



Comptroller of the Currency
Administrator of National Banks

LARGE BANK

PUBLIC DISCLOSURE

March 25, 1998

**COMMUNITY REINVESTMENT ACT
PERFORMANCE EVALUATION**

**First National Bank
Charter Number 15665
109 East University
Siloam Springs, Arkansas 72761**

**Supervisory Agency: Office of the Comptroller of the Currency
Tulsa Duty Station
7134 South Yale, Suite 910
Tulsa, Oklahoma 74136**

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.

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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 CRA performance of **First National Bank, Siloam Springs, Arkansas (FNB)** prepared by the **Office of the Comptroller of the Currency (OCC)** as of **March 25, 1998**. The agency evaluates performance in assessment area(s), as they are delineated by the 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 C.F.R. Part 25.

Definitions and Common Abbreviations

The following terms and abbreviations are used throughout this Performance Evaluation. The definitions are intended to provide the reader with a general understanding of the terms, not a strict legal definition

Community Reinvestment Act (CRA) - The statute that requires the OCC to evaluate a bank's record of meeting the credit needs of its local community, consistent with safe and sound operation of the bank, and to take this record into account when evaluating certain corporate applications filed by the bank.

Metropolitan Statistical Area (MSA) - Area defined by the Director of the United States Office of Management and Budget. MSAs consist of one or more counties, including large population and nearby communities that have a high degree of interaction.

Census Tract (CT) - Small, locally defined statistical areas. These areas are determined by the United States Census Bureau in an attempt to group homogeneous populations. A CT has defined boundaries per ten year censuses and an average population of 4,000.

Home Mortgage Disclosure Act (HMDA) - A statute that requires certain mortgage lenders that do business or have banking offices in an MSA to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of the applicant(s), the amount of a loan requested, and its disposition (e.g., approved, denied, withdrawn).

Median Family Income (MFI) - The median family income determined by the United States Census Bureau every ten years and used to determine the income level category of census tracts. Also, the median income determined by the Department of Housing and Urban Development annually that is used to determine the income level category of individuals. For any given area, the median is the point at which half of the families have income above it and half below it.

Low-Income - Income levels that are less than 50% of the MFI.

Moderate-Income - Income levels that are at least 50% and less than 80% of the MFI.

Middle-Income - Income levels that are at least 80% and less than 120% of the MFI.

Upper-Income - Income levels that is 120% or more of the MFI.

Small Business Loans - Loans with an original amount of \$1 million or less for which the bank is required to collect and report certain monitoring data under the CRA regulation.

Small Farm Loans - Loans with an original amount of \$500 thousand or less for which the bank is required to collect and report certain monitoring data under the CRA regulation

CRA RATING

Institution’s CRA Rating: This institution is rated “Satisfactory.”

The major factors which support this rating include:

- ▶ **The good responsiveness to credit needs as reflected in the majority of home mortgage, small business and small farm loans originated within the assessment areas.**
- ▶ **A satisfactory record of serving the credit needs of low-and moderate-income families and good records of serving the credit needs of small business and small farms with revenues of less than \$1 million within safe and sound banking principles.**
- **FNB’s poor responsiveness to credit and community economic development needs of the assessment area, with qualified investments limited to \$9 thousand in grants.**
- ▶ **An adequate service delivery system commensurate with FNB’s presence in the market and their scope of operation.**
- **A very low level of community development services that are responsive to the credit and community development needs of FNB’s assessment area.**

The following table indicates the performance level of **First National Bank** with respect to the lending, investment and service tests:

Performance Levels	First National Bank Performance Tests		
	Lending Test *	Investment Test	Service Test
Outstanding			
High Satisfactory	X		
Low Satisfactory			X
Needs To Improve		X	
Substantial Noncompliance			

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

DESCRIPTION OF THE INSTITUTION

First National Bank (FNB) is a \$202 million financial institution headquartered in Siloam Springs, Arkansas. Siloam Springs Bancshares, Inc. (SSB) owns 99% of FNB's bank stock. SSB is a wholly owned subsidiary of Arvest Bank Group, Inc. (ABG), a multi-bank holding company headquartered in Lowell, Arkansas. ABG owns nine other community banks with several locations in Northwest Arkansas and two locations in Oklahoma (Tulsa and Norman) and a mortgage affiliate (Arvest Mortgage Company) in Lowell, Arkansas.

Siloam Springs is located in northwest Arkansas within the western portion of the Fayetteville-Springdale-Rogers, Arkansas MSA. Siloam Springs has a population of approximately 9,465 per a 1996 Special Census of the City. The city as well as the surrounding area is experiencing significant population growth from an influx of Hispanic immigrants seeking work at area poultry processing plants and manufacturers. The economy is strengthened through the poultry, manufacturing, and tourism industries. Unemployment consistently runs well below the national average. Major employers and businesses headquartered in this area include: Simmons Foods, Franklin Electric, Lazy Boy, McKee Foods (Little Debbie Snack Cakes), and Allen Canning.

The bank offers a full range of commercial, real estate and consumer loan products and retail and commercial deposit products within its assessment areas. In addition to the main bank, FNB serves their assessment areas with two full-service branches, and nine automated teller machines (ATMs). Branch locations include West Siloam Springs and Gentry. As of December 31, 1997, FNB's loan portfolio consisted of 31% 1-4 family residential; 20% commercial and commercial real estate; 18% loans to individuals; 5% construction and land development; 25% agricultural; and 1% multifamily. The net loan to deposit ratio for this time period was 83 percent. ABG's wholly-owned subsidiary, Arvest Mortgage Company, provides a number of home purchase mortgage loans for customers of FNB.

