

PUBLIC DISCLOSURE

March 13, 2000

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Bank of Bentonville

RSSD# 105549

**Post Office Box 1229
Bentonville, Arkansas 72712-1229**

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.

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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 Community Reinvestment Act (CRA) performance of **Bank of Bentonville** prepared by the Federal Reserve Bank of St. Louis, the institution's supervisory agency, as of March 13, 2000. The agency evaluates performance in assessment area(s), as they are delineated by this 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 CFR Part 228.*

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

Bank of Bentonville meets the criteria for a satisfactory overall rating. The rating is based upon an analysis of the bank's lending performance, level of qualified investments, and retail and community development services.

An analysis of the performance of the bank under the lending test revealed acceptable responsiveness to assessment area credit needs. The geographic dispersion of loans reflects a marginally adequate penetration throughout the assessment area. A substantial majority of the bank's loans and other lending related activities are extended within the assessment area. The loan-to-deposit ratio is satisfactory given the bank's size, its financial condition, the performance of its competitors, and the credit needs of the assessment area. The distribution of loans among retail customers of different income levels reflects adequate penetration. The distribution of loans among businesses and farms of different sizes is excellent. Overall, lending levels reflect an adequate responsiveness to the assessment area credit needs, including the credit needs of low- and moderate-income (LMI) individuals and small businesses. Occasionally, the bank has made community development loans to support community development initiatives. Finally, the bank uses innovative or flexible lending practices, when appropriate, to fully serve the credits needs of the community.

For the investment test, the bank's performance exhibits a low, but satisfactory level of responsiveness to community development needs through investments and grants. Given the size of the bank, it has made a relatively low level of investments in community development organizations and agencies that benefit LMI individuals and

families. The bank has made small monetary contributions to community development organizations and agencies that benefit LMI individuals and families. The bank did make a substantial commitment to purchase tax credits to help finance a housing project for low-income elderly residents as well as provide the construction and final financing.

The bank's performance under the service test is considered satisfactory. With the exception of Sebastian County (in the Fort Smith MSA), delivery systems are readily accessible to all portions of the bank's assessment area. The bank's record of opening and closing branches, since the previous examination, has not adversely affected the accessibility of its delivery systems, particularly to LMI geographies and individuals. Services are tailored to the convenience and the needs of the assessment area and do not inconvenience LMI geographies and/or individuals. In addition, the bank provides a good level of community development services.

The following table indicates the overall performance level of the Bank of Bentonville with respect to the lending, investment, and service tests.

PERFORMANCE LEVELS	Bank of Bentonville		
	PERFORMANCE TESTS		
	Lending Test¹	Investment Test	Service Test
Outstanding			
High Satisfactory			X
Low Satisfactory	X	X	
Needs to Improve			
Substantial Noncompliance			

DESCRIPTION OF INSTITUTION:

Bank of Bentonville is a state-chartered commercial bank headquartered in Bentonville, Arkansas with assets of \$611 million, as of December 31, 1999. In the Bentonville area, the bank maintains nine full-service branches (including the main office) which are

¹ Note: The lending test is weighted more heavily than the investment and service tests when arriving at an overall rating.

accompanied by automatic teller machines (ATMs). In addition, the bank has five limited service branches. These are mostly drive-thru facilities or walk-up consumer facilities located within Wal-Mart Supercenters. In addition, the bank has seventeen freestanding ATM locations throughout the Bentonville area. In the Fort Smith area, the bank has a loan production office and a teller service walk-up facility in a Wal-Mart Supercenter. In the Missouri portion of the assessment area, the bank has three full-services branches.

Bank of Bentonville is a wholly-owned subsidiary of Arvest Bank Group, Inc., a multi-bank holding company located in Bentonville, Arkansas. The holding company reported assets of \$4 billion as of December 31, 1999.

Bank of Bentonville is both a commercial and retail oriented institution with concentrations of assets in the categories of 1-4 family residential real estate, small business and farm lending, and consumer loans. The bank reported total loans of \$401 million, which represents 65.6 percent of total assets. A distribution of the bank's lending portfolio, by both dollar amount and percentage, is displayed in the table below.²

Distribution of Total Loans		
Credit Product Type	Amount in 000s	Percentage of Total Loans
Construction and Development	\$29,633	7.39%
Commercial Real Estate	\$69,545	17.35%
Multifamily Residential	\$10,325	2.58%
1-4 Family Residential	\$141,429	35.28%
Home Equity	\$15,002	3.74%
Farmland	\$12,893	3.22%
Commercial and Industrial	\$49,679	12.39%
Loans to Individuals (Consumer)	\$55,514	13.85%
Farm Loans	\$6,863	1.71%
Total Other Loans	\$10,008	2.50%
<u>TOTAL LOANS</u>	\$400,891	100%

The bank received a rating of satisfactory at the previous examination conducted on September 14, 1998 by the Federal Reserve Bank.

DESCRIPTION OF ASSESSMENT AREA:

² All figures are as of December 31, 1999. Source: FFIEC 032 Consolidated Report of Condition and Income.

The bank has one assessment area which includes counties in both Arkansas and Missouri. The area is defined as Benton and Sebastian County in Arkansas and Stone, McDonald and Barry County in Missouri. Benton County is located in the northwestern portion of Arkansas and is part of the Fayetteville-Springdale-Rogers Metropolitan Statistical Area (MSA), a single state MSA. Stone, McDonald and Barry County in the State of Missouri are immediately north of Benton County, Arkansas, but are not located within the MSA. Sebastian County Arkansas is the center of the Fort Smith MSA³ and lies approximately fifty miles south of Benton County. The inclusion of Sebastian County in the assessment area is temporary but is included for purposes of this analysis.⁴

As of 1990, the assessment area's population is listed as 260,652. The population of the entire state of Arkansas is 2,350,725.⁵

Benton County, located in the extreme northwest corner of Arkansas, borders the southwest corner of Missouri. Oklahoma lies directly to the west. It is near the mountains in the Ozark Mountain Range as well as a large impound lake. These amenities have attracted a large tourist industry and a large population of retirees. To the south of Benton County is the city of Fayetteville, the seat of Washington County, one of the most rapidly growing cities in Arkansas and home to the principal campus of the University of Arkansas.

Benton County has a 1990 population of 97,499 and has constantly ranked near the top in the State of Arkansas for overall economic vitality during 1989-90 and the last decade. The State of Arkansas and Benton County offer tax structures that are favorable to business. Arkansas ranks among the five lowest states in the nation in overall per capita tax burden.

Bentonville, the county seat of Benton County, is also home to the national headquarters of the Wal-Mart Corporation, employing thousands at its Bentonville campus. The economic impact of the growth of the Wal-Mart Corporation on the local economy has been profound. In addition to Wal-Mart, the growth of Tyson Foods and J.B. Hunt Transport, and other locally based companies have fueled significant economic growth. The nearby University of Arkansas employs over 4,000 employees.

The economic statistics for Benton County indicates that the economy is very healthy. The 1990 median family income for the MSA was \$28,000 and increased to \$42,000 by 1999. For several years, Benton County has consistently enjoyed a low unemployment rate. Based on information provided by the Arkansas Employment Security Department released for January 2000, Benton County had 2.4 percent unemployment. This

³ The Fort Smith MSA is a multi-state MSA with portions in both Arkansas and Oklahoma. However, the bank has no branches in the Oklahoma portion of the MSA.

⁴ The bank sold its assets in Sebastian County, Arkansas to an affiliate bank, Arvest Bank in Fort Smith, on April 24, 2000, subsequent to the examination.

⁵ Source: U.S. Bureau of Census 1990.

compares favorably to the Arkansas seasonally adjusted unemployment rate of 4.4 for the same time period.

Sebastian County, the center of the Fort Smith Arkansas MSA, has a 1990 population of 99,590. The median family income in 1990 was \$29,067. The unemployment rate as of January 2000 was 3.8 percent.

