

PUBLIC DISCLOSURE

July 29, 1996

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First Bank of Arkansas
RSSD #505840

P.O. Box 189, Wynne, Arkansas 72396

Federal Reserve Bank of St. Louis

P.O. Box 442

St. Louis, Missouri 63166-0442

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 Reserve concerning the safety and soundness of this financial institution.

GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

*This document is an evaluation of the Community Reinvestment Act (CRA) performance of **First Bank of Arkansas** prepared by the Federal Reserve System, the institution's supervisory agency, as of July 29, 1996. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 228.*

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

First Bank of Arkansas (Wynne, Arkansas) meets the standards for an outstanding CRA performance rating. The bank extends a majority of loans within its assessment area, and in doing so has a high penetration among borrowers of different income levels and geographies. The bank's loan to deposit ratio exceeds the standards for a satisfactory rating when examined in the context of its operating environment.

The following table indicates the performance level of First Bank of Arkansas with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	First Bank of Arkansas PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does not meet Standards for Satisfactory Performance
Loan to Deposit Ratio	X		
Lending in Assessment Area		X	
Lending to Borrowers of Different Incomes and to Businesses of Different Sizes	X		
Geographic Distribution of Loans	X		
Response to Complaints	No complaints were received since the prior examination.		

DESCRIPTION OF INSTITUTION

First Bank of Arkansas is one of four banks owned by Southwest Bancshares, Inc. As of March 31, 1996, the bank reported \$43.8 million in assets. First Bank of Arkansas has only one office which is located in Wynne, Arkansas. The bank's primary loan products include motor vehicle secured loans, residential real estate loans, unsecured consumer loans, and small business loans. Competition for First Bank predominantly comes from two other financial institutions located in Wynne. These institutions are significantly larger than First Bank and range in asset size from \$134 million to \$139 million.

DESCRIPTION OF ASSESSMENT AREA

First Bank of Arkansas has defined its assessment area to be a portion of Cross County, encompassing block numbering areas (BNAs) 9504, 9505, and 9506. These BNAs include the city of Wynne, as well as a portion of the outlying area. This assessment area is composed of moderate-, middle-, and upper-income geographies.

The city of Wynne has a population of approximately 8,000. It is predominantly an agricultural community; however, it is also home to several major industries. The

area=s largest employers are Halstead Metal Products which employs approximately 1,500 and Addison Shoe Company which employs approximately 400 individuals.

The town of Forrest City, which is about 15 miles south of Wynne, also provides employment for many area residents. This area is currently experiencing substantial growth due to the November 1996 projected opening of a new federal prison. This prison is expected to bring 400 new jobs to the area. In addition to the direct economic benefit to be gained by the opening of the prison, it is also anticipated that other service-related industries will grow as a result.

The median family income for First Bank=s assessment area as of the 1990 census was \$22,727, compared to the non-metropolitan statewide median family income of \$22,420. Based on these numbers, in the bank=s assessment area, 23.8 percent of the families are low-income, 14.9 percent are moderate-income, 19.4 percent are middle-income, and 41.9 percent are upper-income.

The area has experienced a recent shortage in available housing units. There is a need for both rental units as well as affordable single family housing. The percent of vacant units within the assessment area is 6.4 percent as compared to the nonmetropolitan statewide vacancy rate of 12.3 percent. The low availability of housing in the area has caused property values to increase. Based on 1990 data, the median housing value for the assessment area is \$42,626 as compared to the nonmetropolitan statewide median value of \$39,710.

CONCLUSIONS WITH RESPECT TO THE PERFORMANCE CRITERIA:

Loan-to-Deposit Ratio

First Bank of Arkansas= loan-to-deposit ratio is more than reasonable considering the institution=s size, financial condition, and assessment area needs. The bank=s average loan-to-deposit ratio for the last six quarters (December 1994 through March 1996) is 84.4 percent. This ratio is significantly higher than those of the bank=s local competitors, whose average ratios for the same time period are 67.7 percent and 72.4 percent. First Bank experienced an 8.6 percent decrease in its loan-to-deposit ratio during the first quarter 1996. However, this lower ratio was primarily caused by a recent growth in the bank=s deposits.