Four commercial banks, three credit unions, one governmental agency, and one mortgage company provide strong competition for banking and mortgage services. As of June 30, 1997, FNB held a 10 percent market share of deposits in Benton County. Deposit information is gathered by the Federal Deposit Insurance Corporation June 30th of each year. Two other affiliated banks, located in Bentonville and Siloam Springs, held an additional 45 percent market share of the deposits in Benton County. Other than affiliate banks, no other financial institution held more than 7% of the deposits in the County for this time period.

We performed one community contact and reviewed two previous contacts with local government officials and community organizations which regulatory agencies performed. Again, these sources found the most pressing needs to be affordable housing for low- and moderate-income families, including down payment assistance and flexible terms; financial education, especially for the growing population of Hispanic immigrants; and providing technical assistance to community organizations in meeting affordable housing needs. High construction and development costs present a barrier to meeting the area's affordable housing needs.

FNB has the financial capacity to assist in meeting its communities' credit needs. As of December 31, 1997, FNB realized net income of \$2.6 million. And, Equity capital was \$12 million. There are no known legal or financial constraints which could impede its CRA efforts. The OCC assigned a CRA rating of "Satisfactory Record of Meeting Credit Needs" during the last CRA evaluation ending July 11, 1996.

Description of Combined Assessment Area

FNB’s combined assessment area consists of the Fayetteville-Springdale-Rogers, Arkansas MSA #2580 and a portion of the northeast nonmetropolitan area of Oklahoma. The MSA consists of eight census tracts (all middle-income tracts) while the nonmetropolitan area consists of four BNAs (2 middle-income tracts and 2 moderate-income tracts). The combined assessment areas have a population of 42,450 based on the 1990 U.S. Census. The Department of Housing and Urban Development’s (HUD’s) median family income (MFI) updated for 1997 is \$36,333. Median Family Income is the income level used to determine the income level of families within the assessment area. This compares to HUD’s 1997 updated MFI for all MSAs in the State of Arkansas of \$39,131 and provides some insight into the middle-income population of FNB’s assessment areas. Total Housing units for the combined areas equal 16,682 with 1-4 Family Housing Units totaling 13,495. There are 11,055 owner occupied units.

The following table shows the demographic characteristics of this bank’s combined assessment area with:

COMBINED ASSESSMENT AREA PROFILE: A PORTION OF BENTON COUNTY IN MSA # 2580-FAYETTEVILLE-SPRINGDALE-ROGERS, AR MSA A PORTION OF DELAWARE & ADAIR COUNTIES IN NON-MSA REGION OF OKLAHOMA					
DEMOGRAPHIC CHARACTERISTICS	#	Low % of (#)	Moderate % of (#)	Middle % of (#)	Upper % of (#)
Population	42,450				
Family Distribution	11,876	21%	22%	24%	33%
Census Tracts (MSA)	8	0%	0%	100%	0%
Block Numbering Areas (Non-MSA)	4	0%	50%	50%	0%
Businesses (% of # in CTs & BNAs) #	38	0%	5%	95%	0%
Farms (% of # in CTs & BNAs) #	22	0%	32%	68%	0%
Owner Occupied Housing (% of # in CT)	11,055	0%	14%	86%	0%
Median Housing Value = \$46,352(MSA) Median Housing Value = \$29,353 (Non-MSA)					
HUD Adjusted Median Family Income for 1997 = \$39,100 (MSA) HUD Adjusted Median Family Income for 1997 = \$30,800 (Non-MSA)					

Data Source: 1990 Census Data - U. S. Bureau of the Census; Dun and Bradstreet, Bureau of Labor Statistics

Based on a sample given the data submitted for small business and farm loans was incorrect.

These demographics were used to provide some insight into the opportunities available for different loan types between geographies and borrowers of different income levels. The combined median housing value (MHV) for the assessment area is \$40,474. The MHV for the MSA alone is \$46,352 while the median housing value in the nonmetropolitan area is \$29,353. There exists a definite mismatch between the financial ability of low -income residents to purchase affordable housing, including down payment assistance and flexible terms.

The lack of affordable housing is compounded by extremely high land costs resulting from the control of the supply of land for development by a handful of investors. This increases the difficulty of making home mortgage loans to low-income families. The assessment areas have a slightly higher level of persons living below the poverty level at 13% when compared to the average for all MSAs in the State of Arkansas at only 11%. A low-income family in the combined assessment areas has an income of less than \$18,166. It is noted that although 21% of the families in the assessment areas are defined as low-income, no census tracts are defined as low-income. Twenty seven percent (27%) of low-income families reside in moderate-income tracts while 25% reside in middle-income tracts. Other pertinent demographic information used in this analysis is discussed with the presentation of the bank's lending data in this Performance Evaluation.

Conclusions with Respect to Performance Tests

LENDING TEST - ALL ASSESSMENT AREAS COMBINED

In assessing lending performance, we focused on FNB's lending activities; assessment area concentration; geographic distribution of loans; borrower profiles; responsiveness to credit needs of economically disadvantaged geographies, low-income persons or small businesses; community development lending; and, product flexibility. Unless otherwise noted, year-to-date (YTD) 1997 loan data presented in this report are data through December 31, 1997. Also, loan originations include loans purchased.

Conclusions:

- ▶ **FNB's lending level reflects good responsiveness to assessment area credit needs with a substantial majority of loans originated with the assessment areas.**
- ▶ **The distribution of loans reflects a satisfactory penetration throughout assessment areas' geographies.**
- ▶ **The bank's satisfactory record of serving the credit needs of low- and moderate-income borrowers consistent with safe and sound banking practices.**
- ▶ **FNB's low level of community development lending within the assessment areas.**

Large banks are required to collect and report HMDA, small business, and small farm loan data. In addition, the bank can collect and provide data on consumer loans for consideration in their CRA rating. Bank management chose not to collect and maintain information on consumer loans. We verified the accuracy of the HMDA, small business, and small farm information collected and reported. We found the bank did not report all HMDA related loans as required by applicable laws and regulations. While the information presented was accurate, the absence of complete HMDA information can have an effect on the bank's lending test.

