PUBLIC DISCLOSURE

July 27, 2015

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The Bank of Fayetteville
RSSD# 308443

One South Block Avenue
Fayetteville, Arkansas 72701

Federal Reserve Bank of St. Louis

P.O. Box 442
St. Louis, Missouri 63166-0442

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 the 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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INSTITUTION'S CRA RATING: This institution is rated SATISFACTORY.
The Lending Test is rated Satisfactory.
The Community Development Test is rated Satisfactory.

The Bank of Fayetteville meets the criteria for a Satisfactory rating based on the evaluation of the bank's lending and community development activities. The factors supporting the institution's rating include:

- The borrower's profile analysis reveals reasonable penetration among individuals of different income levels, including low- and moderate-income (LMI) levels, and businesses of different sizes.

- The geographic distribution of loans analysis reflects reasonable dispersion throughout the bank's assessment area.

- The bank's loan-to-deposit (LTD) ratio is reasonable given the bank's size, financial condition, and assessment area credit needs.

- A majority of the bank's loans and other lending-related activities are in the bank's assessment area.

- No CRA-related complaints were filed against the bank for this review period.

- The bank's overall community development performance demonstrates adequate responsiveness to the community development needs of its assessment area, considering the bank's capacity and the need and availability of such opportunities for community development in the bank's assessment area. The bank has responded to these needs through community development loans, qualified investments, and community development services.

SCOPE OF EXAMINATION

The bank's CRA performance was evaluated using the Federal Financial Institutions Examination Council's (FFIEC's) *Interagency CRA Procedures for Intermediate Small Institutions.* The intermediate small bank examination procedures entail two performance tests, the Lending Test and the Community Development Test. The period of review spanned from the date of the bank's previous CRA evaluation on April 30, 2012 to July 27, 2015.

Lending Test

Under the Lending Test, the bank's performance is evaluated under the following criteria, as applicable.

- Loan distribution by borrower's profile (applicant income or business revenue profile).
- The geographic distribution of loans.
- The bank's average LTD ratio.

- The concentration of lending within the assessment area.
- A review of the bank's response to written CRA complaints.

Lending performance was based on the following loan products and the corresponding time period as displayed in the following table.

Loan Product	Time Period
Small Business	January 1, 2013 – December 31, 2013
Home Mortgage Disclosure Act (HMDA)	
Consumer Motor Vehicle	

These three loan categories are considered the bank's primary lines of business, based on lending volume by number and dollar amounts and in light of the bank's stated business strategy. Therefore, loan activity represented by these credit products is deemed indicative of the bank's overall lending performance. However, as the bank has a particular emphasis on commercial lending, performance based on small business loans carried the most significance toward the bank's overall performance conclusions.

Lending Test analyses often entail comparisons of bank performance to assessment area demographics and the performance of other lenders, based on HMDA and CRA aggregate lending data. Unless otherwise noted, assessment area demographics are based on 2010 U.S. Census data, and business geodemographics are based on 2013 Dun & Bradstreet data, which are applicable to the year of loan data being evaluated. Generally, when analyzing bank performance by comparing lending activity to both demographic data and aggregate lending data, greater emphasis is placed on the aggregate lending data, because it is expected to describe many factors impacting lenders within an assessment area. Aggregate lending datasets are also updated annually and are therefore expected to predict more relevant comparisons. In addition, the bank's lending levels were evaluated in relation to those of comparable financial institutions operating within the same general region. Two other banks were identified as similarly situated peers, with asset sizes ranging from $333.1 million to $498.4 million.

Community Development Test

Under the Community Development Test, the bank's performance was evaluated via responsiveness to the following community development needs, considering the bank's capacity and the need and availability of such opportunities for community development in the bank's assessment area.

- The number and dollar amount of community development loans.
- The number and dollar amount of qualified investments and grants.
- The extent to which the bank provides community development services.

The review of the bank's performance under the Community Development Test included community development activities initiated in the period from the date of the bank's previous CRA evaluation (April 30, 2012) to this review date (July 27, 2015).

Community Contacts

To augment this evaluation, three community contact interviews were conducted with members of the local community. These community contact interviews were used in order to ascertain specific credit needs, opportunities, and local market conditions within the bank's assessment area. Key details from these community contact interviews are included in the *Description of Assessment Area* section.

DESCRIPTION OF INSTITUTION

The Bank of Fayetteville is a full-service retail bank offering both consumer and commercial loan and deposit products. The bank is a wholly-owned subsidiary of Bankshares of Fayetteville, Inc., a one-bank holding company headquartered in Fayetteville, Arkansas. The bank's branch network consists of eight offices, all of which are located in Washington County, Arkansas. The bank's main office and four branches are located in the city of Fayetteville. The remaining three branch offices are located to the south and southwest in the cities of Farmington, Prairie Grove, and West Fork. The main office has a cash dispensing-only automated teller machine (ATM) on site, and all of the branches offer drive-through accessibility and have full-service ATMs on site. All of the branch offices offer Saturday lobby hours, and two of the Fayetteville branch offices offer extended hours. Furthermore, the bank's main office and one branch in Fayetteville are located in moderate-income census tracts. The bank did not open or close any branch offices during this review period. Based on this branch network and other service delivery systems such as full-service online banking and mobile banking capabilities, the bank is well positioned to deliver financial services to its entire assessment area.