Lending in Assessment Area

A majority of the bank=s loans and lending related activities are within its defined assessment area. As shown by the chart below, 79 of the 110 loans sampled (or 72 percent) were located within the assessment area. In addition, 71 percent of the dollar amount for those loans sampled was inside the assessment area.

Loan Activity Within Assessment Area

Loan Type	Sample Size	Number Inside	Percent Inside
Motor Vehicle	70	48	69%
Residential Real Estate	40	31	78%

Lending to Borrowers of Different Incomes and Businesses of Different Sizes

Based on the demographics of the assessment area and the loan types offered by the bank, there is excellent loan penetration among individuals of different income levels and businesses of different sizes.

A sample of two of the bank=s main loan products, motor vehicle secured loans and residential real estate loans, was reviewed to determine the income levels of the borrowers¹. As shown by the chart below, the dispersion of motor vehicle

¹Low-income is defined as income that is less than 50 percent of the statewide nonmetropolitan median family income.

Moderate-income is defined as income that is at least 50 percent and less than 80 percent of the statewide nonmetropolitan median family income.

Middle-income is defined as income that is at least 80 percent and less than 120 percent of the statewide nonmetropolitan median family income.

secured loans to individuals of all income levels is excellent. The lending in this category closely reflects the demographics of the area according to 1990 census data.

While loans to low- and moderate-income individuals represent 36 percent of the bank's residential real estate lending, only 6 percent of the lending was to low-income individuals. Based on the nonmetropolitan statewide family median income of \$26,700 in 1995, an individual would have to earn less than \$13,350 to be considered low-income. This, coupled with the high housing values in the assessment area, helps explain the low penetration of residential real estate loans to low-income borrowers.

Loan Distribution by Income Level

Loan Type	Low Income	Moderate Income	Middle Income	Upper Income
Motor Vehicle	17%	19%	33%	31%
Residential Real Estate	6%	29%	16%	48%
Total	13%	23%	26%	38%

Other areas of the bank's lending portfolio were also reviewed to determine if the bank is making credit available to low- and moderate-income individuals as well as to small businesses. The bank originates many small dollar loans, demonstrating its efforts to meet the credit needs of the less affluent sector of the community. Within the last six months, 40 loans were originated for less than \$1,000. Of these, 20 were for amounts of less than \$500.

Additionally, First Bank is an active small business lender. Of the 53 business loans originated within the last six months, all were to businesses with gross annual revenues of less than \$1 million. In March 1996, the bank received a commendation from the Small Business Administration for being one of the leading banks in the state lending to small businesses.

Geographic Distribution of Loans

Upper-income is defined as income that is 120 percent or more of the statewide nonmetropolitan median family income.

First Bank of Arkansas= assessment area consists of three BNAs, each of a different income level. The distribution of loans throughout these geographies is excellent, as shown by the following chart. The moderate-income BNA is the most populated, followed by the upper-income BNA. The middle-income geography has the smallest portion of the assessment area population, which explains the low penetration rate in that area. In addition, much of the real estate in the middle-income BNA is farm land; therefore, there is little demand for residential real estate loans.

Loan Distribution by Geography Type

Loan Type	Moderate Income	Middle Income	Upper Income
Motor Vehicle	65%	6%	29%
Residential Real Estate	68%	0%	32%
Total	66%	4%	30%

Review of Complaints

No complaints have been received related to the CRA since the prior examination.

Record of Compliance with Anti-Discrimination Laws

The examination included a review of the bank=s compliance with the Equal Credit Opportunity and the Fair Housing Acts. No violations of the substantive provisions of these laws and regulations were identified.