The three counties in Missouri that are included in the assessment area have a 1990 combined population of 63,563 and are not as affluent as the Arkansas counties. The median family income for these counties varies from the low of McDonald County (\$15,972) to the high of Stone County (\$19,569). The unemployment rate for each county is 3.0 percent. Despite the proximity to the high growth area of Springfield and Branson, Missouri, little has changed in the southwest Missouri area in the last decade to further growth. The large poultry producers Tyson and Perdue have brought in large numbers of immigrant farm workers. This has changed the racial demographics of the area and increased the needs for social services and affordable housing, especially in McDonald County. Stone County, nearest to Branson, and which includes part of Table Rock Lake, shows the highest per capita income.

In total, the bank’s assessment area is comprised of 67 geographies (census tracts or block numbering areas), which are categorized as low-, moderate-, middle-, and upper-income based on the median income of the families residing in the geography.⁶ The following table depicts, by number and percent, the geographies by county in each income category and the population residing in each category of geography. The number of geographies in each income category for each county of the assessment area is set out in the following table.

Assessment Area Geographical Information by Income Level					
1990 Census Data	Low-	Moderate-	Middle-	Upper-	TOTAL
Benton Co., Ark.	1	0	23	2	26
Sebastian Co., Ark.	2	3	12	9	26

⁶ Low-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 MSA median family income.

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 MSA median family 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 MSA median family 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 MSA median family income.

Barry, Stone and McDonald Co., MO	0	2	13	0	15
Total Geographies	3	5	48	11	67
	4.5%	7.5%	71.6%	16.4%	100%
Distribution of Individuals Residing in Each Type of Geography	1,853	15,327	199,184	44,288	260,652
	0.7%	5.9%	76.4%	17.0%	100%

An analysis of the above table reveals that the bank's assessment area is comprised of 12.0 percent LMI geographies, which contain 6.6 percent of the population. In comparison, 88.0 percent of the geographies are middle- and upper-income and comprise the majority, 93.4 percent, of the assessment area population.

Although the assessment area does not contain a substantial number of LMI geographies, significant number of LMI families are present in the bank's assessment area. LMI families are not only present in geographies categorized as LMI, but also in middle- and upper-income geographies throughout the assessment area. The following chart denotes the families, by income classification, that reside in the assessment area as well as in the states of Arkansas and Missouri for comparison purposes.

Assessment Area Population by Family Income Level					
1990 Census Data	Low-	Moderate-	Middle-	Upper-	TOTAL
Assessment Area	12,513 16.5%	14,294 18.9%	18,621 24.6%	30,294 40.0%	75,722 100%
State of Missouri	267,122 19.4%	246,343 17.9%	330,042 23.9%	534,513 38.8%	1,378,020 100%
State of Arkansas	136,598 20.8%	116,162 17.7%	144,072 21.9%	259,633 39.6%	656,465 100%

As demonstrated by this chart, the economic classification of the assessment area families is indicative of both states taken as a whole. Of the assessment area families, 35.4 percent are LMI. In comparison, 37.3 percent of the families in the state of Missouri are LMI, and 38.5 percent of the families in the state of Arkansas are LMI. As described in greater detail in the State of Missouri Rating Section of the Public Evaluation, the three counties located in the state of Missouri show a slightly higher rate of LMI families at 40.5 percent. These figures are all as of the 1990 census and are likely to change with the 2000 census.

Community contacts, conducted as part of this examination and for other examinations, identified affordable housing and transportation as community needs. Two contacts indicated that affordable housing is a growing concern for this area. They stated that some areas, especially western Benton County Arkansas and McDonald County

Missouri, suffer from substandard housing, and that the “building boom” witnessed in Bentonville has not reached these areas. One contact from the Fayetteville area referred to an income/housing report prepared specifically for the Fayetteville area using U.S. Department of Housing and Urban Development (HUD) figures. The report stated that the cost of housing increased during the period 1980 to 1990 at a rate slightly less than the rate of increase of family income. Since 1990 however, housing costs have increased 60 percent faster than the increase in family income. The contact stated the report reflected a general disparity in a modest wage worker family’s ability to attain home ownership. LMI families are disproportionately affected as they find any decent and safe housing out of reach.

This is also reflected in the affordability ratio for each section of the assessment area,⁷ which is described in the table below along with ratios for the States of Arkansas and Missouri.

Affordability Ratios	
State: Arkansas	46%
Assessment Area	45%
Benton County, Arkansas	44%
Sebastian County, Arkansas	49%
State: Missouri	44%
Barry County, Missouri	45%
McDonald County, Missouri	55%
Stone County, Missouri	35%

This table illustrates that the affordability ratio for the assessment area, as well as each county contained in it, is similar to their respective states. The notable exceptions are McDonald County with a very high ratio and Stone County with a very low ratio. In McDonald County, this indicates that although housing is relatively affordable, the relative value of the housing is low and potentially substandard. Stone County, with a very low affordability ratio, is near Branson (which is in an upper-income geography) and contains a large portion of Table Rock Lake, both of which have contributed to the development of high cost housing.

CONCLUSIONS WITH RESPECT TO THE PERFORMANCE TESTS:

LENDING TEST

Bank of Bentonville meets the standards for a low satisfactory rating under the lending performance test, a decrease in rating from high satisfactory at the previous CRA

⁷ This figure is calculated by dividing the median household income by the median housing value and represents the amount of single family owner-occupied housing that a dollar of income can purchase for the median household in the geography. Values closer to 100 percent indicate greater affordability.

exam.⁸ An analysis of the geographic distribution of lending activity revealed a substantial majority of loans is located inside the assessment area of the bank. Dispersion of lending within the assessment areas is adequate. Loan distribution among businesses and farms of different sizes is excellent. However, distribution by borrower income reflects only adequate penetration among customers of different income levels. For all types of loans reviewed, the bank shows poor loan distribution in LMI census tracts. Overall, lending levels show marginally adequate responsiveness to assessment area credit needs. Acknowledging that local opportunities for community development lending are few, the bank has made an adequate level of community development loans. Lastly, the bank does periodically use innovative and/or flexible lending practices in order to better serve the credit needs of the assessment area.

The bank's performance under the lending test was evaluated using:

- 1999 Home Mortgage Disclosure Act (HMDA)⁹ data;
- 1999 CRA data for small farm and small businesses;
- A sample of all consumer retail installment loans originated in the last six-months of 1999;
- All of 1999 affiliate lending generated by Arvest Mortgage Company attributed to the bank.

These four loan categories are considered the bank's primary lines of business and are assumed indicative of the overall lending performance of the bank.

Geographical Distribution

Lending inside the assessment area is outstanding. The bank made a very high percentage of loans to borrowers residing inside the bank's assessment area. Of the 2,165 loans reviewed, 1,980 or 91.5 percent (87.2 percent by dollar volume) were

⁸ The reduction to a "Low Satisfactory" rating at this exam is due to several factors. At the time of the prior examination, the assessment area of the bank only included Benton County. This favored the bank's geographic distribution performance, since Benton County had no low-income geographies and only one moderate-income geography. This made comparison of the geographic distribution figures less relevant.

However, as to the bank's borrower income distribution, the bank's lending to LMI borrowers has declined from 29.7 at the last exam to 23.5 percent at this examination. However, with the larger assessment area, the relative proportion of LMI customers has changed little from 35.3 percent at the previous examination to 35.4 percent at the current examination.

Since the bank has little presence in Sebastian County, and to better compare these results to the prior exam, if the bank's lending performance at this exam to LMI individuals in Benton County is isolated, a similar decline in performance is noted. Lending to LMI individuals declined from 29.7 percent at the prior exam to 22.1 percent at this exam.

⁹ In 1999, the bank reported data on home mortgage loans consisting of home purchases, home refinancing, and home improvement loans.