For this review period, no legal impediments or financial constraints were identified that would have hindered the bank from serving the credits needs of its customers, and the bank appeared capable of meeting assessment area credit needs based on its available resources and financial products. As of March 31, 2015, the bank reported total assets of $348.3 million. As of the same date, loans and leases outstanding were $237.2 million (68.1 percent of total assets) and deposits totaled $303.9 million. The bank's loan portfolio composition by credit category is displayed in the following table.

Distribution of Total Loans as of March 31, 2015		
Credit Category	**Amount ($000s)**	**Percentage of Total Loans**
Construction and Development	$25,217	10.6%
Commercial Real Estate	$105,441	44.5%
Multifamily Residential	$11,683	4.9%
1–4 Family Residential	$32,827	13.8%
Farmland	$19,969	8.4%
Agricultural	$1,555	0.7%
Commercial and Industrial	$35,478	15.0%
Loans to Individuals	$4,765	2.0%
Total Other Loans	$217	0.1%
TOTAL	**$237,152**	**100%**

As indicated in the table above, a significant portion of the bank's lending resources is directed to commercial real estate loans, commercial and industrial loans, and loans secured by 1–4 family residential properties. Also worth noting is that, by number of loans originated, loans to individuals (such as consumer motor vehicle loans) represents a significant product offering of the bank. As consumer loans not related to residential real estate are typically made in small dollar amounts relative to other credit products, consumer loans may often represent a significant product line by number of loans made, even if not reflected as such by dollar amount outstanding.

The bank received a Satisfactory rating at its previous CRA evaluation conducted on April 30, 2012, by this Reserve Bank.

DESCRIPTION OF ASSESSMENT AREA

General Demographics

The bank's assessment area, which has a population of 203,065, is located in northwestern Arkansas in the Fayetteville-Springdale-Rogers, Arkansas-Missouri Metropolitan Statistical Area (Fayetteville MSA). The Fayetteville MSA contains four counties in two states; however, the bank's assessment area consists of the entirety of only one county, Washington. The University of Arkansas, a 412-acre university with student enrollment of approximately 26,000 in 2014, is located in the MSA in the city of Fayetteville. This assessment area has more rural areas to the south and urban/suburban areas to the north, including Fayetteville and Springdale. Within this assessment area, Fayetteville, the county seat of Washington County, has the largest population at 78,960.

According to the Federal Deposit Insurance Corporation (FDIC) Deposit Market Share Report data as of June 30, 2014, there are 21 FDIC-insured depository institutions in the assessment area that operate 90 offices. The Bank of Fayetteville (operating eight, or 8.9 percent, branches in the assessment area) ranked third in terms of deposit market share, with 7.1 percent of the total assessment area deposit dollars.

Commercial lending products represent a credit need in the assessment area, along with the need for a standard blend of consumer loan products. Other particular credit needs in the assessment area, as noted primarily from community contacts, include small dollar loans to businesses and affordable rental housing targeted to university students.

Income and Wealth Demographics

The bank's assessment area consists of the 32 census tracts, comprising Washington County in its entirety. The following table reflects the number and population of the census tracts within the assessment area in each income category.

Assessment Area Demographics by Geography Income Level						
Dataset	**Low-**	**Moderate-**	**Middle-**	**Upper-**	**Unknown**	**TOTAL**
Census Tracts	2	6	17	7	0	**32**
	6.3%	18.8%	53.1%	21.9%	0.0%	**100%**
Family Population	2,021	7,148	26,772	12,685	0	**48,626**
	4.2%	14.7%	55.1%	26.1%	0.0%	**100%**

The previous table reveals that the bank's assessment area contains eight LMI census tracts, two of which are low-income and six of which are moderate-income; this is an increase of three moderate-income census tracts since the 2000 U.S. Census data. The table shows that 25.1 percent of census tracts in the assessment area are LMI; however, the family population shows that only 18.9 percent of families live in these tracts. By far, the majority of census tracts (53.1 percent) are middle-income, containing 55.1 percent of assessment area families.

Based on 2010 U.S. Census data, the median family income for the assessment area is $52,300, while the Fayetteville MSA median family income is $54,186. More recently, the FFIEC estimates the 2013 median family income for the Fayetteville MSA to be $56,700. The following table displays population percentages of assessment area families by income level, compared to the Fayetteville MSA family population as a whole.

