899	100%

Lending in Assessment Area

The Bank of Fayetteville's record of lending within its assessment area is excellent. Based on HMDA reportable loans, a large majority of all loans made are located within the assessment area. Examiners verified limited information on the HMDA reports for accuracy. These loans represent 25% of the portfolio by dollar volume. Specific census tract location was not available for the commercial loan sample.

HMDA Loan Originations by Number						
	June - Dec. 1996		1997		1998	
	Number	%	Number	%	Number	%
In the assessment area	194	95%	285	95%	168	92%
Out of the assessment area	11	5%	15	5%	15	8%
Total	205	100%	300	100%	183	100%

HMDA Loan Originations by Dollars						
	June - Dec. 1996		1997		1998	
	Amount (\$000)	%	Amount (\$000)	%	Amount (\$000)	%
In the assessment area	\$5,933	97%	\$11,562	93%	\$8,404	96%
Out of the assessment area	\$162	3%	\$935	7%	\$333	4%
Total	\$6,095	100%	\$12,497	100%	\$8,737	100%

Loan-to-Deposit Ratio

The Bank of Fayetteville's loan-to-deposit ratio is reasonable based on its competitive environment and opportunities for loan growth within the assessment area. The quarterly loan-to-deposit ratio since the last Performance Evaluation has averaged 68.57%. The bank's loan-to-deposit ratio has ranged from 52% in fourth quarter 1998 to a high of 81% in the third quarter of 1996. The average loan-to-deposit ratio of all institutions with the MSA is 75%, ranging from 46% to 104%.

Investments and Services

In 1994, The Bank of Fayetteville established The Bank of Fayetteville Community Development Corporation (CDC). It was established to assist in providing affordable housing and small business development opportunities for low- and moderate-income residents in the AA.

The bank made an initial \$150M investment to capitalize the CDC. The CDC has purchased four lots on Mashburn Street in Fayetteville, and is constructing two houses on two of the lots. The CDC purchased the lots and constructed the houses using a portion of the initial capital investment. Management anticipates the houses will be complete in mid-June and ready to market. The CDC intends to work with the City of Fayetteville's community development division to allow low- and moderate-income borrowers to purchase the homes with little or no down payment.

Management envisions building two additional houses on the remaining lots after the existing houses sell.

The Bank of Fayetteville provides branches, ATM's, and other services located in moderate-income tracts. The main bank and one branch, offering ATM services, are located in a moderate-income census tract.

Record of Compliance with Antidiscrimination Laws

The Bank of Fayetteville is in compliance with the applicable antidiscrimination laws. No violations of fair lending laws were found from a review of home improvement loans. The scope of the review compared denied single female applicants to approved single male applicants from January 1998 through March of 1999.

Response to Complaints

The Bank of Fayetteville has not received any complaints during this evaluation period.