

PUBLIC DISCLOSURE

July 22, 1996

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Charter State Bank
RSSD #859347

P. O. Box 2000

Beebe, Arkansas 72012-1000

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 **Charter State Bank** prepared by the **Federal Reserve System**, the institution's supervisory agency, as of July 22, 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 Satisfactory.

Charter State Bank meets the standards to receive a satisfactory rating. The loan-to-deposit ratio is reasonable, given the institution's size, financial condition, and the credit needs of its assessment area. A majority of the bank's loans and other lending related activities are located within the two assessment areas. The distribution of loans reflects a reasonable penetration among individuals of different income levels and businesses of different sizes.

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

SMALL INSTITUTION ASSESSMENT CRITERIA	<u>The Charter State Bank</u> 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	Not applicable.		
Response to Complaints	No complaints were received since the prior examination.		

DESCRIPTION OF INSTITUTION

Charter State Bank (Bank) is the sole bank subsidiary of First Charter Bancshares, Inc., North Little Rock, Arkansas. The main office is located in Beebe, Arkansas, and its branch is located in North Little Rock, Arkansas. As of March 31, 1996, the Bank reported assets of \$52 million.¹

¹The Consolidated Report on Condition and Income requires banks to consolidate assets of banks and their subsidiaries. Therefore, the Bank's total assets take into account the assets of Charter Mortgage

and Investments, Inc., North Little Rock, Arkansas.

The Bank's primary products are: loans secured by 1-4 family properties, consumer installment loans, and small business loans.²

The Bank's three local competitors have assets of \$366 million, \$248 million, and \$38 million as of March 31, 1996. Two of them are located in Searcy, Arkansas, and maintain branches in Beebe. One competitor is located in Little Rock, Arkansas.

DESCRIPTION OF ASSESSMENT AREA

To address the needs of the communities in which the two offices reside, the Bank has created two assessment areas. The main Bank's assessment area (Beebe assessment area) consists of four Block Numbering Areas (BNAs): (9710, 9711, 9712, and 9601), and two census tracts, (201 and 202.) The BNAs and census tracts are middle-income and are located in White, Lonoke, and Praire counties. The assessment area has a population of 39,007 and is predominantly rural, but includes the cities of Beebe, Cabot, Jacksonville, and Ward. According to an outside contact, the assessment area is in transition from a rural community to a bedroom community with many residents commuting to jobs located in Little Rock. Rental and owner-occupied housing appear to be the most pressing community needs.

The branch's assessment area, located in North Little Rock (North Little Rock assessment area), is primarily urban and consists of eight census tracts: 33.01, 33.03, 37.01, 37.03, 37.04, 37.05, 38.0, and 40.03. Census tract 38.0 is the only moderate-income tract in the area. The remainder of the area is composed of four middle-income tracts and three upper-income tracts. The North Little Rock assessment area has a population of 48,748 and is part of the Little Rock Metropolitan Statistical Area.

²The loan activity at Charter Mortgage was not incorporated into the CRA evaluation. Pursuant to Regulation BB, section 228.22(c), management was advised of the option to include affiliate lending in the CRA evaluation process. Management declined to have the mortgage company's loans considered in the CRA evaluation.

CONCLUSIONS WITH RESPECT TO THE PERFORMANCE CRITERIA:

Loan-to-Deposit Ratio

The Bank's loan-to-deposit ratio is reasonable given its size, financial condition, and the assessment areas' credit needs. The average net loan-to-deposit ratio is 62.77 percent for the four quarters since the previous evaluation. This ratio is favorable when compared to the average net loan-to-deposit ratio for the same period for its three principal competitors: 68.38 percent, 59.04 percent, and 61.93 percent. The Bank's net loan-to-deposit ratio as of March 31, 1996, is 66.55 percent.

Lending in the Assessment Area

Because the Bank's data processing system was incapable of segregating the loan activity at each of its two locations, the sample of loans used for the CRA analysis included loans from both areas. The tables below present data on a combined basis. The overall performance of the Bank weighs heavily on data from the Beebe assessment area since the Bank maintains a very small presence in the North Little Rock market. The North Little Rock branch was opened five years ago in an attempt to capitalize on the ACharter Mortgage® name of its affiliate operating in that market. Due to poor location and the high level of competition in the Little Rock market, the branch has not produced a significant amount of the Bank's lending volume.

