



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

November 4, 2002 

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First National Bank And Trust Company Of Mountain Home
Charter Number 20412**

**502 South Hickory Street
Mountain Home, AR 72653**

**Comptroller of the Currency
F. Christian Dunn, Assistant Deputy Comptroller
10201 West Markham, Suite 105 Ozark National Life Bld.
Little Rock, AR 72205-2180**

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.

TABLE OF CONTENTS

INSTITUTION'S CRA RATING.....	2
DESCRIPTION OF INSTITUTION	2
DESCRIPTION OF BAXTER COUNTY	3
CONCLUSIONS ABOUT PERFORMANCE CRITERIA.....	4

INSTITUTION'S CRA RATING

This institution is rated Outstanding.

- ◆ The average loan-to-deposit ratio, at 77%, is more than reasonable given the bank's size, financial condition, and credit needs in its assessment area.
- ◆ A substantial majority of loans are in the bank's assessment area.
- ◆ The distribution of loans reflects excellent penetration among individuals of different income levels and businesses of different sizes.

DESCRIPTION OF INSTITUTION

First National Bank and Trust Company of Mountain Home (FNBMH) is located in Mountain Home (Baxter County), Arkansas. Mountain Home is located in the north central part of the state and has a population of about 11,012 people according to the 2000 census. The bank has its main office and another branch in Mountain Home, a branch at Gassville (located five miles southwest of Mountain Home and with a population of 1,706), and Lakeview (located 14 miles northwest of Mountain Home and with a population of 531). All locations have drive-up facilities and automated teller machines (ATM's). The bank has a stand-alone ATM located near the middle of the city at a Harp's Grocery Store. The bank also offers Internet banking to all depositors and customers. As of June 30, 2002, the bank reported total assets of \$274 million with \$194 million in deposits and \$167 million in loans (61% of total assets).

The bank's primary business focus is residential real estate, and commercial real estate. The loan portfolio composition as of June 30, 2002, is as follows:

Loan Category	\$ (000)	%
Residential Real Estate Loans	68,891	41%
Commercial Real Estate Loans	54,929	33%
Commercial Loans	19,109	11%
Consumer Loans	24,243	15%
Total	167,272	100%

FNBMH offers convenient banking hours and a variety of loan and deposit products to meet the needs of the assessment area. There are no financial impediments that would limit the bank's ability to help meet the credit needs in its assessment area.

The bank is 100% owned by Mountain Home Bancshares, Incorporated, a one-bank holding company headquartered in Mountain Home, Arkansas. Mountain Home Bancshares, Inc., and Subsidiary had total assets of \$273 million as of December 31, 2001. The bank's last CRA examination was performed as of July 7, 1997 and was rated **Outstanding**.

DESCRIPTION OF BAXTER COUNTY, ARKANSAS

FNBMH assessment area (AA) is Baxter County. Baxter County is comprised of nine Block Numbering Areas (BNA's): 9501-9509. The assessment area meets the requirements of the regulation and does not arbitrarily exclude low- and moderate-income geographies. Based on the Median Family Income (MFI) for 1990 of \$22,208 for non-Metropolitan Statistical Areas (MSA) in Arkansas, all BNA's in the assessment area are middle-income.

Baxter County has a population of 38,386 people according to the 2000 census, a 23% increase from 1990. Much of the growth came from retirees from northern and western states. About 40% of the population is retired or over 65 years old. According to bank management, many of the retirees had sufficient equity in their former houses and required little or no financing on their current houses. Management also stated that these retirees have caused the housing prices in the area to increase. The median housing value of \$52 thousand is relatively high for a non-metropolitan area in Arkansas. According to the local chamber of commerce, the current average selling price of a home in Mountain Home is \$91 thousand.

The economy of the area is considered to be in a slow growth mode. Unemployment as of August 2002 was 5.3% for Baxter County. The unemployment rate is above the Arkansas average of 4.9% but below the U.S. average of 5.7% as of August 2002.

The primary industries are the manufacturing of durable and non-durable goods, construction, health services, tourism, agriculture and forestry. The largest employers are Baxter Healthcare Corporation, a pharmaceuticals company, with 1,500 employees; Yelcot Telephone Company, Inc., a telecommunications company, with 1,400 employees; and Baxter Regional Medical Center, a healthcare company, with 1,200 employees.

The following table shows the demographic and economic characteristics of the assessment area.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA	
<i>Population</i>	
Number of Families	10,041
Number of Households	13,526
<i>Geographies</i>	
Number of Census Tracts/BNA	9
% Low-Income Census Tracts/BNA	0%
% Moderate-Income Census Tracts/BNA	0%
% Middle-Income Census Tracts/BNA	100%
% Upper-Income Census Tracts/BNA	0%
<i>Median Family Income (MFI)</i>	
1990 MFI for AA	\$22,208
2001 HUD-Adjusted MFI	\$33,800
2002 HUD-Adjusted MFI	\$34,200
<i>Economic Indicators</i>	
Unemployment Rate	5.3%
1975 Median Housing Value	\$52,030
% of Households Below Poverty Level	15.17%

A community contact with the Executive Director of the Mountain Home area Chamber of Commerce, Mountain Home, AR, was conducted in conjunction with this CRA examination. This contact revealed that there are no unmet credit needs in the local area, and that local banks are willing to make loans to all qualified borrowers.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

FNBMH's loan-to-deposit ratio is reasonable given the bank's size, financial condition, and assessment area credit needs. The bank's primary and similarly situated competitor is Peoples Bank and Trust Company, which is headquartered in Mountain Home, AR. The following table shows total assets as of June 30, 2002 and the average loan-to-deposit ratio from December 31, 1998 through June 30, 2002 (15 quarters) for these two banks.