Also, we found the bank materially overstated its small business and small farm lending activities in the assessment areas through December 31, 1997. This was due to misinterpretation of the small business and small farm loan definition per the new CRA regulation.

We reviewed 38% of small business and 16% of small farm loans reported for 1997. We found 66% of small business and 20% of small farm loans were reported in error. As a result, the total volume of loans originated during the evaluation period and their distribution inside and outside the assessment area is not available for the CRA analysis. Instead, bank generated reports were used to pull a sampling of those small business/small farm loans which should have been reported for 1997.

The bank is currently reviewing the HMDA, small business/small farm loans made and refiled corrected reports for 1997. Since 1996 data were collected using the same parameters, it is reasonable to assume a similar error rate. Therefore, no trend analysis was performed.

Lending Activity

FNB’s lending levels reflect a good responsiveness to credit needs. More than 94 percent of the bank’s reported HMDA loans for 1997 originated within its assessment areas. FNB made a significant portion of its reported business loans to smaller firms (ie. those with revenues of \$1 million or less). However, no market share data is available due to the significant errors of reporting small business/small farm loans. Community development lending is very low with only three loans totaling \$180 thousand. These community development loans were made primarily in the form of construction lending for affordable single-family homes.

Assessment Area Concentration

Home Mortgage Loans

FNB and its affiliated mortgage company, Arvest Mortgage Company (AMC), extended a substantial volume of HMDA loans within the assessment area in 1997. We weighed the bank’s HMDA lending performance more heavily than the small business lending since mortgage loans, specifically affordable housing, was identified as a primary need. Table 1 shows the volume, by number and dollar amount, of the HMDA loans FNB and AMC made within the assessment area during 1997.

Table 1

Combined Siloam Springs Assessment Area: FNB and Arvest Mortgage Company - HMDA Activity for 1997

HMDA PRODUCT	FNB		Arvest Mortgage Company		Combined Totals	
	# of Loans	\$ (000's)	# of Loans	\$ (000's)	# of Loans	\$ (000's)
Home Purchase	77	5,147	85	5,794	162	10,941
Refinance	75	5,448	64	4,504	139	9,952
Home Improvement	64	1,040	0	0	64	1,040
TOTAL	216	11,635	149	10,298	365	21,933

Data Source: Bank and Arvest Mortgage Company Records

FNB directly made 216 loans totaling \$11.6 million in 1997. The total volume of mortgage related loans originated in 1997 is illustrated in the table 2 below:

Table 2

Combined Assessment Area:

Volume of Home Mortgage Loan Originations in 1997 Within the Assessment Areas						
Product	Total Originations		Within the Assessment Area			
	#	\$ (000)	#	%	\$(000)	%
Home Purchase	35	\$2,242	30	86%	\$1,961	87%
Home Improvement	40	\$515	35	88%	\$440	85%
Refinance	60	\$4,244	57	95%	\$4,032	95%
TOTAL FOR 1996	135	7,001	122	90%	\$6,433	92%
Home Purchase	82	\$5,401	77	94%	\$5,147	95%
Home Improvement	67	\$1,071	64	96%	\$1,040	97%
Refinance	80	\$5,707	75	94%	\$5,448	95%
TOTAL FOR 1997	229	\$12,179	216	94%	\$11,635	96%

Source: HMDA Loan Application Register

A substantial majority of the loans originated in 1996 and 1997, in terms of both numbers and dollars, were made within FNB's assessment areas. Total originations reflect good responsiveness to credit needs in the assessment area. Information for HMDA loans made by AMC, and attributable to FNB, was not readily available for 1996. Therefore, no trend analysis was performed. However, information for 1997 is displayed in Table 1, above, and discussed in the respective assessment area sections of the performance evaluation.

Small Business and Small Farm Loans

FNB's level of small business/small farm loans reflects a good responsiveness to credit needs in the assessment areas. The CRA regulation requires banks to collect and report loan data for business loans originated in amounts of \$1 million or less and for small farm loans originated in amounts of \$500 thousand or less to businesses with revenues of **any size**. The definition of "small business and small farms" loans under the new CRA regulation mirrors the definition of "loans to small businesses and small farms" reported each June 30 in the bank's Consolidated Reports of Condition.

During the examination, our sampling of 68 small business/small farm loans revealed 88% were made inside the assessment areas. Table 3 shows the volume, by number and dollar, of these loans made in 1997. This number may increase once management completes their file search and resubmits the 1997 information. As stated earlier, since 1996 data were collected using the same parameters for collecting 1997 data, it is reasonable to assume a similar error rate. Therefore, no trend analysis was performed.

Table 3

Combined Assessment Area:

Volume of Small Business and Small Farm Loans Originations in 1997 Within the Assessment Areas						
Loan Product	Total Originations		Within the Assessment Area			
	#	\$ (000)	#	%	\$ (000)	%
Small Business	40	\$3,541	38	95%	\$2,736	77%
Small Farm	28	\$1,615	22	79%	\$1,570	97%
Total for 1997	68	\$5,156	60	88%	\$4,306	84%

Geographic Distribution of Loans within the Assessment Area

Geographic analysis of FNB’s loan distribution is not meaningful for the MSA given there are no clearly defined low- and moderate-income tracts. There are 2 moderate-income BNAs’ in the nonmetropolitan assessment area. Refer to the **Nonmetropolitan Statewide Area** section for information.