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

Distribution of Lending Inside Assessment Area					
Loan Type	Number in Assessment Area		Dollar Amount in Assessment Area		TOTAL Number/Dollars
	Count	Percentage	Dollar Amount	Percentage	
1999 HMDA ¹⁰	522	94.2%	\$28,786	85.7%	554 \$33,601
1999 Consumer Retail Installment	160	90.4%	\$1,603	87.8%	177 \$1,826
1999 Small Business Lending	912	89.4%	\$69,850	86.5%	1,020 \$80,745
1999 Small Farm Lending	386	93.2%	\$14,408	94.3%	414 \$15,286
TOTAL	1980	91.5%	\$114,647	87.2%	2,165 \$131,458

While the bank's level of lending within the assessment area is outstanding, the geographic distribution of these loans reflects relatively poor penetration throughout the assessment area. The LMI geographies in the assessment area are not heavily populated, but the bank does not penetrate these areas well. The number and dollar volume of the bank's HMDA reportable loans (including affiliate lending) and consumer loans extended in low-, moderate-, middle-, and upper-income geographies are listed in the following table:

Geographic Distribution of Loans (Number and Dollar Volume) Across Assessment Area by Income Level of Geography					
Loan Type	Geography Income Classification				Total
	Low-	Moderate-	Middle-	Upper-	
1999 HMDA	0	9	881	205	1,095¹¹
	0.0%	0.8%	80.5%	18.7%	100%
	\$0	\$592	\$73,885	\$18,342	\$92,819
	0.0%	0.6%	79.6%	19.8%	100%

¹¹ In addition to the 522 HMDA loans made by the Bank of Bentonville inside the assessment area, this figure includes 573 loans made by the affiliate mortgage company inside the Bank of Bentonville's assessment area.

¹⁰ These only include HMDA reportable loans made by the Bank of Bentonville. Affiliate lending from Arvest Mortgage is not included for this analysis.

Consumer Retail Installments	0 0.0%	3 1.9%	153 95.6%	4 2.5%	160 100%
	\$0 0.0%	\$13 0.8%	\$1,553 96.9%	\$37 2.3%	\$1,603 100%
TOTAL	0 0.0%	12 1.0%	1,034 82.4%	209 16.6%	1,255 100%
	\$0 0.0%	\$605 0.7%	\$75,438 89.4%	\$8,379 9.9%	\$84,422 100.0%
Aggregate HMDA Data¹²	0.3%	2.0%	77.6%	20.1%	100%
Owner-Occupied Housing Units	0.6%	5.0%	77.4%	17.0%	100%
Population Percentage in each Tract Classification	0.7%	5.9%	76.4%	17.0%	100.0%

As shown in this table, the majority of all loans, 82.4 percent, (89.4 percent by dollar volume), were originated within the middle-income geographies. This figure represents 95.6 percent of the bank's consumer installment loans and 80.5 percent of its HMDA loans. Since 76.4 percent of the assessment area population live in middle-income geographies and the percentage of owner-occupied housing units is high in these geographies, it is reasonable for the majority of the loans to be in these geographies.

However, only one percent of the total consumer retail and HMDA loans made in 1999 were to borrowers residing in LMI geographies, where 6.6 percent of the population resides and 5.6 percent of the owner-occupied housing units are located.

The poor showing in the low-income tracts can in part be explained by certain demographic considerations. The opportunity to make housing loans in the low-income geographies in the assessment area is low. There are no low-income tracts in the Missouri counties and only one low-income tract in Benton County, with no population. The two low-income tracts in Sebastian County have small populations and are in a remote location from the bank and its offices.¹³

For the moderate-income areas, demographic explanation for the low level of lending is not as strong. In these areas, the bank made one percent of its loans, compared to a population percentage of 5.9 percent. This one percent was comprised of 1.9 percent

¹² The percentages reflect the number of loans generated by all HMDA reporters in the assessment area.

¹³ One tract, 9.01 has 54.6 percent of its population either institutionalized or living in group quarters, which may have a detrimental effect not only on the affluence of an area, but also on the desirability of the area for 1-4 family residential purposes.

(3) consumer loans and less than one percent (9) HMDA loans. The consumer lending is exceptionally low and appears to present a gap in the bank's lending, considering there are five moderate- income tracts, two of which are in the Missouri portion of the assessment area.

With respect to HMDA lending, closer analysis of the demographics of the moderate-income geographies shows that the percentage of owner-occupied units is much less than in the middle- and upper- income geographies in the assessment area. The percentage of owner occupied units in moderate-geographies is 5.0 percent as compared with 94.4 percent in the middle and upper income areas. In light of this, residential lending performance can be better considered by reference to the HMDA aggregate lending. These figures show that of all HMDA reporting institutions, 2.3 percent of loans made were in the LMI geographies of the assessment area. The bank's lending level for this type of loan in these areas is less than one percent. This indicates that the bank is making some residential loans available, but overall penetration to LMI geographies is very low, as is aggregate lending.

Furthermore, when the three segments of the assessment area are broken down separately, there is a closer match of the volume of loans made to the percentage of population residing in LMI geographies, especially in the Missouri counties. This will be further explained in the separate assessment area analyses that are part of this evaluation.

Bank of Bentonville's geographic distribution of small business and small farm lending is also poor when compared to the 1998 business aggregate data for the assessment area. However, demographic considerations do not help explain this. Bank of Bentonville made 0.8 percent of its small business loans in LMI geographies compared to 12.8 percent for the 1998 CRA aggregate small business loans. Information obtained from Dun & Bradstreet indicates that 12.7 percent of reporting businesses in the assessment area are located in LMI geographies.¹⁴ The data indicates there are businesses with loan demands in these areas that could be met by the bank.

Small farm lending shows somewhat better performance. For 1999, the bank originated 1.3 percent of its small farm loans in LMI geographies. This compares somewhat favorably to aggregate 1998 CRA data for the assessment area that show 2.6 percent of small farm loans were originated in LMI geographies. Dun and Bradstreet information indicates that 2.1 percent of agriculturally related businesses in the assessment area are located in LMI geographies. The objective data from the CRA aggregate lending and Dun and Bradstreet shows that lending opportunities exist in LMI geographies.

Finally, an analysis was performed to determine whether the bank made loans in every geography in its assessment area. Of the 67 geographies in the assessment area, the bank did not penetrate 17. No loans were reported in two of the three low-income

¹⁴ The source data is provided by Dun & Bradstreet. This information is based upon information supplied by reporting businesses. The source data used in this report are as of June 1999.

geographies. However, as of the 1990 census, the only low-income tract in Benton County has zero population, so minimal loan demand can be expected.

Significantly, 14 of the 17 geographies with no activity are in Sebastian County. The bank has only a minimal and temporary presence in this part of its assessment area. A low-income and moderate-income geography in this county that show no activity are geographically distant from the bank's locations.

The remaining geography with no activity is in the Missouri non-MSA portion of the assessment area. This tract is geographically separated from the rest of the assessment area by Table Rock Lake, which serves as a geographic barrier to the bank's branch in Shell Knob, Missouri.

In conclusion, no significant gaps in lending were found in light of market aggregate lending, environmental, and demographic information, except in lending to small businesses located in LMI geographies.

Borrower Characteristics

The bank's lending reflects adequate penetration among retail customers of different incomes and excellent penetration among businesses and farms of different sizes. Lending patterns are generally consistent with demographic and aggregate lending statistics for each loan product reviewed.

Residential and consumer retail installment loans were reviewed to determine the level of penetration among borrowers of different income levels.¹⁵ Separately, small business and small farm loans originated by the bank were evaluated for distribution among businesses of various revenue sizes. The following table shows the distribution of residential (bank and affiliate) and consumer retail installment loans by income level of the borrower.

¹⁵ Borrower income is determined by using the income definitions in footnote six, but is based on the 1999 median family income as made available by the Department of Housing and Urban Development, rather than the 1990 census data.