Family Population by Income Level					
Dataset	**Low-**	**Moderate-**	**Middle-**	**Upper-**	**TOTAL**
Assessment Area	10,847	8,868	9,810	19,101	**48,626**
	22.3%	18.2%	20.2%	39.3%	**100%**
Fayetteville MSA	23,489	21,253	23,889	47,468	**116,099**
	20.2%	18.3%	20.6%	40.9%	**100%**

While the first table in this section indicates that 18.9 percent of assessment area families live in LMI tracts, this table reveals that a significantly higher percentage of families (40.5 percent) are considered LMI. This LMI family population figure is slightly above that of the Fayetteville MSA (38.5 percent). Lastly, the level of assessment area families living below the poverty level, 12.1 percent, is above that of all Fayetteville MSA families, 10.4 percent. Based on the data, the assessment area appears to be less affluent than the Fayetteville MSA as a whole.

Housing Demographics

Based on housing values, income levels, and rental costs, housing in the assessment area appears to be less affordable than in the Fayetteville MSA. The median housing value for the assessment area is $154,900, which is above the figure for the Fayetteville MSA, $150,700. The assessment area housing affordability ratio of 27.2 percent is below the Fayetteville MSA figure of 30.2 percent. However, the median gross rent for the assessment area of $665 per month is lower than the $675 per month for the Fayetteville MSA.

Furthermore, rental units appear to be more prominent in the assessment area than in the Fayetteville MSA. Of all housing units in the assessment area, 38.9 percent are rental units compared to 31.5 percent of rental units found in the Fayetteville MSA. The assessment area's higher percentage of rental units corresponds with information from community contacts regarding the demand for affordable student housing in association with the University of Arkansas.

Industry and Employment Demographics

The assessment area economy is diverse and is supported by a mixture of manufacturing and service-oriented sectors. According to the U.S. Census Bureau 2013 County Business Patterns, by number of paid employees in the assessment area, health care and social assistance plays the lead role with 13,569, followed closely by manufacturing (12,130) and retail trade (11,431). Furthermore, 2013 business demographic estimates indicate that 90.1 percent of assessment area businesses have gross annual revenues of $1 million or less. Although population growth has increased significantly (28.8 percent) since the previous evaluation, employment has kept pace, as evidenced by low unemployment rates. The table below details unemployment data from the U.S. Department of Labor, Bureau of Labor Statistics (not seasonally adjusted) for the assessment area compared to the Fayetteville MSA as a whole.

Unemployment Levels for the Assessment Area		
Time Period	**Fayetteville MSA**	**Washington County**
2013 Annual Average	5.6%	5.4%
2014 Annual Average	4.6%	4.5%

As shown in the table above, unemployment levels for the assessment area, as well as the Fayetteville MSA, have shown a decreasing trend. Additionally, unemployment levels in the assessment area are only slightly lower than the Fayetteville MSA levels.

Community Contact Information

Information from three community contacts was used to help shape the performance context in which the bank's activities in this assessment area were evaluated. Of these interviews, one was with an individual specializing in affordable housing, one was with a person working in an economic development role, and one was with a person providing financial education and assistance. The community contact interviewees categorized the economy as very good to strong, with moderate growth. Homes sell fairly quickly, and there is strong demand for affordable housing by the university students. Credit counseling was identified as an ongoing need in the community by one interviewee. In addition, the community contacts described Fayetteville as a vibrant community that serves as a strong base for business start-ups and entrepreneurial endeavors. Finally, one community contact indicated that there will be a future need for businesses and restaurants to support the growing population in southern Fayetteville.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

LENDING TEST

The Bank of Fayetteville's performance under the Lending Test is satisfactory. The borrower's profile analysis reveals reasonable penetration among individuals of different income levels, including LMI levels, and businesses of different sizes. Secondly, the geographic distribution of loans analysis reflects reasonable dispersion throughout the bank's assessment area. The bank's LTD ratio is reasonable given the bank's size, financial condition, and assessment area credit needs. A majority of the bank's loans and other lending-related activities are in the bank's assessment area. Lastly, no CRA-related complaints were filed against the bank for this review period.

Loan Distribution by Borrower's Profile

The bank's distribution of small business loans to businesses of various sizes was reviewed by borrower's profile analysis. The following table reflects The Bank of Fayetteville's distribution of small business loans by gross annual revenue and loan amount.