Distribution by Borrowers’ Income within the Assessment Area

Home Mortgage Loans

Lender market share data for 1996 indicates FNB was second in originating HMDA loans to low- and moderate-income borrowers within both assessment areas with a market share of 9%. AMC was the market leader with a market share of 17%.

HMDA distribution for 1997 among low- and moderate-income borrowers is satisfactory despite the lower penetration of low-income families in the assessment areas. Low- and moderate-income families represent 43% of the population while middle- and upper-income families represent 57% of the population.

The number of home mortgage loans to low- and moderate-income families represent 29% of the mortgage loans originated in the assessment area. The percentage of all mortgage loans originated to low- and moderate-income families represent 57% and 77%, respectively, of the percentage of families within these income categories.

The number of loans originated to middle- and upper-income families were 96% and 145%, respectively, within these income categories. Table 4 illustrates the geographic distribution of mortgage loans originated by number of loans.

Table 4
Combined HMDA Loan Distribution by Borrower Income Level - January 1, 1997 - December 31, 1997

Distribution of Home Mortgage Loan Originations in 1997 Within the Assessment Area By Income Level of the Borrower								
Demographic Data	Low-Income		Mod-Income		Middle-Income		Upper-Income	
Characteristics of Families	2,467	21%	2,648	22%	2,850	24%	3,909	33%
Loan Product	#	%	#	%	#	%	#	%
Home Purchase	7	3%	20	9%	17	8%	33	15%
Home Improvement	9	4%	11	5%	19	9%	25	12%
Refinance	10	5%	6	3%	13	6%	46	21%
TOTAL 1997	26	12%	37	17%	49	23%	104	48%

Source: 1997 HUD updated MFI and HMDA information

The lower percentage penetration of low-income families is reflective of the lack of affordable housing, including down payment assistance and flexible terms. Management said they will continue to search for ways to address the penetration among low-income borrowers.

Based on 1996 aggregate HMDA data, FNB's market share of all mortgage loans directly originated to low- and moderate-income families equally represents its overall market share. As shown in table 5, the low- and moderate-income share represents 99% and 100%, respectively, of FNB's overall market share. Home improvement lending accounts for the majority of the performance. FNB ranks as the number one lender of home improvement loans to low- and moderate-income families in the assessment areas. Loans originated by AMC and attributed to the bank represents 9% and 16% of the overall market share to low- and moderate-income borrowers. When loans originated by FNB & AMC are combined, FNB ranks number one for all HMDA reportable loans.

Table 5

Market Share of Home Mortgage Loan Originations in 1996 Within the Assessment Areas By Income Level of the Borrower								
Loan Product	Total Originations		Overall		Low-Income		Moderate-Income	
	Number	\$ (000)	Market Rank	Market Share	Market Rank	Market Share	Market Rank	Market Share
Home Purchase	175	7,713	5	5.71%	3	12.20%	4	9.91%
Refinance	111	4,519	4	9.91%	4	5.56%	3	12.00%
Home Improvement	37	400	1	32.43%	1	16.67%	1	40.00%
Grand Total	323	12,632	3	10.22%	3	10.11%	2	10.26%

Source: 1996 Aggregate HMDA Data. * Rank is based on total number of loans and total \$ amounts of loans made by each institution.

Small Business and Small Farm Loans

Our sampling revealed the geographic distribution of small business/small farm loans in 1997 reflects reasonable dispersion throughout the assessment areas among businesses of different revenue sizes, especially those businesses with gross annual revenues of \$1 million or less. As previously stated, the CRA regulation requires lenders to report loans of \$1 million or less which are made to businesses of any revenue size. More emphasis is placed on the distribution of loans to smaller businesses, those with revenues of \$1 million or less.

Table 6 shows the volume, by number and dollar, of small business/small farm loans made in 1997. It also shows the business revenue size of the borrowers, if known.

Table 6

Combined Assessment Area:

SMALL BUSINESS LOANS & SMALL FARM LOANS	% Businesses in AA	1997			
		# of Loans	% by #	\$ (000's)	% by \$
Revenues <= \$1 Million	87%	59	87%	4,087	79%
Revenues > \$1 Million	8%	6	9%	934	18%
Unknown Revenues	5%	3	4%	135	3%
TOTAL	100%	68	100%	5,156	100%

Data Source: This table was generated using a sample of small businesses/small farm loans taken from bank records

FNB extended a significant amount of small business/small farm loans to firms with gross annual revenues of \$1 million or less. Of the 68 loans sampled, 87% were extended to businesses with revenues less than \$1 million. This data also shows that 87 percent of the businesses in the combined assessment areas reported revenues of \$1 million or less.

In addition to revenue size, the CRA regulation stratifies banks' small business/small farm lending activity by loan size category. Loan size has generally been found to correlate to the size of the business. The loan size categories per the CRA regulation are: \$100 thousand or less; greater than \$100 thousand to \$250 thousand; and greater than \$250 thousand to \$1 million. Table 7 shows 75% percent of the 68 sampled loans were extended in amounts of \$100 thousand or less, with an average loan size of \$76 thousand.

The census tracts and block numbering areas without any loans had relatively few businesses or small farms located in them compared to the tracts where loans were made. This will become apparent when we discuss the conclusions for each assessment area.