Distribution of Loans (Number and Dollar Volume) Inside Assessment Area by Income Level of Borrower					
Loan Type	Borrower Income Classification				TOTAL
	Low-	Moderate-	Middle-	Upper-	
1999 HMDA	69 6.3%	165 15.2%	293 26.9%	561 51.6%	1,088¹⁶ 100%
	\$2,136 2.3%	\$8,765 9.5%	\$19,647 21.4%	\$61,394 66.8%	\$91,942 100%
1999 Consumer Retail Installment	31 19.4%	28 17.5%	38 23.7%	63 39.4%	160 100%
	\$92 5.7%	\$170 10.6%	\$320 20.0%	\$1,021 63.7%	\$1,603 100%
TOTAL	100 8.0%	193 15.5%	331 26.5%	624 50.0%	1,248 100%
	\$2,228 2.4%	\$8,935 9.6%	\$19,967 21.3%	\$62,415 66.7%	\$93,545 100%
1998¹⁷ Aggregate HMDA Data	6.9%	18.2%	25.1%	49.8%	100%
Assessment Area Family Population	16.5%	18.9%	24.6%	40.0%	100%

As shown in the above table, 36.9 percent of consumer retail installment loans were extended to LMI borrowers, which slightly exceeds the LMI population level of 35.4

¹⁶ This figure includes mortgages originated by the affiliate mortgage company. Of the 1095 loans made inside the assessment area, seven did not show income figures, and thus were excluded from this analysis.

¹⁷ 1999 Aggregate HMDA data is not yet available.

percent and reflects a satisfactory penetration level. The bank's installment lending to low- income borrowers, included in this total, was quite strong at 19.4 percent.

The bank originated 21.5 percent of HMDA reportable loans to LMI individuals, which is lower than the LMI population but indicates the bank does engage in lending to LMI individuals, despite its low penetration in LMI census tracts. While the assessment of the bank's residential lending is based on these comparisons, the local housing market must also be considered. As discussed in the Description of Assessment Area, housing costs are quite high, making it difficult for LMI families to afford owner-occupied housing. When the bank's residential lending is compared to aggregate HMDA data for 1998, the bank's 21.5 percent approximates the aggregate lending level of 25.1 percent. This shows that the bank and mortgage company are meeting the needs of LMI customers for residential loans at a level comparable with, although slightly below, their peers.

Bank of Bentonville's small business and small farm lending for 1999 were analyzed to determine lending by loan size and by business revenue size.

For 1999, the bank originated 912 small business loans.¹⁸ Of these, 909 (99.7 percent) were to small businesses, which are businesses with gross revenues less than \$1 million. In addition, 751 (82.3 percent) were in amounts of less than \$100,000. When these numbers are compared to the CRA Aggregate Data for 1998 and the Dun & Bradstreet information, the bank's level of lending exceeds its peers. The 1998 aggregate data indicates that 82.2 percent of all originated small businesses loans in the assessment area were to businesses with gross annual revenues of less than \$1 million. Based on the Dun & Bradstreet data, 89.6 percent of reporting businesses in the assessment area are classified as small businesses.¹⁹ This indicates that the bank is well serving the borrowing needs of small businesses in its assessment area.

For 1999, the bank originated 386 farm loans, all of which (100 percent) were small farm loans.²⁰ In addition, 347 of these loans (89.9 percent) were in amounts of less than \$100,000. The 1998 CRA Aggregate Data indicate that 99 percent of all originated loans in the assessment area were to small farms and 89.9 percent of these loans were in amounts of less than \$100,000. When compared to the aggregate lending data, the bank shows an excellent responsiveness to the credit needs of the agricultural community.

Lending Activity

The bank's lending activity reflects adequate responsiveness to assessment area credit needs given the bank's size, financial condition, and credit needs of the assessment area.

¹⁸ A "small business loan" is a loan of less than \$1million to a business of any revenue size.

¹⁹ The source data is provided by Dun & Bradstreet. This information is based upon information supplied by reporting businesses. The source data used in this report are as of June 1999.

²⁰ A "small farm loan" is a loan of less than \$500,000 to a farm of any revenue size.

An indication of the bank's overall level of lending activity is the loan-to-deposit ratio. For the previous eight quarters (reported from March 31, 1998, to December 31, 1999), the bank has maintained an average loan-to-deposit ratio of 67.3 percent. In comparison, the average loan-to-deposit ratios of the bank's six local and area competitors ranged from 45.7 percent to 102.1 percent.

Community Development Lending

Opportunities within the bank's assessment area are limited for community development lending. Very few initiatives have been undertaken in the bank's assessment area to promote multi-family or single-family affordable housing or to promote small business growth. However, the bank has participated in community development projects when available.

The bank has made two loans totaling \$2,782,900²¹ in a project to satisfy the need for affordable housing. Through this program, 40 units have been financed that directly benefit the housing needs of LMI families or individuals in the Benton County section of the assessment area.²²

Innovative or Flexible Lending Practices

The bank uses innovative and flexible lending practices, when appropriate, in order to serve assessment area credit needs. In addition to the loans discussed under Community Development Lending, in 1999 the bank, in partnership with the affiliate mortgage company, made twelve housing loans totaling almost \$690,000. Using non-traditional loan structures, such as rural housing community development and FHA bond programs, these loans were mostly made to LMI individuals who might not otherwise have been able to purchase homes. Of the twelve, two were to low-income and eight were to moderate-income applicants.

INVESTMENT TEST

Qualified Investments

Overall, the bank had an adequate level of qualified community development investments and grants and is rated low satisfactory. The bank did assume a leadership role in financing a 40-unit development for elderly LMI individuals in the assessment area. The qualified investments and grants for 1999 are listed below.²³

²¹ The bank provided a \$2.2 million construction loan as well as a \$582,900 first mortgage.

²² In addition, the bank funded a \$72,514.00 loan for the construction of a tri-plex for elderly LMI individuals. However, this loan was reported for CRA purposes as a small business loan and is not a multi-family development so it cannot be counted as a community development loan.

²³ The state benefited by the investment and/or grant is indicated in parenthesis.

Osage Terrace LP CDC – In November through March 1998, the bank made a commitment to purchase \$225,000 in tax credits for the construction of the 40 unit development for elderly LMI individuals. Part of the purchase of the tax credit (\$33,750) was done in 1999, with the remainder to be funded in 2000. The bank took a leadership role in establishing the financing for this project by committing to the purchase of the tax credits, financing a \$2.2 million construction loan and a \$582,900 first mortgage. (Arkansas)

The bank made a total of \$18,882 in donations to the following qualified organizations:

United Way of Benton County – During 1999, the bank made monthly donations to the local United Way. The United Way of Benton County provides funding and support to over 60 agencies in the county. Over 75 percent of the agencies funded serve the lowest income people in the county. (Arkansas)

Single Parent Scholarship Fund of Benton County – In December 1999, the bank made a grant to the Single Parent Scholarship Fund. This organization provides financial aid to LMI adult students seeking to further their higher education. (Arkansas)

Bella Vista Boy's and Girl's Club- In January 1999 the bank made a donation to the Bella Vista Boy's and Girl's Club which offers counseling and tutoring services for LMI children. (Arkansas)

Bella Vista Toy and Clothing – A donation was made in February 1999 to this organization which provides these items to needy children. (Arkansas)

Havenwood – A donation was made to this organization which provides transitional housing for single mothers requiring temporary shelter. (Arkansas)

The Adult Development Center – A donation was made to this organization that provides job training for LMI adults. (Arkansas)

Habitat for Humanity – A donation was made to this organization which constructs and sells houses to LMI individuals. (Arkansas)

Arkansas Children's Shelter – A donation was made to this organization that provides emergency services to children in need. (Arkansas)

The Walton Family Foundation, an affiliate of the bank, makes grants in the name of the bank in addition to those previously discussed. The Walton Family Foundation is a non-profit philanthropic organization established to make donations in its own name and the name of various affiliated companies. Most of the \$35,928 donated in 1999 in the name of the Bank of Bentonville does not qualify under the investment test. Those that do are listed below.

NorthWest Arkansas Children's Shelter – in 1999, the bank made a grant to the NWA Children's Shelter that was funded by the Walton Family Foundation. The shelter offers emergency services to children in need, most of whom are from LMI families. (Arkansas)

Blue Eye High School – The bank made a donation to the Blue Eye High School in Blue Eye, Missouri. The village of Blue Eye is in a moderate-income tract. (Missouri)

Combining the donations made by the bank and the Walton Family Foundation, the bank made a total of \$63,612 of qualified community development grants for 1999. Although the dollar amount of the grants and contributions has increased since the previous examination, the level of community development investments and grants is considered marginally adequate for a bank of this size.