Distribution of Loans Inside Assessment Area by Business Revenue January 1, 2013 through December 31, 2013								
Gross Revenue	**Loan Amounts in $000s**						**TOTAL**	
	≤$100		**>$100 and ≤$250**		**>$250 and ≤$1,000**			
$1 Million or Less	23	47.9%	8	16.7%	6	12.5%	**37**	**77.1%**
Greater than $1 Million/Unknown	5	10.4%	3	6.3%	3	6.3%	**11**	**22.9%**
TOTAL	**28**	**58.3%**	**11**	**22.9%**	**9**	**18.8%**	**48**	**100%**
Dun & Bradstreet Businesses ≤ $1 Million							**90.1%**	
2013 CRA Aggregate Data							**53.9%**	

Based on this analysis of small business loans, The Bank of Fayetteville is doing a reasonable job of meeting the credit needs of small businesses. The table above demonstrates that 37 of 48 loans reviewed (77.1 percent) were made to businesses with gross annual revenues of $1 million or less. In comparison, business geodemographic data as of 2013 from Dun & Bradstreet indicate that 90.1 percent of business institutions inside the assessment area are small businesses. Furthermore, CRA aggregate data reflects that 53.9 percent of business lending was to small businesses. In addition, the fact that 23 of 37 loans (62.2 percent) to small businesses reviewed were in amounts of $100,000 or less further indicates the bank's willingness to meet the credit needs of small businesses. Consequently, the bank's borrower's profile performance for the small business loan category is reasonable.

As with the bank's small business loan activity, the borrower distribution of HMDA loans was analyzed by borrower's income profile. Borrowers are classified into low-, moderate-, middle-, and upper-income categories by comparing their reported income to the applicable median family income figure as estimated by the FFIEC ($56,700 for the Fayetteville MSA as of 2013). The following table shows the distribution of HMDA loans by borrower income level compared to family population income characteristics and 2013 aggregate data for the assessment area.

Distribution of Loans Inside Assessment Area by Borrower Income
January 1, 2013 through December 31, 2013

	Borrower Income Level										TOTAL	
	Low-		Moderate-		Middle-		Upper-		Unknown			
Home Purchase	2	9.5%	2	9.5%	0	0.0%	10	47.6%	7	33.3%	**21**	**100%**
Refinance	2	10.5%	4	21.1%	4	21.1%	4	21.1%	5	26.3%	**19**	**100%**
Home Improvement	3	14.3%	4	19.0%	3	14.3%	10	47.6%	1	4.8%	**21**	**100%**
Multifamily	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	**0**	**100%**
TOTAL HMDA	**7**	**11.5%**	**10**	**16.4%**	**7**	**11.5%**	**24**	**39.3%**	**13**	**21.3%**	**61**	**100%**
Family Population	22.3%		18.2%		20.2%		39.3%		0.0%		**100%**	
2013 HMDA Aggregate	7.2%		14.1%		18.2%		44.4%		16.0%		**100%**	

Although the bank's LMI lending figures for HMDA loans may seem low initially, overall performance is reasonable, especially in light of aggregate performance. The bank's total percentage of lending to low-income borrowers (11.5 percent) is significantly below the percentage of low-income families within the assessment area (22.3 percent). However, the bank's lending to low-income borrowers exceeds that of other lenders in the assessment area based on 2013 aggregate HMDA data which indicate that 7.2 percent of aggregate HMDA loans inside this assessment area were made to low-income borrowers. This reflects reasonable lending performance to low-income borrowers.

Similar to the bank's performance for low-income borrowers, the bank's total lending figure (16.4 percent) is below the percentage of moderate-income families in the assessment area (18.2 percent). However, bank performance to moderate-income borrowers is above that of other lenders based on 2013 aggregate HMDA lending data which indicate that 14.1 percent of aggregate HMDA loans were made to moderate-income borrowers. This reflects reasonable lending performance to moderate-income borrowers. Therefore, the bank's HMDA lending performance by borrower's profile is reasonable.

As with the analyses conducted for the bank's small business loans and the HMDA loan activity, the borrower distribution of consumer motor vehicle loans was also analyzed by borrower's income profile. The following table shows the distribution of consumer motor vehicle loans by income level of the borrower compared to household population income characteristics.

Distribution of Bank Loans Inside Assessment Area by Income Level of Borrower January 1, 2013 through December 31, 2013												
	Borrower Income Level										TOTAL	
	Low-		Moderate-		Middle-		Upper-		Unknown			
Consumer Motor Vehicle Loans	5	13.2%	10	26.3%	7	18.4%	12	31.6%	4	10.5%	**38**	**100 %**
Household Population	25.8%		17.6%		18.2%		38.4%		0.0%		**100%**	

This analysis revealed reasonable penetration to LMI borrowers. By number, the bank made 39.5 percent of the consumer motor vehicle loans to LMI borrowers, which is lower than but in line with the household population of 43.4 percent. Reviewed separately, 13.2 percent of motor vehicle loans were made to low-income borrowers, which is well below the household population of 25.8 percent. This reflected poor penetration to low-income borrowers. In contrast, 26.3 percent of motor vehicle loans were made to moderate-income borrowers, who represent 17.6 percent of the household population, reflecting excellent performance. Based on this data, the distribution of the bank's consumer motor vehicle loans reflects reasonable penetration among individuals of different income levels.

Therefore, the bank's overall borrower's profile performance, based on analyses of all three loan categories, is reasonable.