Table 7

Combined Assessment Area: Small Business Loans - Distribution by Loan Size to Businesses with Revenues of Any Size - 1997

Loan Size (in 000's)	1997			
	# of Loans	% by #	\$ (000's)	% by \$
\$0 to <=\$100	51	75%	1,028	20%
>\$100 to <= \$250	12	18%	2,074	40%
>\$250 to \$1,000	5	7%	2,054	40%
TOTALS	68	100%	5,156	100%

Data Source: This table was generated using a sample of small business/small farm loans taken from bank records

Community Development Lending

FNB made a low level of community development loans considering its size and lending capacity. Community development loans must meet the community development definition as stated in the new CRA regulation. Refer to the *Glossary of Terms and Common Abbreviations* Page for this definition.

The bank did not formally report any community development loans as defined by the CRA regulation. However, during the examination we helped the bank identify three loans to construct affordable housing for low- and moderate-income families that warrant consideration. Since these loans are not reportable as HMDA loans, we considered it for community development lending. For the evaluation period, the loans totaled only \$180 thousand for constructing single-family affordable housing within its MSA assessment area. There were no community development loans in the nonmetropolitan area in Oklahoma. Financial resources have not been dedicated to the nonmetropolitan assessment area.

Product Innovation and Flexibility

- Federal Home Loan Bank Program (FHLBB) - Through the FHLBB, long-term, fixed-rate financing is available to small business and small farm borrowers. As of March 25, 1998, the bank has total borrowings of \$19 million to support this program. This activity is up approximately \$10 million since the July 7, 1996 CRA examination.
- ▶ Affordable Housing Assistance - Through the bank's membership with the Federal Home Loan Bank, management requested, and was granted, \$100 thousand to assist low-income first time home buyers with funds for down payments and closing costs not to exceed \$5 thousand when purchasing housing for rehabilitation. The program is administered through Family Support Services of Siloam Springs. As of March 25, 1998, there were 4 loans totaling \$118 thousand.

Other products used are, though not necessarily innovative and flexible are:

Small Business Administration Loans

FNB specializes in SBA programs for small and medium sized businesses. As of March 25, 1998, the bank has 32 loans totaling \$2.0 million, up from 28 loans totaling \$1.3 million at our July 7, 1996 CRA examination.

Guaranteed Student Loan Program

The bank actively participates in a guaranteed student loan program administered through the State of Arkansas. As of March 25, 1998, the bank has 1,026 loans totaling \$3.1 million, up from 835 loans totaling \$2.5 million at our July 7, 1996 CRA examination.

INVESTMENT TEST

To assess FNB's performance under the Investment Test, we reviewed its investment and grant activity; responsiveness to credit and community development needs; and its initiative with community development.

Conclusions:

- ▶ **FNB has no investments in grants for affordable housing or community development services.**
- ▶ **FNB's investment in community development is extremely limited.**
- ▶ **Poor responsiveness to credit and community development needs of the assessment areas.**

FNB has an extremely low level of qualified community development investments and grants based on its size and financial capacity within its assessment areas. However, opportunities to purchase qualified bond issues are somewhat limited given the demographic make-up of the assessment areas. There are no low-income areas in the MSA assessment area and only two moderate-income areas located in the nonmetropolitan assessment area in Oklahoma. Qualified investments must have a "community development purpose" as described in the new CRA.

During 1997, only \$9 thousand in donations were made to organizations that have a qualified "community development" purpose. The donation supported one local daycare center that provides financial assistance to low- and moderate-income individuals and families toward day care expenses.

SERVICE TEST

In assessing FNB's performance under the Service Test, we focused on the accessibility of its delivery systems; changes in branch locations; reasonableness of its business hours and services in meeting the needs of its assessment areas; and, level of community development services.

Conclusions:

- ▶ **FNB's locations, business hours, and services offered are convenient and accessible to essentially all portions of its assessment area.**
- ▶ **Branch openings and closings have not adversely affected accessibility to bank delivery systems.**
- ▶ **FNB provides an adequate level of community development services related to the provision of financial products.**

FNB's branches and services are reasonably accessible to its customers. All locations provide deposit services. Although the main bank facility offers no lending services, loan officers will make appointments to meet applicants for any loan types. FNB provides a satisfactory level of community development services.

Retail Banking Services

FNB has two branches and two motor bank facilities located in its assessment areas. The main bank and one branch, both with motor bank deposit-taking facilities, are located in Siloam Springs. One branch is located in Gentry, Arkansas. The main bank only offers deposit services with no lending services available. However, both branches offer a full array of loan and deposit services. While the main bank offers no loan services, loan officers will see any applicant by appointment. Extended weekday and weekend hours are available at the branch in west Siloam Springs. With the addition of one ATM since the previous CRA examination, FNB now has nine ATMs.

State laws prohibit FNB from locating physical facilities and ATMs across state lines in the nonmetropolitan Oklahoma assessment area. There have been no branch closings during this evaluation period.

FNB offers a 24-hour Account Information Line which allows Arkansas customers free access to select financial services that include account information, funds transfer, and rate information. These services are provided to Oklahoma customers at a long distance charge.

Community Development Services

FNB's staff provides satisfactory community development services in its assessment areas. Community development services must have a primary purpose of community development and relate to the provision of financial services. Particular services provided are:

- Hispanic Bilingual Services - FNB hired two Spanish speaking employees to provide interpretation services. This increases access to financial services for Spanish speaking immigrants who cannot conduct business in English. Many are often low- and moderate-income individuals.
- ▶ Fannie Mae Home of Your Own Alliance (HOYO) - First National just started participating in this mortgage underwriting project which helps disabled people become homeowners. The bank has committed to deliver the mortgage loan, participate in early delinquencies counseling, assist the lead agency, Family Support Services, commit staff to assist with marketing and training, and oversee and approve property inspections.
- Free checking with a minimum deposit of \$100 to open the account.