SERVICE TEST

The bank is rated a high satisfactory under the service test for large banks. The bank's delivery systems are readily accessible to all portions of the assessment area, given the bank's branch network, hours of operation, and loan and deposit products offered. Further, services do not vary in a way that inconveniences portions of the assessment area, particularly LMI individuals. Moreover, the bank's record of opening and closing branches has not adversely affected the accessibility of its delivery systems, particularly to LMI geographies and/or LMI individuals.

Retail Services

The bank maintains a branch network readily available to borrowers in its assessment area, including LMI individuals and geographies. The branch network consists of 9 full service branches in Benton County, although none are located in LMI geographies. Each branch location has a full-service ATM on-site. In addition, the bank has 6 walk-in and/or drive-thru teller services and stand-alone ATMs at various locations throughout the assessment area. The Missouri portion of the assessment area has three full service branches.

Branches generally maintain approximately the same hours as the main bank whose lobby hours are 8 a.m. to 5 p.m. Monday through Friday. Most drive-thru facilities remain open until 6 p.m. during the week and are open Saturday until 1 p.m.

The bank's presence in the Fort Smith area is minimal. The bank maintains one loan production office and one branch, located in a Wal-Mart Supercenter. Although these locations are generally convenient, they are not near the LMI geographies in the area. The bank does not serve the Fort Smith area in depth.

Branch facilities located in Wal-Mart Supercenters offer the greatest opportunity to serve all of the assessment area, regardless of income level or geographies. These locations provide the bank a great deal of exposure and provide a non-traditional banking environment from which to operate. These locations offer extended hours that allow greater access to banking services for the entire assessment area.

In addition to the services provided by Bank of Bentonville, access to banking services and information is available through the bank's parent company, Arvest Bank Group, Inc. The bank's customers have no-cost access to over 100 Arvest ATM machines in Northwest Arkansas and Tulsa.

The bank offers services tailored to meet the needs of the community, including LMI borrowers. The bank offers standard retail products, including low-cost checking and savings accounts, certificates of deposit, and other services. In addition, bank staff offers assistance to all consumers in completing loan applications.

The bank maintains alternate delivery systems designed to meet the needs of its customers. A telephone banking line called "Account Connection" was established to give customers information about deposit and loan accounts, rate information, and the ability to transfer funds between deposit accounts. Arvest also offers an Internet website that provides banking information for all Arvest facilities.

Community Development Services

The bank provides an adequate number of community development services to its assessment area. The bank's primary focus is to address individuals' and community organizations' counseling needs, and to provide technical assistance for its financial services area. The following is a listing and description of the more significant community development services and programs offered:

Bentonville Community Development Corporation – A senior vice president and a loan assistant serve on the board of directors for the local CDC.

Havenwood – An executive assistant serves on the board of directors for Havenwood, which provides temporary housing for single mothers in need. Additionally, the bank has "adopted" a room at Havenwood that they maintain and keep furnished. The bank also makes frequent donations of food.

The Noel Housing Authority - In April 1999, personnel from the Noel Branch as well as a loan officer from the affiliate mortgage company held an affordable housing seminar in conjunction with Noel Housing Authority. The program was conducted in both English and Spanish and was attended by about 35 people. The relationship between the Noel Housing Authority and the Noel branch is especially noteworthy for the formal and informal level of assistance given to the Authority. In addition to the formal housing seminar, the bank president has provided individual credit counseling for clients referred

by the Housing Authority. Through the mortgage company, several loans have been made in conjunction with the Authority's "Helping Hands" program whereby distressed property is bought by the Authority, rehabilitated and then sold to LMI purchasers currently renting from the Authority.

A similar affordable housing seminar was conducted at the main branch in Bentonville in March, 1999.

Habitat for Humanity – The bank has provided homeownership, credit and asset management counseling for Habitat applicants. These counseling sessions are a necessary requirement of the Habitat approval process. Ironically, these sessions have shown that the applicants' credit is too good to qualify for Habitat assistance. However, the bank has then followed through with housing and consumer loans to some of these applicants.

CarWorks Program – Bank of Bentonville participated in the CarWorks program, a service of the Community Resource Group, Inc. a local, private non-profit organization. The CarWorks program involved soliciting donations of older, drivable cars to CarWorks. CarWorks will repair the car, then sell it for the cost of repairs to an eligible family in Northwest Arkansas that need transportation to work. CarWorks will even finance the cost of repairs and car insurance for as little as \$25 a week. No downpayment or interest is charged.

The Bank's Record of Opening/Closing Branches

Bank of Bentonville's record of opening and closing branches has not adversely affected the accessibility of its delivery systems. During October of 1998 and 1999, the bank opened four new facilities. None of the branches, however, is in an LMI geography in the assessment area. The bank's entry into the Fort Smith market is temporary. It is anticipated that those branches will be sold to another Arvest institution by summer, 2000.²⁴

ADDITIONAL INFORMATION

A fair lending analysis focusing on Regulation B (Equal Credit Opportunity) and the Fair Housing Act was performed during the examination. The analysis revealed that the bank is in compliance with the substantive provisions of anti-discrimination laws and regulations.

²⁴ See footnote four.

I. STATE OF ARKANSAS RATINGS

CRA Rating for the State of Arkansas: Satisfactory

The lending test is rated:	Low Satisfactory
The investment test is rated:	Low Satisfactory
The service test is rated:	Low Satisfactory

INTRODUCTION

The assessment area of the bank was revised after the last CRA examination to reflect changes to its branching structure. The revision resulted when the bank acquired branches in Fort Smith, Arkansas and in Southwest Missouri in 1998.

These additional branches added Sebastian County Arkansas, which is part of the Fort Smith Metropolitan Statistical Area (MSA),²⁵ and the counties of McDonald, Barry and Stone in Missouri, which are not in an MSA.

This section will examine the bank's performance in the combined "MSA" portion of the assessment area, which consists of Benton and Sebastian Counties in Arkansas.

As previously described, the current inclusion of Sebastian County in the assessment area is temporary. As part of its expansion plans, Arvest Bank Group purchased two branches in Fort Smith, Arkansas under the charter of the Bank of Bentonville. Fort Smith is located more than 50 miles south of Bentonville. Until very recently, the two areas were not connected by an interstate-type highway. Prior to the purchase, the Bank of Bentonville had no presence in the Fort Smith area. Plans are currently in progress to move these branches from the charter of the Bank of Bentonville and transfer them to another Arvest Group bank with a better geographic relationship to the Fort Smith area. Nevertheless, because the branches are under the charter of the Bank of Bentonville at the time of this examination, and have been since October 1998, they are included in the Arkansas MSA assessment area under CRA examination procedures established by Regulation BB.

DESCRIPTION OF THE ASSESSMENT AREA

²⁵ As discussed previously in footnote three, the Fort Smith MSA is a multi-state MSA but the bank has no branches within the Oklahoma portion of the MSA.

Benton County contains 26 census tracts and is part of the Fayetteville-Springdale-Rogers MSA. Sebastian County also consists of 26 census tracts and is in the Fort Smith MSA.

The following table reflects the number and population of the census tracts within the state of Arkansas in each income category.²⁶

Distribution of Arkansas Census Tracts in Assessment Area By County and Income Level						
		Low-	Moderate-	Middle-	Upper-	Total
Benton County	Number of Census Tracts	1 3.8%	0 N/A	23 88.5%	2 7.7%	26 100%
	Tract Population	0 0%	N/A	86,482 88.7%	11,017 11.3%	97,499 100%
Sebastian County	Number of Census tracts	2 7.7%	3 11.5%	12 46.2%	9 34.6%	26 100%
	Tract Population	1,853 1.9%	9,287 9.3%	55,179 55.4%	33,271 33.4%	99,590 100%
Total	Number of Census tracts	3 5.8%	3 5.8%	35 67.3%	11 21.1%	52 100%
	Tract Population	1,853 0.9%	9,287 4.7%	141,661 71.9%	44,288 22.5%	197,089 100%

The Benton County portion of the assessment area is comprised of 3.8 percent low-income tracts, 88.5 percent middle-income tracts, 7.7 percent upper-income tracts and no moderate-income census tracts. As of the 1990 census, the one low-income tract in Benton County had no population.²⁷ The majority of the assessment area's population, 88.7 percent, resides within the middle-income tracts.