Geographic Distribution of Loans

As noted in the description of the bank's assessment area, the bank's assessment area contains 2 low-income census tracts, 6 moderate-income census tracts, 17 middle-income census tracts, and 7 upper-income census tracts. The analysis in this section illustrates the distribution of the bank's loan activity across these geographies. The following table displays the geographic distribution of small business loans along with the estimated percentages of small businesses located in each geographic income category and 2013 aggregate data for the assessment area.

Distribution of Loans Inside Assessment Area by Income Level of Geography January 1, 2013 through December 31, 2013												
	Geography Income Level										TOTAL	
	Low-		Moderate-		Middle-		Upper-		Unknown			
Small Business Loans	2	4.2%	12	25.0%	21	43.8%	13	27.1%	0	0.0%	**48**	**100%**
Business Institutions	4.7%		24.8%		44.3%		26.3%		0.0%		**100%**	
2013 CRA Aggregate Data	4.8%		23.5%		41.1%		28.6%		2.0%		**100%**	

As illustrated in the previous table, the bank's level of lending in the LMI census tracts is similar to data used for comparison. The bank originated 29.2 percent of small business loans to businesses within LMI census tracts compared to the 29.5 percent of assessment area businesses located in LMI census tracts. In addition, the bank's performance compares favorably to that of other lenders, based on 2013 CRA aggregate data, which indicate that 28.3 percent of reported small business loans were in LMI census tracts. Reviewed separately, the bank originated 4.2 percent of its small business loans in low-income census tracts, which is slightly lower than but similar to, the number of business institutions (4.7 percent) in low-income geographies. Likewise, 25.0 percent of the small business loans were made in moderate-income census tracts, which is substantially similar to the number of small businesses (24.8 percent) in moderate-income geographies. Therefore, the overall geographic distribution of the bank's small business loans reflects reasonable dispersion throughout the assessment area.

As with the bank's small business lending activity, the geographic distribution of HMDA loans was also reviewed. The following table displays the geographic distribution of HMDA loans compared to owner-occupied housing statistics and 2013 aggregate data for the assessment area.

Distribution of Loans Inside Assessment Area by Income Level of Geography
January 1, 2013 through December 31, 2013

	Geography Income Level										TOTAL	
	Low-		Moderate-		Middle-		Upper-		Unknown			
Home Purchase	2	9.5%	1	4.8%	14	66.7%	4	19.0%	0	0.0%	**21**	**100%**
Refinance	0	0.0%	1	5.3%	15	78.9%	3	15.8%	0	0.0%	**19**	**100%**
Home Improvement	0	0.0%	1	4.8%	14	66.7%	6	28.6%	0	0.0%	**21**	**100%**
Multifamily	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	**0**	**100%**
TOTAL HMDA	**2**	**3.3%**	**3**	**4.9%**	**43**	**70.5%**	**13**	**21.3%**	**0**	**0.0%**	**61**	**100%**
Owner-Occupied Housing	2.5%		10.3%		57.5%		29.7%		0.0%		**100%**	
2013 HMDA Aggregate	2.8%		11.3%		53.6%		32.3%		0.0%		**100%**	

The analysis of HMDA loans revealed lending performance below data used for comparison purposes; this reflects poor performance overall for LMI borrowers. The bank's percentage of lending in LMI geographies (8.2 percent) is below the percentage of owner-occupied housing (12.8 percent) and the performance of other lenders (14.1 percent). Reviewed separately, the bank's total penetration of low-income census tracts by number of loans (3.3 percent) is slightly above the percentage of owner-occupied housing units in low-income census tracts (2.5 percent). Similarly, the bank's performance in low-income census tracts is also slightly above that of other lenders in the assessment area based on 2013 HMDA aggregate data which indicate that 2.8 percent of aggregate HMDA loans inside this assessment area were made to borrowers residing in low-income geographies. Given only two loans were originated in low-income tracts and performance similar to the demographic and aggregate performance, the bank's geographic distribution of HMDA loans in low-income census tracts is reasonable.

Bank performance in moderate-income census tracts was significantly below comparison data and is considered poor. The bank's total penetration of moderate-income census tracts by number of loans (4.9 percent) is well below the percentage of owner-occupied housing units in moderate-income census tracts (10.3 percent); the bank's performance by individual HMDA loan type did not approach the demographic comparison figure in any case. The bank's performance in moderate-income census tracts is also well below that of other lenders based on aggregate lending data which indicate that 11.3 percent of aggregate HMDA loans inside this assessment area were made to borrowers residing in moderate-income census tracts.

Alternatively, the geographic distribution of consumer motor vehicle loan activity reflects reasonable performance by the bank, as displayed in the following table.