FAIR LENDING REVIEW

No violations of the substantive provisions of the antidiscrimination laws and regulations were identified during a concurrent fair lending examination of FNB. The examination included a comparative file review of home purchase and home improvement loan originations focusing on terms, conditions and rates.

Metropolitan Statistical Area

Conclusions with Respect to Performance Tests in the Fayetteville-Springdale-Rogers MSA (MSA) #2580

Summary of Institution’s Operations in the MSA

FNB operates its main office and 2 full-service branch offices in the Fayetteville-Springdale-Rogers MSA (MSA). The branch locations are located in the western portion in the city of Siloam Springs and Gentry. All locations are located in middle-income tracts. Additionally, the bank has nine proprietary ATMs in the MSA.

The western portion of the MSA is FNB’s primary market. Local banking competition is aggressive and includes four commercial banks, three credit unions, one governmental agency, and one mortgage company. The local economic climate is very good with slightly less than 3% unemployment. The industrial base remains diversified with several employers providing roughly 4,500 industrial jobs. Primary employers and related workforce include Simmon Foods, Inc., Franklin Electric, Gates Rubber Company, Allen Canning Company, Dayspring Cards, and La-Z-Boy of Arkansas. Agriculture, in the form of poultry production, continues to play a significant role in the local economy.

Description of the Fayetteville-Springdale-Rogers MSA

The Fayetteville-Springdale-Rogers MSA contains 56 census tracts within 2 counties in western Arkansas. FNB’s assessment area consists of 8 census tracts in the most western portion of Benton County. All census tracts are middle-income tracts. The MSA has a population of 27,907 based on the 1990 U.S. Census. The MFI is \$39,100 which defines low-income at or below \$19,550. Table 7 provides the economic breakdown of the geographies and families located in the assessment area.

Table 7

Siloam Springs Assessment Area															
Eight (8) Census Tracts in Fayetteville-Springdale-Rogers MSA #2580															
Low-Income				Moderate-Income				Middle-Income				Upper-Income			
Census Tracts		Families		Census Tracts		Families		Census Tracts		Families		Census Tracts		Families	
0	0%	0	0%	0	0%	0	0%	8	100%	27,907	100%	0	0%	0	0%

The MSA has a lower level of persons living below the poverty level at 10% when compared to the overall assessment area of 13% and the State of Arkansas at 11%. Although 24% of the families in this area are defined as low-income, no census tracts are defined as low-income. All of the low-income families reside in the middle-income tracts.

As discussed earlier, the median housing value in the MSA is high at \$46,352. Compared to low-income borrowers, there exists a definite mismatch between the financial ability of the low-income residents to purchase and sustain the cost of affordable housing in the MSA. This is compounded by high land values coupled with the control of land and monies for development by a handful of investors. This increases the difficulties of making home mortgage loans to low-income families.

Description of Performance Tests in the Fayetteville-Springdale-Rogers MSA

LENDING TEST

Lending Activity

The MSA accounts for a slightly larger percentage of HMDA and small business loan originations bankwide. Approximately 70% of the mortgage related loans and 85% of the sampled small business loans, originated from January 1, through December 31, 1997, was made in the MSA. The lending volume is reasonable with the loan to deposit ratio as of 12/31/97 at 84%.

Geographic Distribution of Loans within the Fayetteville-Springdale-Rogers MSA

Home Mortgage Loans

Geographic analysis of lending distribution in this assessment area is not meaningful given there are no clearly defined low- and moderate-income tracts.

Small Business and Small Farm Loans

FNB's geographic distribution of small business/small farm loans reflects an adequate dispersion throughout the 8 census tracts in the assessment area. Based on our sampling, FNB made 86% of the small business and 14% of small farm loans within the assessment area. The adequate dispersion is based on the majority of small businesses situated in the MSA. Table 8 displays the small business/small farm loans, in number and dollar, located in the MSA.

Table 8

Volume of Small Business and Small Farm Loans Originations in 1997 Within the MSA Assessment Areas						
Loan Product	Total Originations		Within the MSA Assessment Area			
	#	\$ (000)	#	%	\$ (000)	%
Small Business	40	\$3,541	34	86%	\$2,512	71%
Small Farm	28	\$1,615	4	14%	\$156	10%
Total for 1997	68	\$5,156	38	56%	\$2,668	52%

Data Source: This table was generated using a sample of small business/small farm loans taken from bank records

Distribution by Borrower's Income within the Fayetteville-Springdale-Rogers MSA

Home Mortgage Loans

The distribution of home mortgage loans among borrowers of different income levels is satisfactory despite the lower level of penetration among low-income borrowers. The percentage of all home mortgage loans made to low- and moderate-income families represents 44% and 109%, respectively, of the percentage of families that are within these income categories. The percentage of home improvement loans made to low-income families, however, is higher at 61% of the percentage of families. Table 9 reflects the distribution among the various borrower income levels.

Table 9

HMDA Loan Distribution by Borrower Income Level for MSA - January 1, 1997 - December 31, 1997

Distribution of Home Mortgage Loan Originations in 1997 Within the Assessment Area by Income Level of the Census Tracts								
Assessment Area Data	Low-Income		Mod-Income		Middle-Income		Upper-Income	
Characteristics of Families	1,393	18%	1,791	23%	1,998	26%	2,600	33%
Loan Product	#	%	#	%	#	%	#	%
Home Purchase	8	6%	46	34%	36	27%	44	33%
Home Improvement	5	11%	7	15%	12	26%	23	48%
Refinance	7	7%	18	19%	22	23%	50	51%
TOTAL 1997	20	8%	71	25%	70	25%	117	42%

Source: 1997 HUD updated MFI and HMDA information. This table does not include one loan with unknown income?