The Sebastian County portion is comprised of 7.7 percent low-income tracts and 11.5 percent moderate income tracts. The majority of the population, 88.8 percent, resides in middle- and upper-income tracts.

The entire state of Arkansas portion of the assessment area is comprised of 5.8 percent low-income tracts and 5.8 percent middle-income tracts. The LMI population is 5.6%.

The following table displays population percentages of the assessment area families by income level compared to the MSA population.

²⁶ Refer to the income definitions in footnote six.

²⁷ The one low-income geography in Benton County had no population at the time of the 1990 census, but it is now being developed. However, there are no statistics yet available regarding the specific number of housing units built or the number of businesses operating in the tract.

Assessment Area Income Stratification ²⁸				
1990 Census Data	Benton Co. and MSA 2580		Sebastian Co. and MSA 2720	
	MSA 2580	Benton Co	MSA 2720	Sebastian Co.
Low-Income Families	17.0%	14.9%	19.9%	15.9%
Moderate-Income Families	19.9%	20.4%	17.6%	16.1%
Middle-Income Families	25.1%	25.5%	23.1%	23.4%
Upper-Income Families	37.9%	39.2%	39.4%	44.6%

Combined, the assessment area income stratification is:

Arkansas Assessment Area Population by Family Income Level					
1990 Census Data	Low-	Moderate-	Middle-	Upper-	TOTAL
Assessment Area	8,759 15.4%	10,417 18.3%	13,912 24.4%	23,813 41.9%	56,901 100%

As can be seen by these tables, LMI families are dispersed throughout the entire assessment area. Also, the distribution of LMI families in each county closely mirrors the MSA within which it is contained.

The Fayetteville-Springdale-Rogers MSA has experienced rapid growth. Statistics provided by the Northwest Arkansas Regional Planning Commission demonstrates the population of the region has increased from 21,908 in 1990 to 259,782 by year-end 1996. No similar statistics are available for the Fort Smith MSA.

The unemployment rate for Benton County is well below the statewide unemployment rate. For the month of January, 2000, the statewide unemployment rate was 4.4 percent while Benton County reported an unemployment rate of only 2.4 percent. For the same time period, the unemployment rate was 3.8 percent for Sebastian County.

The national headquarters of Wal-Mart is located in Bentonville, the seat of Benton County. Other large employers are Tyson Foods, and J.B. Hunt. Together, these companies employ approximately 13,000 people. The presence of these large national firms in the area has also created a number of industries that cater directly to them. Several product manufacturers keep satellite offices in the area to service these accounts.

²⁸ Population income levels were determined using the 1990 census median family income.

The Fort Smith area has also enjoyed relative prosperity in the last several years, although not to the extent as Benton County. Wages for entry-level jobs has risen for both counties.

The growth and prosperity experienced by the region's employers and low unemployment have led to low-skilled jobs being filled by workers who are recruited from outside the immediate region. Wages for unskilled labor range from \$7 to \$9 per hour in both counties. This increase in the labor force has caused an immediate need for affordable housing, especially in Benton County. Outside contacts indicated that the demand for housing has driven up the cost of the average house. Consequently, LMI families have difficulty affording a house as evidenced by the housing affordability ratio²⁹ of 44 percent for Benton County. The affordability ratio for Sebastian County is 49 percent.

CONCLUSIONS WITH RESPECT TO THE PERFORMANCE TESTS:

LENDING TEST

Bank of Bentonville meets the standards for a low satisfactory rating under the lending performance test for the state of Arkansas. For all types of loans reviewed, the bank shows poor loan distribution in LMI census tracts. Although loan distribution by borrower income reflects adequate penetration among customers of different income levels, distribution among businesses and farms of different sizes is good. Overall, lending levels show adequate responsiveness to assessment area credit needs. Acknowledging that local opportunities for community development lending are few, the bank has made an adequate level of community development loans. Lastly, the bank does periodically use innovative and/or flexible lending practices in order to better serve the credit needs of the assessment area.

The bank's performance under the lending test was evaluated using 1999 Home Mortgage Disclosure Act (HMDA)³⁰ data, 1999 CRA data for small farm and businesses, a sample of all consumer retail installment loans originated in the last six-months of 1999 and all of 1999 affiliate lending generated by Arvest Mortgage Company attributed to the bank. These four loan categories are considered the bank's primary lines of business and are assumed indicative of the overall lending performance of the bank.

Geographic Distribution

²⁹ This figure is calculated by dividing the median household income by the median housing value and represents the amount of single family owner-occupied housing that a dollar of income can purchase for the median household in the geography. Values closer to 100 percent indicate greater affordability.

³⁰ In 1999, the bank reported data on home mortgage loans consisting of home purchases, home refinancing, and home improvement loans.

As described in the Geographic Distribution of loans within the bank's entire assessment area, the bank's geographic distribution of these loans reflects relatively poor penetration throughout the LMI areas. Although the LMI tracts in the assessment area are not heavily populated, the bank does not penetrate these areas well. The number and dollar volume of the bank's HMDA reportable loans (including affiliate lending) and consumer loans extended in low-, moderate-, middle-, and upper-income census tracts are listed in the following table:

Geographic Distribution of Loans (Number and Dollar Volume) Across Arkansas Portion of Assessment Area by Income Level of Geographies					
Loan Type	Tract Income Classification				Total
	Low-	Moderate-	Middle-	Upper-	
1999 HMDA	0 0.0%	0 0.0%	724 77.9%	205 22.1%	929 100%
	\$0.00 0.0%	\$0.00 0.0%	\$65,706 78.2%	\$18,342 21.8%	\$84,048 100%

1999 Consumer Retail Installment	0 0.0%	1 0.7%	131 96.3%	4 2.9%	136 100%
	\$0 0.0%	\$1 0.1%	\$1,453 97.4%	\$37 2.5%	\$1,491 100%
TOTAL	0 0.0%	1 0.1%	855 80.3%	209 19.6%	1,065 100%
	\$0 0.0%	\$1 0.001%	\$67,159 78.5%	\$18,379 21.5%	\$85,539 100%
Aggregate HMDA Data³¹	0.3%	1.6%	74.0%	24.1%	100%
Owner- Occupied Housing Units	0.8%	2.9%	73.0%	23.3%	100%
Population Percentage Residing in Arkansas Assessment Area	0.9%	4.7%	71.9%	22.5%	100%

As shown in this table, the majority of the consumer retail installment loans originated, 96.3 percent of the total number (97.4% percent by dollar volume), were originated within the middle-income census tracts where 71.9 percent of the population resides. Only one loan out of the 136 consumer retail installment loans reviewed were made in LMI tracts, where 5.60 percent of the population resides, which is quite low.

The bank has not made any residential loans in the LMI tracts for the Arkansas portion of the assessment area. However, the HMDA aggregate lending does show that there is some residential loan activity (1.9 percent) in LMI tracts.

As previously described, this performance can be somewhat explained by demographic considerations. All but one LMI tract is in Sebastian County, and the one low-income tract in Benton County does not have any population according to 1990 census data; consequently, these low lending levels are not surprising. It does, however, emphasize that the bank does not serve Sebastian County to any significant degree.

Bank of Bentonville's small business and small farm lending is also poor when compared to the 1998 business aggregate data for the assessment area. Bank of Bentonville made 0.6 percent of its small business loans in LMI census tracts compared to 14.2 percent for the 1998 CRA aggregate small business loans made in these areas. Information obtained from Dun & Bradstreet indicates that 16.0 percent of reporting businesses in the assessment area are located in LMI census tracts.³² It should be noted again, that

³¹ The percentages reflect the number of loans generated by all HMDA reporters in the assessment area.

³² The source data is provided by Dun & Bradstreet. This information is based upon information supplied by reporting businesses. The source data used in this report are as of June 1999.

virtually all of these businesses are located in Sebastian County, emphasizing the lack of presence that the Bank of Bentonville has in that area.

