

PUBLIC DISCLOSURE

March 17, 1997

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First Bank of Arkansas
RSSD #689245**

**P.O. Box 7500
Jonesboro, Arkansas 72403**

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 March 17, 1997. 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 satisfies the criteria necessary to receive an outstanding rating. The loan-to-deposit ratio is exceptional given the institution's size, its financial condition, and the credit needs of the assessment area. A substantial majority of the bank's loans and other lending related activities are extended within its assessment area. The distribution of borrowers reflects outstanding penetration among individuals of different income levels including low- and moderate-income and businesses of different sizes. The geographic distribution of the bank's loans reflects a reasonable dispersion throughout the assessment area.

DESCRIPTION OF INSTITUTION

First Bank of Arkansas is the lead bank for Southwest Bancshares, Inc., a multi-bank holding company.¹ The institution operates eight bank facilities: the main office and four branches located in Jonesboro, two branches in Trumann, and one branch in Harrisburg. Two of the Jonesboro branches have been opened in the past twelve months. The main office and one Trumann branch are full-service facilities, while the remaining six locations offer varying degrees of drive-up, lending, safe deposit box, and teller services. In addition, the bank operates automated teller machines (ATMs) at the main office, three Jonesboro branches and one Trumann location. First Bank of Arkansas is a commercial and retail institution whose primary loan products include small business loans, motor vehicle secured loans, residential real estate loans, and agricultural loans.

As of December 31, 1996, the bank reported \$411.1 million in total assets.² The institution exists in a highly competitive environment. The bank considers itself to be competing with at least six other financial institutions in the city of Jonesboro. For those competing institutions, bank structure and size vary with total assets ranging from \$107.1 million to \$572.3 million.

DESCRIPTION OF ASSESSMENT AREA

The bank defines its assessment area as census tracts 1.00 through 12.00 (except 10.00) in Craighead County, and block numbering areas (BNAs) 9902.00, 9903.00, 9904.00, and 9905.00 in Poinsett County. Jonesboro, the county seat of Craighead County, is the largest city in the assessment area with a population of approximately 51,000. Two other cities in the assessment area, Trumann and Harrisburg, are located in Poinsett County and have populations of 7,500 and 3,000, respectively. Based on 1990 census data, the total population of the assessment area is 78,754.

Jonesboro was designated as metropolitan statistical area (MSA) 3700 in June 1996 by the Office of Management and Budget. The MSA encompasses all of Craighead County. The bank's assessment area includes all of the MSA except for census tract 10.00. Further, the assessment area extends beyond the boundaries of MSA 3700 into a contiguous portion of Poinsett County. The assessment area includes the bank's main office, all of its branches, and a substantial majority of its lending activity.

¹On March 31, 1997, the Federal Reserve Bank of St. Louis, acting under delegated authority for the Board of Governors, approved the acquisition of Southwest Bancshares, Inc. by First Commercial Corporation, Little Rock, Arkansas. The transaction has not been consummated.

²Although the bank is over \$250 million in total assets, it is not subject to the performance standards for large institutions because it did not exceed the asset threshold for the prior calendar year.

As of the 1990 census, BNA 9903.00 and census tract 6.00 are classified as moderate-income, while census tracts 3.00 and 8.00 are classified as upper-income. The remaining eleven census tracts and BNAs are considered middle-income geographies.³ Although the assessment area includes no low-income geographies, low-income families are present throughout the community. The following table depicts the income characteristics of the population in the assessment area per the 1990 census:

Income Characteristics of Assessment Area Population				
Income Level	Low-	Moderate-	Middle-	Upper-
Population Percentage	20.8%	17.2%	23.2%	38.8%

According to bank management and a community contact, the local economy is strong and expanding. During 1996, more than 1,000 new jobs were created in the Jonesboro market as a result of industrial expansion. Given current industrial development projects, and the growing employment base available from the local community and surrounding areas, the growth of the economy is expected to continue. Services, retail trade and manufacturing are the predominant industries of the area. The area's major employers include Arkansas State University, St. Bernard's Regional Medical Center, Wal-Mart Discount Stores, Hytrol Conveyor Company, and Jonesboro Public Schools. Current unemployment rates are estimated to be 3.6 percent in Craighead County and 4.9 percent in Poinsett County.

CONCLUSIONS WITH RESPECT TO THE PERFORMANCE CRITERIA:

Loan-to-Deposit Ratio

³Low-income is defined as individual income, or in the case of a geography, a median family income that is less than 50 percent of the area median income. Area median income means the median family income for the MSA if a person or geography is located in an MSA; or the statewide nonmetropolitan median family income if a person or geography is located outside an MSA.

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

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

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

The bank's average loan-to-deposit ratio for the four quarters reported since the last examination, dated January 29, 1996, is 88.2 percent. The bank's loan-to-deposit ratio is above that of all competing financial institutions, and it is considered to be exceptional given the bank's performance context. The performance context includes the bank's capacity to lend, the capacity of other similarly-situated banks to lend in the assessment area, demographic and economic factors in the assessment area, and lending opportunities available in the bank's assessment area. The average loan-to-deposit ratios for competing institutions in the city of Jonesboro range from 62.2 percent to 82.0 percent.

First Bank of Arkansas' performance in this area is further enhanced by the activity of First Bank Mortgage, the institution's mortgage division. Mortgage loans originated by this division are packaged and sold on the secondary market. As such, these loans are not generally reflected in the bank's loan-to-deposit ratio; however, they are noteworthy because they also reflect on the bank's level of lending. Over the 13-month period since the previous examination, the mortgage division has originated 264 real estate loans totaling \$23.4 million.

Lending in the Assessment Area

A review of statistical samples of motor vehicle and small business loans originated during the six-month period ending March 14, 1997, revealed that a substantial majority of the bank's loans were originated within the assessment area.