The following table shows loan activity within the Bank's combined assessment area by loan type. The low percentage for real estate secured loans is noteworthy. Home construction loans accounted for a significant number of the real estate loans sampled, which by agreement Charter Mortgage originates and the Bank funds. Because the mortgage company has offices throughout the Little Rock metropolitan area, these home construction loans tend to be outside the Bank's assessment areas.

Lending in the Assessment Area

Beebe & North Little Rock Combined Assessment Area						
Loan Type	Loans Sampled		Inside Assessment Area			
	Number	Volume (000s)	Number	Percent	Volume (000s)	Percent
Consumer	67	\$251,385	53	79.10%	\$176,069	70.04%
1 - 4 Family Secured Real Estate	61	\$2,942,396	31	50.82%	\$762,805	25.92%
Small Business	20	\$1,466,264	16	80.00%	\$1,085,623	74.04%
TOTAL	148	\$4,660,045	100	67.57%	\$2,024,497	43.44%

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

A review of the loans sampled reveals that the Bank makes loans to borrowers of different income levels and businesses of different sizes, thus, it meets the standard for satisfactory performance. The income level of consumer borrowers is compared to the median family income for the family residing in the Beebe and North Little Rock assessment areas. Based on the 1990 census, the non-metropolitan median family income for the Beebe assessment area is \$22,695 and the MSA median family income for the North Little Rock assessment area MSA is \$34,831.

The Bank=s distribution of loans by income level for the combined assessment area is shown in the following table.

		Loans by Borrower Income Level					
		Beebe & North Little Rock Combined Assessment Area					
Loan Type		Low ³	Moderate ⁴	Middle ⁵	Upper ⁶	Income not Available	Total
Consumer	Number	13	8	7	22	3	53
	Percent	26.0	16.0	14.0	44.0	-	-
1 - 4 Family Secured Real Estate	Number	0	6	3	22	0	31
	Percent	0.0	19.4	9.7	70.9	-	-
Total	Number	13	14	10	44	3	84
	Percent	16.1	17.3	12.3	54.3	-	-
Percent of Assessment Area Population	Beebe	20.7%	19.0%	19.1%	41.2%	-	
	North Little Rock	16.1%	16.6%	23.2%	44.1%	-	

³Low-income is defined as income that is less than 50 percent of either the MSA median income or the statewide nonmetropolitan median family income.

⁴Moderate-income is defined as income that is at least 50 percent and less than 80 percent of either the MSA median income or the statewide nonmetropolitan median family income.

⁵Middle-income is defined as income that is at least 80 percent and less than 120 percent of either the MSA median income or the statewide nonmetropolitan median family income.

⁶Upper-income is defined as income that is 120 percent or more of either the MSA median income or the statewide nonmetropolitan median family income.

Data in the above table show that the Bank made 16.1 percent of its combined assessment area loans to low-income borrowers and 17.3 percent to moderate-income borrowers. These percentages are comparable to the percentages of low- and moderate-income populations in each assessment area.

The table below denotes the Bank=s loans to businesses of different sizes.

Business Loans by Revenue Size Beebe and North Little Rock Combined Assessment Area						
Loan Size	< \$100M	\$100M - \$250M	\$251M - \$500M	\$501M - \$1MM	Revenue Not Available	Total
Number	6	4	0	2	6	18
Percent	50.0	33.3	0.0	16.7	-	-

Geographic Distribution

A geographic distribution analysis is not meaningful for the Bank due to the composition of its combined assessment area. Approximately 85 percent of the Bank=s loans are made within the Beebe assessment area which is composed entirely of middle income BNAs and census tracts. While the North Little Rock assessment area does contain one moderate income census tract, the relative insignificance of this tract to the combined assessment area makes a geographic analysis rather meaningless. Accordingly, no rating is assigned for this performance factor.

Review of Complaints:

No complaints were received since the previous evaluation.

Additional Information:

A fair lending review was performed to assess compliance with the Equal Credit Opportunity Act and the Fair Housing Act. No violations of the substantive provisions of these laws and regulations were identified.