* Includes loans originated by Arvest Mortgage Company and attributed to FNB (127 loans)

Again, the disparity is associated with the lower income levels to purchase and sustain affordable housing, the most identified need in this assessment area. Market share data for 1996 reflects FNB was the third largest lender with loans originated to low-income and second largest to moderate-income borrowers within the MSA. The bank maintains its strength in home improvement lending and is ranked first, among area lenders, in making loans to borrowers of all income levels.

Small Business and Small Farm Loans

Based on our sampling of small business/small farm loans, FNB's distribution performance in the MSA assessment area from January 1, 1997 through December 31, 1997 is good. Seventy-four (74%) percent of the loans were to businesses with revenues less than \$1 million. Table 10 shows the bank's willingness to make loans of varying sizes. This compares favorably to the percentages shown annual revenue distribution throughout the assessment area.

Table 10

Distribution of Small Business and Farm Loan Origination in 1997 Within the MSA Assessment Area By Loan Size				
Loan Size				
	#	%	\$ (000)	%
less than \$100,000	31	74%	\$851	25%
\$100,000 to \$250,000	8	19%	\$1,215	36%
\$250,000 to \$1,000,000	3	7%	\$1,320	39%
TOTAL	42	100%	\$3,386	100%
Distribution of Businesses and Farms in the Assessment Area by Annual Revenues of Business or Farm	<1 Million	83%	>1 Million	5%
	Unknown	7%		

Data Source: This table was generated using a sample of small business/small farm loans taken from bank records

Community Development Lending

Community development lending is poor within this assessment area. Based on the bank's internal reports, three loans totaling \$180 thousand were originated in 1997. The loans were used to construct single-family affordable housing within the bank's MSA assessment area.

INVESTMENT TEST

The operations in this test were discussed under the **Investment Test** in the conclusions regarding the overall institution.

SERVICE TEST

Retail Banking Services

There are two branches and two motor bank facilities located in this assessment area. The main bank and one branch, both with motor bank deposit-taking facilities, are located in Siloam Springs. One branch is located in Gentry, Arkansas. The main bank only offers deposit services only. However, both branches offer a full array of loan and deposit services. While the main bank offers no loan services, loan officers are available to meet with any applicant by appointment.

Extended weekday and weekend hours are available at the branch in west Siloam Springs. With the addition of one ATM since the previous CRA examination, FNB now has nine ATMs in the MSA. Management is considering closing the motor bank facility at the main bank. This will have no effect on the assessment area

given the west branch location is more than adequate to serve the assessment area. Also, the majority of low- and moderate-income families are closer to the west side branch.

FNB offers a toll-free 24-hour Account Information Line which allows Arkansas customers free access to select financial services including account information, funds transfer and rate information.

Community Development Services

The operations in this test were discussed under the **Community Development Services** in the conclusions regarding the overall institution.

Nonmetropolitan Statewide Areas

Description of Institution’s Operations in the State of Oklahoma Nonmetropolitan Area

FNB has delineated one assessment area in a nonmetropolitan area of Oklahoma. This assessment area includes 2 BNAs in both southern Delaware and northern Adair counties. The tracts are defined as a mix of moderate- and middle-income tracts in each county. The BNAs are adjacent to the bank’s MSA. Based on the 1990 census, the nonmetropolitan area has a population of 14,543. The HUD 1997 updated median family income is \$30,800 with low-income defined at or below \$15,400. Credit needs within this assessment area similar to those of the MSA and includes affordable housing for low-income families. The nonmetropolitan area does not represent a major market for FNB. However, they are large players in both counties given the limited number of financial institutions.

Although there are no branches or ATMs in this area, its proximity and the number of loans originated prompted management to include it as part of the overall assessment area. Also, state laws prohibit branching across state lines.

The economy is mostly rural with many of the residents commuting to Siloam Springs to work. Unemployment is estimated at 3% and has remained stable over the past few years. Table 11 shows the economic breakdown for this area.

Table 11

Nonmetropolitan Assessment Area Four (4) Block Numbering Areas (BNAs) in Non-MSA Oklahoma Region															
Low-Income				Moderate-Income				Middle-Income				Upper-Income			
Census Tracts		Families		Census Tracts		Families		Census Tracts		Families		Census Tracts		Families	
0	0%	0	0%	2	50%	6,183	43%	2	50%	8,360	57%	0	0%	0	0%

This area has a high level of persons living below the poverty level at 19% when compared to the overall assessment area of 13%. Although 26% of the families in this area are defined as low-income, no census tracts are defined as low-income. Twenty eight percent (28%) of low-income families reside in moderate and 25% in middle-income BNA’s. The median housing value in the nonmetropolitan area is high at \$29,353 when compared to capabilities of low-income borrowers to purchase and sustain a home.

Conclusions with Respect to Performance Test in the State of Oklahoma Nonmetropolitan Area

LENDING TEST

Lending Activity/Assessment Area Concentration

Home Mortgage Loans

The nonmetropolitan assessment area in Oklahoma accounts for 30% of the home mortgage, 10% of the small businesses, and 64% of the small farm related originations in 1997. This volume of lending penetrates all BNAs in the assessment area with no significant gaps in distribution.