The following table identifies, by loan type, the number, dollar volume and percentage of loans originated inside the assessment area.

Distribution of Loans In/Out of the Assessment Area					
Loan Type	Sample Size	Inside Assessment Area		Outside Assessment Area	
		Number	Dollar	Number	Dollar
Motor Vehicle	135	121 89.6%	\$1,247,168 86.9%	14 10.4%	\$187,740 13.1%
Small Business	148	129 87.2%	\$11,052,496 82.7%	19 12.8%	\$2,308,042 17.3%
Totals	283	250 88.3%	\$12,299,664 83.1%	33 11.7%	\$2,495,782 16.9%

As illustrated in the table above, 250, or 88.3 percent, of the 283 loans sampled were originated within the assessment area. By dollar volume, 83.1 percent of the loans sampled were originated inside the assessment area. Consequently, the bank's performance in this area exceeds the standards for satisfactory performance.

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

A review of the demographics of the assessment area and the dispersion of loans originated by the institution demonstrate outstanding loan penetration among individuals of different income levels and businesses of different sizes. To complete this review, the samples of the bank's significant loan products, motor vehicle and commercial loans, were reviewed to determine distribution by borrower income level and business size, respectively.⁴

⁴The income levels of borrowers located inside the Jonesboro MSA were compared to the 1996 MSA median family income of \$36,400, as estimated by the Department of Housing and Urban Development. For those borrowers located outside MSA 3700, income levels were compared to the estimated 1996 statewide nonmetropolitan median family income of \$27,300. Footnote 1 income categorizations were utilized.

The following table reflects the results of the review for motor vehicle loans.

Distribution of Loans Within Assessment Area by Income Level of Borrower (Number and Dollar Volume)					
Loan Type	Borrower Income Classification				Totals
	Low	Moderate	Middle	Upper	
Motor Vehicle ⁵	25 23.8%	32 30.5%	19 18.1%	29 27.6%	105 100%
	\$184,919 16.0%	\$208,760 18.1%	\$261,574 22.6%	\$500,762 43.3%	\$1,156,015 100%
Assessment Area Population	20.8%	17.2%	23.2%	38.8%	100%

As illustrated in the table above, the bank originated 54.3 percent of its motor vehicle loans to low- and moderate-income borrowers. In comparison, only 38.0 percent of the assessment area population is classified as low- and moderate-income.

All 154 commercial loans reviewed met the definition of small business loans, which is defined as loans that have an origination amount of \$1.0 million or less. The following table illustrates the level of lending to businesses of different sizes.⁶

Distribution of Small Business Loans				
Gross Revenue	Loan Amount (000's)			Total Loans
	≤100	100<x≤250	250<x<1,000	
Less Than \$1 million	50 58.1%	13 15.1%	6 7.0%	69 80.2%
\$1 million or More	8 9.3%	2 2.3%	7 8.2%	17 19.8%
Total Loans	58 67.4%	15 17.4%	13 15.2%	86 100%

⁵Distribution percentages exclude loans where income information was unavailable.

⁶The table only includes data for loans originated in the assessment area, where the borrower's business revenue could readily be determined.

The above table reveals that 80.2 percent of small business loans were originated to businesses with gross annual revenues of less than \$1.0 million. Further, 67.4 percent of the originations were in the amount of \$100,000 or less. Of those, 50, or 86.2 percent, were originated to businesses with gross annual revenues of less than \$1.0 million. Overall, the bank's efforts in lending to borrowers of different income levels and businesses of different sizes exceeds the criteria for satisfactory performance.

Geographic Distribution

The bank's assessment area contains two moderate-income geographies, and no low-income geographies. Of the remaining 13 census tracts and BNAs in the bank's assessment area, eleven are middle-income and two are upper-income. The following chart depicts the distribution of motor vehicle and small business loans across these geographies.

Geographic Distribution of Loans Within Assessment Area by Income Level of Census Tracts/BNAs (Number and Dollar Volume)				
Loan Type	Census Tract/BNA Income Classification			Total
	Moderate	Middle	Upper	
Motor Vehicle	15 12.4%	83 68.6%	23 19.0%	121 100%
	\$123,737 9.9%	\$762,576 61.2%	\$360,855 28.9%	\$1,247,168 100%
Small Business	13 10.1%	82 63.6%	34 26.3%	129 100%
	\$982,233 8.9%	\$7,587,902 68.7%	\$2,482,361 22.4%	\$11,052,496 100%
Total Loans Sampled	28 11.2%	165 66.0%	57 22.8%	250 100%
	\$1,105,970 9.0%	\$8,350,478 67.9%	\$2,843,216 23.1%	\$12,299,664 100%
Population Residing in Each BNA Income Classification	13.6%	70.7%	15.7%	100%

As the above table indicates, the bank originated 11.2 percent of its loans in moderate-income geographies, where 13.6 percent of the assessment area's population resides. Conversely, the bank originated 22.8 percent of its loans in upper-income geographies, where 15.7 percent of its population resides. The higher proportion of loans in upper-income geographies may be attributable to the close proximity of the upper-income tracts to the institution's main office and a majority of its branches. As such, the statistical review of the distribution of loans across the assessment area reveals that the institution's loans are dispersed in a reasonable manner. The geographic distribution of the bank's loans meets the standards for satisfactory performance.

Review of Complaints

No complaints have been received since the prior examination (dated January 29, 1996).

Additional Information:

A fair lending analysis was performed to assess compliance with the Equal Credit Opportunity Act and the Fair Housing Act. The analysis concluded that the bank is in compliance with the substantive provisions of the antidiscrimination laws and regulations. Further, results of the analysis suggested that applications were actively solicited from all segments of the bank's assessment area.