Distribution of Bank Loans Inside Assessment Area by Income Level of Geography January 1, 2013 through December 31, 2013												
	Geography Income Level										TOTAL	
	Low-		Moderate-		Middle-		Upper-		Unknown			
Consumer Motor Vehicle Loans	3	7.9%	4	10.5%	22	57.9%	9	23.7%	0	0.0%	**38**	**100%**
Household Population	7.5%		15.6%		52.8%		24.1%		0.0%		**100%**	

This analysis revealed reasonable loan distribution throughout the bank's assessment area. Reviewed separately, the bank originated 7.9 percent of consumer motor vehicle loans in low-income census tracts, which is comparable to the low-income household population of 7.5 percent, reflecting reasonable performance. In contrast, the bank's performance in moderate-income geographies is poor. This analysis revealed the bank originated 10.5 percent of consumer motor vehicle loans in moderate-income census tracts, which is well below the moderate-income household population of 15.6 percent. While this performance is poor, the bank faces heavy pricing competition for consumer motor vehicle loans, particularly within four of the moderate-income census tracts in the northern portion of the assessment area in the city of Springdale. The area's largest competitor has numerous branches in or near these census tracts, while Bank of Fayetteville's branching structure is further south, in and near the city of Fayetteville. Based on this performance context, the geographic distribution of consumer motor vehicle loans reflects reasonable performance.

Given the weight of the bank's small business loan performance and activities analyzed for all three loan categories, the bank's overall geographic distribution of loans reflects reasonable dispersion throughout this assessment area.

Loan-to-Deposit (LTD) Ratio

One indicator of the bank's overall level of lending activity is its LTD ratio. The following table displays the bank's average LTD ratio compared to those of regional peers with similar focus and branch structure. The average LTD ratio represents a 12-quarter average, dating back to the bank's last CRA evaluation.

LTD Ratio Analysis			
Name	**Asset Size ($000s) as of March 31, 2015**	**Headquarters**	**Average LTD Ratio**
The Bank of Fayetteville	$348,292	Fayetteville, Arkansas	76.8%
Regional Banks	$498,365	Fayetteville, Arkansas	95.4%
	$333,071	Springdale, Arkansas	92.4%

Based on data from the previous table, the bank's level of lending is lower than that of other banks in the region. During the review period, the bank's quarterly LTD ratio ranged from a low of 72.0 percent (June 2014) to a high of 80.1 percent (March 2013) and represents a generally stable trend. In comparison, the average LTD ratios for the regional peers ranged from 84.9 percent to 100.3 percent. While this level of lending is lower than that of comparable banks in the regions, it supports the bank's stated lending philosophy as outlined in the bank's strategic plan. Therefore, the bank's average LTD ratio is reasonable given the bank's size, financial condition, and assessment area credit needs.

Assessment Area Concentration

For the loan activity reviewed as part of this evaluation, the following table displays the number and dollar volume of loans inside and outside the bank's assessment area.

Lending Inside and Outside of Assessment Area ($000s) January 1, 2013 through December 31, 2013						
Loan Type	**Inside Assessment Area**		**Outside Assessment Area**		**TOTAL**	
HMDA	61	87.1%	9	12.9%	**70**	**100%**
	$6,949	87.1%	$1,031	12.9%	**$7,980**	**100%**
Small Business	48	88.9%	6	11.1%	**54**	**100%**
	$9,160	81.3%	$2,107	18.7%	**$11,267**	**100%**
Consumer	38	86.4%	6	13.6%	**44**	**100%**
	$476	87.2%	$70	12.8%	**$546**	**100%**
TOTAL LOANS	**147**	**87.5%**	**21**	**12.5%**	**168**	**100%**
	$16,585	**83.8%**	**$3,209**	**16.2%**	**$19,794**	**100%**

As shown above, a majority of the loans sampled were extended to borrowers or businesses that reside or operate in the bank's assessment area. In total, 87.5 percent of the total loans were made inside the assessment area, accounting for 83.8 percent of the dollar volume of total loans.

Review of Complaints

No CRA-related complaints were filed against the bank during this review period (April 30, 2012 through July 27, 2015).

COMMUNITY DEVELOPMENT TEST

The bank's overall community development performance demonstrates adequate responsiveness to the community development needs of the assessment area, considering the bank's capacity and the need and availability of such opportunities for community development in the assessment area. The bank has addressed the community development needs of the assessment area through community development loans, qualified investments, and community development services.

During the review period, the bank made five qualifying loans totaling approximately $3.1 million. Of those loans, four were to community service organizations and one was for economic development.