Institution	Assets (as of 6/30/2002)	Average LTD Ratio
First National Bank	\$274 million	77%
Peoples Bank	\$260 million	68%

The loan-to-deposit ratio has trended upward in the past three and a half years. FNBMH's loan-

to-deposit ratio was at 80% or higher the last seven quarters. Peoples Bank ratio for the last seven quarters was at the high 60% or low 70%. In addition, the bank's loan-to-deposit ratio on June 30, 2002 was significantly higher at 83% compared to 67% at Peoples Bank.

Lending in Assessment Area

A substantial majority of FNBMH loans are in the bank's assessment area. The bank geocodes each loan as located in Baxter County or out of Baxter County. The following is a breakdown of consumer, residential real estate, and commercial loans made during 2002 through September 30, 2002, and 2001.

2002

TOTAL LOANS REVIEWED								
	IN ASSESSMENT AREA				OUT OF ASSESSMENT AREA			
LOAN TYPE	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Consumer	972	83%	6,382	83%	199	17%	1,282	17%
Residential	76	100%	5,939	100%	0	0%	0	0%
Commercial	312	93%	33,807	83%	24	7%	6,935	17%
Total Reviewed	1,360	86%	46,128	85%	223	14%	8,217	15%

2001

TOTAL LOANS REVIEWED								
	IN ASSESSMENT AREA				OUT OF ASSESSMENT AREA			
LOAN TYPE	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Consumer	2,207	83%	16,676	82%	442	17%	3,755	18%
Residential	600	82%	42,960	82%	135	18%	9,227	18%
Commercial	219	88%	4,489	89%	29	12%	541	11%
Total Reviewed	3,026	83%	64,125	83%	606	17%	13,523	17%

The bank has performed annual CRA self-assessments since 1997. Lending within the assessment area has fluctuated between 82% and 83% annually from 1997-2001, with a high of 86% through September 30, 2002. Lending within the assessment area was 85% at the 1997 CRA examination.

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

Given the demographics of the assessment area, the distribution of borrowers reflects excellent penetration among individuals of different income levels (including low-and moderate-income) and businesses of different sizes. The bank codes each borrower as low, moderate, middle or upper income.

The following table shows the distribution of residential real estate loans within the various income levels.

RESIDENTIAL REAL ESTATE								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Families ¹	17%		21%		26%		36%	
LOANS BY YEAR	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
2002	1%	1%	17%	9%	10%	7%	72%	83%
2001	5%	2%	7%	6%	16%	13%	72%	80%

The above table shows that most of the residential real estate loans were made to upper-income borrowers with loans to low-income borrowers below the percentage of low-income people in the assessment area. Residential real estate loans to moderate-income borrowers were slightly below (by number of loans) the percentage of moderate-income people in the assessment area for 2002.

Due to the relatively high housing cost in the area, the bank offers mobile home loans. The bank has over 600 mobile home loans totaling \$8 million or 12% of the residential real estate loan portfolio. The following table shows the distribution of mobile home loans within the various income levels.

MOBILE HOME								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Families ¹	17%		21%		26%		36%	
LOANS BY YEAR	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
2002	10%	5%	26%	13%	19%	15%	45%	67%
2001	13%	10%	24%	24%	45%	41%	18%	25%

Almost 40% of the mobile home loans are to low- and moderate-income borrowers. The distribution of borrowers for residential loans reflects reasonable penetration among individuals of different income levels.

The following table shows the distribution of consumer loans within the various income levels.

CONSUMER								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households ²	19%		19%		23%		39%	
LOANS BY YEAR	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
2002	13%	6%	23%	15%	20%	21%	44%	58%
2001	11%	7%	25%	17%	20%	17%	44%	59%

Consumer loans made to low-income borrowers were slightly below the percentage of low-income people in the assessment area. However, consumer loans to moderate-income borrowers were significantly above the percentage of moderate-income people in the assessment area. Consumer loans (by number of loans) to low- and moderate-income borrowers were comparable to the percentage of low- and moderate-income population in the assessment area. The distribution of borrowers for consumer loans among individuals of different income levels exceeds the standards given the demographics of the area.

The bank codes the revenues of its commercial borrowers as those under \$1 million in revenues and those with over \$1 million in revenues. The following table shows lending to small businesses and small farms for 2002.

BORROWER DISTRIBUTION OF SMALL LOANS TO BUSINESSES		
Business Revenues	≤\$1,000,000	>\$1,000,000
% of AA Businesses ³	96%	4%
% of Bank Loans in AA #	98%	2%
% of Bank Loans in AA \$	97%	3%

During 2001, about 94% of small business loans, by number, were to business borrowers with less than \$1 million in gross revenues. Commercial loans and commercial real estate loans comprise the bulk of the bank's loan portfolio. The distribution of loans reflects excellent penetration to businesses of different sizes.

Geographic Distribution of Loans

This Office did not perform an analysis of the geographic distribution of the bank's lending during this examination. The analysis would not be meaningful since all the BNA's in the assessment area are designated as middle-income.

Responses to Complaints

First National Bank and Trust Company of Mountain Home has not received a formal CRA complaint since the previous examination.

Fair Lending Review

An analysis of public comments and consumer complaint information was performed according to the OCC's risk based fair lending approach. Based on its analysis of the information, the OCC decided that a comprehensive fair lending examination would not need to be conducted in connection with the CRA evaluation this year. The most recent comprehensive fair lending examination was performed in 1997.