Distribution by Borrowers' Income within the Assessment Area

Home Mortgage Loans

The distribution of home mortgage loan originations among borrowers of different income levels is satisfactory despite the lower penetration among low-income borrowers. The percentage of home mortgage loans made to low- and moderate-income families represents 50% and 71%, respectively, of the percentage of families within these income categories. At the same time, the penetration among middle- and upper-income families represents 105% and 156%, respectively, of the percentage of families within these income categories. Table 12 shows residential lending patterns by borrower's income level within the nonmetropolitan assessment area:

Table 12

HMDA Loan Distribution by Borrower Income Level for MSA - January 1, 1997 - December 31, 1997

Distribution of Home Mortgage Loan Originations in 1997 Within the Nonmetropolitan Assessment Area by Income Level of the Census Tracts								
Assessment Area Data	Low-Income		Mod-Income		Middle-Income		Upper-Income	
Characteristics of Families	1,074	26%	857	21%	852	21%	1,309	32%
Loan Product	#	%	#	%	#	%	#	%
Home Purchase	2	7%	7	26%	6	22%	12	44%
Home Improvement	4	24%	4	24%	7	26%	2	12%
Refinance	5	12%	2	5%	6	14%	29	69%
TOTAL 1997	11	13%	13	15%	19	22%	43	50%

Source: 1997 HUD updated MFI and HMDA information.

* Includes 22 loans originated by Arvest Mortgage Company and attributed to FNB

The percentage of home improvement loans to low- and moderate-income families represent 92% and 114%, respectively, of the percentage of families within these income categories. No market share data was available for the nonmetropolitan area.

Small Business and Small Farm Loans

The geographic distribution of small business and small farm loans reflects a good dispersion throughout the nonmetropolitan area from January 1, 1997 through December 31, 1997. Ninety-two (92%) percent of the loans were made to small business/small farms with revenues under \$1 million. This compares favorably to the 100% distribution, based on annual revenues distribution, within the assessment area. This is particularly notable of small farm loans of which all are made in the nonmetropolitan assessment area. Table 13 shows the bank's willingness to make loans of varying sizes.

Table 13

Distribution of Small Business and Farm Loan Origination in 1997 Within the Nonmetropolitan Assessment Area By Loan Size				
Loan Size				
	#	%	\$ (000)	%
less than \$100,000	24	92%	\$1,460	87%
\$100,000 to \$250,000	2	8%	\$210	13%
\$250,000 to \$1,000,000	0	0%	\$0	0%
TOTAL	26	100%	\$1,670	100%
Distribution of Businesses and Farms in the Assessment Area by Annual Revenues of Business or Farm	<1 Million	100%	>1 Million	0%
			Unknown	0%

Data Source: This table was generated using a sample of small business/small farm loans taken from bank records

FNB's geographic distribution of small business/small farm loans reflect an adequate dispersion throughout the 4 BNAs in the nonmetropolitan assessment area. Based on our sampling, FNB made 10% of the small business loans within the assessment. However, 64% of small farm loans were made in this assessment area. This is expected given the bulk of agricultural activity is located in this assessment area. Table 14 displays the small business/small farms, in number and dollar, located in this area. Our analysis was limited due to the submission of incorrect data. Therefore, no further analysis (ie. lending among different income tracts) is performed.

Table 14

Volume of Small Business and Small Farm Loans Originations in 1997 Within the Nonmetropolitan Assessment Area						
Loan Product	Total Originations		Within the Nonmetropolitan Assessment Area			
	#	\$ (000)	#	%	\$ (000)	%
Small Business	40	\$3,541	4	10%	\$224	6%
Small Farm	28	\$1,615	18	64%	\$1,414	88%
Total for 1997	68	\$5,156	22	32%	\$1,638	32%

Community Development Lending

Management has not made any community development loans in this nonmetropolitan assessment area.

INVESTMENT TEST

The operations in this test were discussed under the **Investment Test** in the conclusions regarding the overall institution.

SERVICE TEST

Retail Banking Services

The availability and effectiveness of FNB service-delivery systems in the nonmetropolitan area are adequate. There are no branches, motor bank facilities, or ATMs located in this area due to state banking laws prohibiting branching or ATM's across state line. The west side branch is located just across state lines and offers a full array of loan and deposit services. Extended weekday and weekend hours are available. In addition, an affiliate of FNB, Arvest Savings Bank, located in one of the BNA's in Adair County, Oklahoma provides an array of depository services for FNB customers. The majority of FNB customers reside in this section of the nonmetropolitan assessment area.

FNB offers a 24-hour Account Information Line which allows Oklahoma customers access to select financial services including account information, funds transfer and rate information. These services are provided to Oklahoma customers at the usual long distance charge from Oklahoma to Arkansas..

Community Development Services

The operations in this test were discussed under the **Community Development Services** in the conclusions regarding the overall institution.

Appendix A: Scope of Examination

The scope of our evaluation focused on FNB's activities in its two assessment areas, the Fayetteville-Springdale-Rogers Metropolitan Area and the Nonmetropolitan Statewide Area of Oklahoma. We utilized the Large Bank CRA Examination Procedures section of the *Comptroller's Handbook* to conduct the evaluation. We evaluated activities from January 1, 1997 through December 31, 1997.

We included lending activity for the following products in our analysis: home mortgage related products (including home purchase/refinance and home improvement loans), small business and farm loans. Information regarding consumer loans was not tracked for this analysis.

During the examination, we found the bank materially overstated its small business and small farm lending activities in the assessment areas through December 31, 1997. This was due to misinterpretation of the small business and small farm loan definition per the new CRA regulation. We reviewed 38% of the small business and 16% of small farm loans reported for 1997. We found 66% of small business and 20% of small farm loans were reported in error. As a result, the total volume of loans originated during the evaluation period and their distribution inside and outside the assessment area is not available for the analysis of CRA performance. Instead, we reviewed a sampling of those loans for our analysis. The bank is currently reviewing the HMDA, small business, and small farm loans made in 1997 and refiled corrected reports. Since 1996 data were collected using the same parameters, it is reasonable to assume a similar error rate. Therefore, no trend analysis is performed.