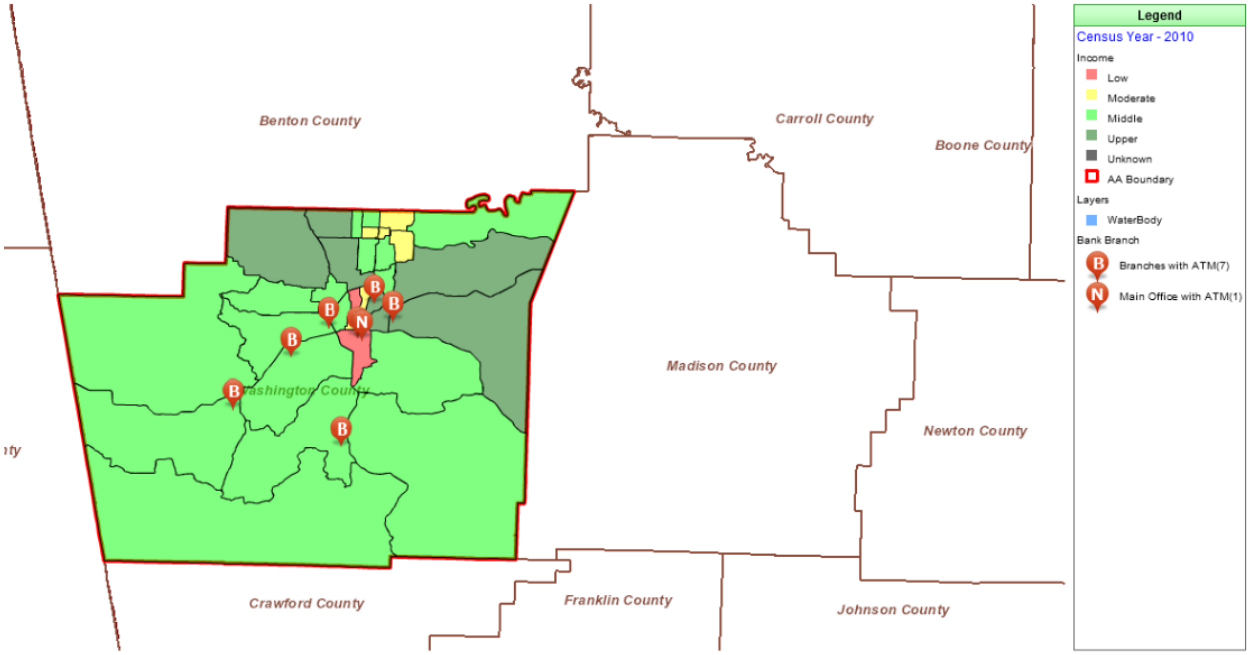
Community development investments and donations made to the assessment area totaled $1,583,065. This amount included 8 qualified investments totaling $1,545,000 and 56 donations totaling $38,065. The eight investments made inside the assessment area were municipal bonds issued by qualifying school districts for community services. Furthermore, the 56 donations were to 26 separate organizations having a community development purpose. In addition to the investments noted in the assessment area, the bank also made four investments totaling $212,500 to a Small Business Investment Company (SBIC) for economic development for small and lower middle market companies located in Arkansas. The SBIC serves the greater statewide region of Arkansas and includes the bank's assessment area.

In addition, six employees contributed community development services to seven different agencies.

FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

Based on findings from the Consumer Affairs Examination (including a fair lending analysis performed under Regulation B – Equal Credit Opportunity and the Fair Housing Act requirements) conducted concurrently with this CRA evaluation, no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs was identified.

ASSESSMENT AREA DETAIL



GLOSSARY

Aggregate lending: The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

Assessment area: One or more of the geographic areas delineated by the bank and used by the regulatory agency to assess an institution's record of CRA performance.

Census tract: A small subdivision of metropolitan and nonmetropolitan counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan statistical areas. Census tracts usually have between 2,500 and 8,000 persons, and their physical size varies widely depending on population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

Community contact: Interviews conducted as part of the CRA examination to gather information that might assist examiners in understanding the bank's community, available opportunities for helping to meet local credit and community development needs, and perceptions on the performance of financial institutions in helping meet local credit needs. Communications and information gathered can help to provide a context to assist in the evaluation of an institution's CRA performance.

Community development: An activity associated with one of the following five descriptions: (1) affordable housing (including multifamily rental housing) for low- and moderate-income individuals; (2) community services targeted to low- and moderate-income individuals; (3) activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs (13 CFR 121.301) or have gross annual revenues of $1 million or less; (4) activities that revitalize or stabilize low- and moderate-income geographies, designated disaster areas, or distressed or underserved nonmetropolitan middle-income geographies; or (5) Neighborhood Stabilization Program (NSP) eligible activities in areas with HUD-approved NSP plans, which are conducted within two years after the date when NSP program funds are required to be spent and benefit low-, moderate-, and middle-income individuals and geographies.

Consumer loan(s): A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

Demographics: The statistical characteristics of human populations (such as age, race, sex, income, etc.) used especially to identify markets.

Distressed nonmetropolitan middle-income geography: A middle-income, nonmetropolitan geography will be designated as distressed if it is in a county that meets one or more of the following triggers: (1) an unemployment rate of at least 1.5 times the national average, (2) a poverty rate of 20 percent or more, or (3) a population loss of 10 percent or more between the previous and most recent decennial census or a net migration loss of 5 percent or more over the 5-year period preceding the most recent census.