Small farm lending shows poorer performance. For 1999, the bank originated no small farm loans in LMI census tracts. The aggregate 1998 CRA data for the assessment area show only 0.7 percent of small farm loans were originated in LMI census tracts. Dun and Bradstreet information indicates that 2.1 percent of agriculturally related businesses in the assessment are located in LMI census tracts.

Borrower Characteristics

The bank's lending reflects adequate penetration among retail customers of different incomes and excellent penetration among businesses and farms of different sizes. Lending patterns are generally consistent with demographic and aggregate lending statistics for each loan product reviewed.

Residential and consumer retail installment loans were reviewed to determine the level of penetration among borrowers of different income levels.³³ Separately, small business and farm loans originated by the bank were evaluated for distribution among businesses of various revenue sizes. The following table shows the distribution of residential (bank and affiliate) and consumer retail installment loans by income level of the borrower.

Distribution of Loans (Number and Dollar Volume) Inside Arkansas Portion of Assessment Area by Income Level of Borrower					
Loan Type	Borrower Income Classification				TOTAL
	Low-	Moderate-	Middle-	Upper-	
1999 HMDA	52 5.6%	137 14.9%	236 25.6%	497 53.9%	922 100%
	\$1,896 2.3%	\$7,722 9.3%	\$16,607 20.0%	\$56,946 68.4%	\$83,171 100%
1999 Consumer Retail Installment	24 17.7%	23 16.9%	34 25.0%	55 40.4%	136 100%
	\$79 5.3%	\$148 9.9%	\$299 20.1%	\$965 64.7%	\$1,491 100%
TOTAL	76 7.2%	160 15.1%	270 25.5%	552 52.2%	1,058 100%

³³ Borrower income is determined by using the income definitions in footnote six, but is based on the 1999 median family income as made available by the Department of Housing and Urban Development, rather than the 1990 census data.

	\$1,975 2.3%	\$7,870 9.3%	\$16,906 20.0%	\$57,911 68.4%	\$84,662 100%
Aggregate HMDA Data	7.1%	18.3%	25.2%	49.4%	100%
Assessment Area Family Population	15.4%	18.3%	24.4%	41.9%	100%

As shown in the above table, 34.6 percent of consumer retail installment loans were extended to LMI borrowers, which exceeds the LMI population level of 33.7 percent and reflects a satisfactory penetration to LMI borrowers.

The bank originated 20.5 percent of HMDA reportable loans to LMI individuals, which is lower than the LMI population but indicates a willingness to lend to LMI borrowers. While the assessment of the bank's residential lending is based on these comparisons, the local housing market must also be considered, and it is reasonable to compare the bank's performance with other residential lenders. When the bank's residential lending is compared to aggregate HMDA data for 1998, the bank's level of 20.5 percent nears the aggregate of 25.4.

Bank of Bentonville's small business and small farm lending for 1999 were analyzed to determine lending by loan size and by business revenue size.

For 1999, the bank originated 767 small business loans.³⁴ Of these, 764 (99.6 percent) were to small businesses, which are businesses with gross revenues less than \$1 million. In addition, 619 (81.2 percent) were in amounts of less than \$100,000. When these numbers are compared to the CRA Aggregate Data for 1998 and the Dun & Bradstreet information, the bank's level of lending exceeds its peers. The 1998 aggregate data indicates that 82.7 percent of all originated small businesses loans in the assessment area were to businesses with gross annual revenues of less than \$1 million. Based on the Dun & Bradstreet data, 88.7 percent of reporting businesses in the assessment area are classified as small businesses.³⁵ This indicates that the bank is well serving the borrowing needs of small businesses in its assessment area.

For 1999, Bentonville originated 312 farm loans. All (100 percent) were made to small farms. In addition, 282 of these loans (90.4 percent) were in amounts of less than \$100,000. The 1998 CRA Aggregate Data indicate that 99.0 percent of all originated loans in the assessment area were made to small farms and 89.0 percent of these loans were in amounts of less than \$100,000. When compared to the aggregate lending data, the bank shows an excellent responsiveness to the credit needs of the agricultural community.

³⁴ A "small business loan" is a loan of less than \$1 million to a business of any revenue size.

³⁵ The source data is provided by Dun & Bradstreet. This information is based upon information supplied by reporting businesses. The source data used in this report are as of June 1999.

Community Development Lending

Opportunities within the bank's assessment area are limited for community development lending. Very few initiatives have been made in Benton and Sebastian County to promote multi-family or single-family affordable housing or to promote small business growth. However, the bank has participated in community development projects when available.

The bank has made two loans totaling \$2,782,900³⁶ in a project to satisfy the need for affordable housing. Through this program, 40 units have been financed that directly benefit the housing needs of LMI families or individuals in the assessment area.³⁷

Innovative or Flexible Lending Practices

Please refer to page 16 of this evaluation for information regarding the bank's level of innovative or flexible lending practices, as most loan programs are available throughout all of the bank's assessment areas.

INVESTMENT TEST

Qualified Investments

Through its provision of qualified community development investments, the bank exhibits a marginally adequate responsiveness to credit and community economic development needs within Arkansas. As a result, the bank's Arkansas performance in the investment test is considered low satisfactory.

The bank's qualified investments made in Arkansas consist mainly of donations and grants that are described in detail on page 17 and 18. The Bank of Bentonville made donations or grants to 9 different activities or organizations, all in or near Benton County, for a total of \$58,612. This includes the purchase of \$33,750 in tax credits as part of a development to construct housing units for elderly LMI individuals.

The level of activity in Arkansas is adequate, but only serves the Benton County area. None of the bank's investments serve the Forth Smith MSA.

SERVICE TEST

³⁶ The bank provided a \$2.2 million construction loan as well as a \$582,900 first mortgage.

³⁷ In addition, the bank funded a \$72,514.00 loan for the construction of a tri-plex for elderly LMI. However, this loan was reported for CRA purposes as a small business loan and is not a multi-family development so it cannot be counted as a community development loan.

Summary Community Development Services

Overall, the bank provides a reasonable level of community development services in Benton County, Arkansas. The bank and its employees are involved in a broad range of activities there. Given the concentration of the bank's resources in Benton County, they represent a significant portion of the bank's community development services. Nevertheless, the bank is expected to address the needs of all of its assessment areas commensurate with the level of resources and the availability of opportunities in those areas.

Retail Services

As discussed previously, the vast majority of the bank's operations and resources are committed to the Benton County portion of this assessment area. Consequently, all but two of the service branches are located in Benton County. Accessibility to services in this area is good. Only a loan production facility and a full service branch in a Wal-Mart Superstore are located in Sebastian County.

Accessibility to Fort Smith area customers is therefore limited. However, with the change in charters and expansion of the Arvest presence in Sebastian County, current customers of the Bank of Bentonville in Sebastian County will have better access to services offered.

FORT SMITH MSA 2720

Bank of Bentonville's presence in the Fort Smith MSA is limited to Sebastian County where the bank has a branch in a Wal-Mart Supercenter and a loan production office. In addition, as mentioned previously, the bank is planning to sell the offices in Sebastian County to an affiliate. Of loan products sampled, only 3.8 percent were originated within Sebastian County. A review of available data reflects that the overall lending, investment, and service performance is below the bank's performance within the other geographical areas reviewed. However, due to the bank's limited presence and scope of activities in Sebastian County, it does not change the overall conclusion regarding performance in the state.

FAYETTEVILLE-SPRINGDALE-ROGERS MSA 2580

Bank of Bentonville's lending, investment and service activity is primarily centered in this MSA. This is where the bulk of the bank's Arkansas branches are located. Therefore, there is a minimal difference in the bank's activity within the state of Arkansas and Benton County. The bank's overall lending, investment and service activities within this MSA are reflective of the bank's activity in the state.

II. STATE OF MISSOURI RATINGS

CRA Rating for the State of Missouri: Satisfactory

The lending test is rated:	High Satisfactory
The investment test is rated:	Low Satisfactory
The service test is rated:	High Satisfactory

INTRODUCTION

The bank's assessment area was revised after the last CRA examination to reflect changes to its branching structure. The revision resulted when the bank acquired branches in Fort Smith Arkansas and in Southwest Missouri in 1998.