Family: Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include nonrelatives living with the family. Families are classified by type as either a married-couple family or other family, which is further classified into "male householder" (a family with a male householder and no wife present) or "female householder" (a family with a female householder and no husband present).

Full-scope review: Performance under the Lending, Investment, and Service Tests is analyzed considering performance context, quantitative factors (e.g., geographic distribution, borrower distribution, and total number and dollar amount of investments), and qualitative factors (e.g., innovativeness, complexity, and responsiveness).

Geography: A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

Home Mortgage Disclosure Act (HMDA): The statute that requires certain mortgage lenders who do business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applications, the amount of loan requested, and the disposition of the application (e.g., approved, denied, and withdrawn).

Home mortgage loans: Includes home purchase and home improvement loans as defined in the HMDA regulation. This definition also includes multifamily (five or more families) dwelling loans, loans for the purchase of manufactured homes, and refinancing of home improvement and home purchase loans.

Household: One or more persons who occupy a housing unit. The occupants may be a single family, one person living alone, two or more families living together, or any other group of related or unrelated persons who share living arrangements.

Housing affordability ratio: Is calculated by dividing the median household income by the median housing value. It represents the amount of single family, owner-occupied housing that a dollar of income can purchase for the median household in the census tract. Values closer to 100 percent indicate greater affordability.

Limited-scope review: Performance under the Lending, Investment, and Service Tests is analyzed using only quantitative factors (e.g., geographic distribution, borrower distribution, total number and dollar amount of investments, and branch distribution).

Low-income: Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent, in the case of a geography.

Market share: The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

Median family income: The dollar amount that divides the family income distribution into two equal groups, half having incomes above the median, half having incomes below the median. The median family income is based on all families within the area being analyzed.

Metropolitan area (MA): A metropolitan statistical area (MSA) or a metropolitan division (MD) as defined by the Office of Management and Budget. An MSA is a core area containing at least one urbanized area of 50,000 or more inhabitants, together with adjacent communities having a high degree of economic and social integration with that core. An MD is a division of an MSA based on specific criteria including commuting patterns. Only an MSA that has a population of at least 2.5 million may be divided into MDs.

Middle-income: Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 percent and less than 120 percent in the case of a geography.

Moderate-income: Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 percent and less than 80 percent in the case of a geography.

Multifamily: Refers to a residential structure that contains five or more units.

Nonmetropolitan statistical area (nonMSA): Not part of a metropolitan area. (See metropolitan area.)

Other products: Includes any unreported optional category of loans for which the institution collects and maintains data for consideration during a CRA examination. Examples of such activity include consumer loans and other loan data an institution may provide concerning its lending performance.

Owner-occupied units: Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

Performance context: The performance context is a broad range of economic, demographic, and institution- and community-specific information that an examiner reviews to understand the context in which an institution's record of performance should be evaluated. The performance context is not a formal or written assessment of community credit needs.

Performance criteria: These are the different criteria against which a bank's performance in helping to meet the credit needs of its assessment area(s) is measured. The criteria relate to lending, investment, retail service, and community development activities performed by a bank. The performance criteria have both quantitative and qualitative aspects. There are different sets of criteria for large banks, intermediate small banks, small banks, wholesale/limited purpose banks, and strategic plan banks.

Performance evaluation (PE): A written evaluation of a financial institution's record of meeting the credit needs of its community, as prepared by the federal financial supervision agency responsible for supervising the institution.

Qualified investment: A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

Rated area: A rated area is a state or multistate metropolitan area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multistate metropolitan area, the institution will receive a rating for the multistate metropolitan area.

Small businesses/small farms: A small business/farm is considered to be one in which gross annual revenues for the preceding calendar year were $1 million or less.

Small loan(s) to business(es): That is, "small business loans" are included in "loans to small businesses" as defined in the Consolidated Reports of Condition and Income (Call Report) and the Thrift Financial Reporting (TFR) instructions. These loans have original amounts of $1 million or less and typically are secured by either nonfarm or nonresidential real estate or are classified as commercial and industrial loans. However, thrift institutions may also exercise the option to report loans secured by nonfarm residential real estate as "small business loans" if the loans are reported on the TFR as nonmortgage, commercial loans.

Small loan(s) to farm(s): That is, "small farm loans" are included in "loans to small farms" as defined in the instructions for preparation of the Consolidated Reports of Condition and Income (Call Report). These loans have original amounts of $500,000 or less and are either secured by farmland or are classified as loans to finance agricultural production and other loans to farmers.

Underserved middle-income geography: A middle-income, nonmetropolitan geography will be designated as underserved if it meets criteria for population size, density, and dispersion that indicate the area's population is sufficiently small, thin, and distant from a population center that the tract is likely to have difficulty financing the fixed costs of meeting essential community needs.

Upper-income: Individual income that is 120 percent or more of the area median income, or a median family income that is 120 percent or more, in the case of a geography.