In part, these additional branches added the counties of McDonald, Barry and Stone in Missouri, which are not in an MSA.

This section will examine the bank's performance in the portion of the assessment area that consists only of the three counties in Missouri.

DESCRIPTION OF THE ASSESSMENT AREA

The three Missouri counties contain a total of 15 block numbering areas (BNAs). None of the counties lie within an MSA, although they are just north of the Fayetteville-Springdale-Rogers MSA. The area is largely rural, with no city with a population over 2000. However, the number of agriculturally related businesses is small, representing only 5.7 percent of reporting businesses.

The following table reflects the number and population of the BNAs within the assessment area in each income category.³⁸

Missouri Non-MSA Assessment Area Geographical Information by Income Level					
1990 Census Data	Low-	Moderate-	Middle-	Upper-	TOTAL

³⁸ Refer to footnote six for income definitions.

Distribution of BNAs Located in Assessment Area	0	2	13	0	15
	0.0%	13.3%	86.7%	0.0%	100%
Distribution of Individuals Residing in Each Type of BNAs	0	6,040	57,523	0	63,563
	0.0%	9.5%	90.5%	0.0%	100%

As this table indicates, there are no low- or upper-income BNAs in this portion of the assessment area and a large proportion (90.5 percent) of the population live in middle-income BNAs. There are two moderate-income areas where 9.5 percent of the population live.

The table below shows the distribution of the population in the Missouri portion of the assessment area by median family income level. The proportion of each income level is similar to the entire non-metropolitan portion of the State of Missouri.

Missouri Non-MSA Assessment Population by Family Income Level					
1990 Census Data	Low-	Moderate-	Middle-	Upper-	TOTAL
Assessment Area	3,754 19.9%	3,877 20.6%	4,709 25.0%	6,481 34.4%	18,821 100.0%
Non-Metro Missouri	91,244 20.3%	80,167 17.9%	99,518 22.2%	178,055 39.7%	448,984 100.0%

This assessment area accounts for only 17.6 percent (12.2 percent by dollar amount) of the bank's total lending portfolio. Bank of Bentonville provides service to this area through two full service branches. One is located in the city of Noel in McDonald County. The other is in the city of Shell Knob in eastern Barry County, directly east of McDonald County. Stone County lies directly east of Barry County. Stone County is nearest to Branson and shows higher per capita income (\$19,569) than McDonald County (\$15,972) or Barry County (\$16,954).

LENDING TEST

Bank of Bentonville meets the standards for a high satisfactory rating under the lending performance test for this section of the assessment area. For all types of loans reviewed, the bank shows good loan distribution in LMI BNAs. Loan distribution by borrower income reflects good penetration among customers of different income levels. Loan distribution among businesses and farms of different sizes is also good. Overall, lending levels show good responsiveness to assessment area credit needs. Acknowledging that local opportunities for community development lending are few, the

bank has made a good level of community development loans. Lastly, the bank does periodically use innovative and/or flexible lending practices in order to better serve the credit needs of the assessment area.

The bank's performance under the lending test was evaluated using 1999 Home Mortgage Disclosure Act (HMDA)³⁹ data, 1999 CRA data for small farm and businesses, a sample of all consumer retail installment originated in the last six-months of 1999 and all of 1999 affiliate lending generated by Arvest Mortgage Company attributed to the bank. These four loan categories are considered the bank's primary lines of business and are assumed indicative of the overall lending performance of the bank.

Geographic Distribution

A review of the distribution of sampled loans to individual borrowers of different income levels and to businesses and farms of different sizes shows that the bank does a good job of providing loans to borrowers of all income levels. Performance in consumer lending distribution in this portion of the assessment area exceeds the other portions by a large margin.

Geographic Distribution of Loans (Number and Dollar Volume) Across Missouri Non-MSA Assessment Area by Income Level of BNA					
Loan Type	Tract Income Classification				Total
	Low-	Moderate-	Middle-	Upper-	
1999 HMDA	0 N/A	9 5.4%	157 94.6%	0 N/A	166 100.0%

³⁹ In 1999, the bank reported data on home mortgage loans consisting of home purchases, home refinancing, and home improvement loans.

	\$0 N/A	\$592 6.7%	\$8,179 93.3%	\$0 N/A	\$8,771 100.0%
1999 Consumer Retail Installment	0 N/A	2 8.3%	22 91.7%	0 N/A	24 100.0%
	\$0 N/A	\$12 10.7%	\$100 89.3%	\$0 N/A	\$112 100.0%
TOTAL	0 N/A	11 5.8%	179 94.2%	0 N/A	190 100.0%
	\$0 N/A	\$604 6.8%	\$8,270 93.2%	\$0 N/A	\$8,883 100.0%
Aggregate HMDA Data⁴⁰	0.0%	4.2%	95.8%	0.0%	100%
Population Percentage Residing in Missouri Assessment Area	0.0%	9.5%	90.5%	0.0%	100.0%

The 5.8 percent of loans made in moderate-income BNAs is relatively close to the population level of 9.5 percent, with consumer retail installment lending comprising the largest percent (8.3). When the bank's residential real estate lending is compared to HMDA aggregate lending figures, it is seen the bank's lending exceeds the aggregate, 5.4 percent versus 4.2 percent. This is the only portion of the bank's assessment area where this is true.

The bank's small business and small farm lending also exceeds the other portions of the assessment area in this category although not to the degree as with consumer lending. The bank made 1.4 percent of its small business loans in LMI BNAs compared to 5.0 percent for the 1998 CRA aggregate small business loans made in these areas. Dun & Bradstreet information shows that only 1.5 percent of reporting businesses are located in LMI BNAs.⁴¹

Small farm lending shows better performance. For 1999, the bank originated 6.8 percent of its small farm loans in LMI BNAs. This compares favorably to aggregate 1998 CRA data for the assessment area that shows 4.9 percent of small farm loans were originated in LMI BNAs. Dun and Bradstreet information indicates that 0.1 percent of agriculturally related businesses in the assessment are located in LMI BNAs.

Borrower Characteristics

⁴⁰ The percentages reflect the number of loans generated by all HMDA reporters in the assessment area.

⁴¹ The source data is provided by Dun & Bradstreet. This information is based upon information supplied by reporting businesses. The source data used in this report are as of June 1999.

The bank's lending reflects good penetration among retail customers of different incomes and businesses and farms of different sizes. Lending patterns exceed demographic and aggregate lending statistics for each loan product reviewed.

Residential and consumer retail installment loans were reviewed to determine the level of penetration among borrowers of different income levels.⁴² Separately, small business and farm loans originated by the bank were evaluated for distribution among businesses of various revenue sizes. The following table shows the distribution of residential (bank and affiliate) and consumer retail installment loans by income level of the borrower.

Distribution of Loans (Number and Dollar Volume) Inside Missouri Non-MSA Assessment Area by Income Level of Borrower					
Loan Type	Borrower Income Classification				TOTAL
	Low-	Moderate-	Middle-	Upper-	
1999 HMDA	17 10.2%	28 16.9%	57 34.3%	64 38.6%	166 100%
	\$240 2.7%	\$1,043 11.9%	\$3,040 34.7%	\$4,448 50.7%	\$8,771 100%
1999 Consumer Retail Installment	7 29.2%	5 20.8%	4 16.7%	8 33.3%	24 100%

⁴² Borrower income is determined by using the income definitions in footnote six, but is based on the 1999 median family income as made available by the Department of Housing and Urban Development, rather than the 1990 census data.

	\$13 11.6%	\$22 19.6%	\$21 18.8%	\$56 50.0%	\$112 100%
TOTAL	24 12.6%	33 17.4%	61 32.1%	72 37.9%	190 100%
	253 2.8%	1,065 12.0%	3,061 34.5%	4,504 50.7%	8,883 100%
Aggregate HMDA Data	6.2%	17.9%	24.5%	51.4%	100%
Assessment Area Family Population	19.9%	20.6%	25.0%	34.4%	100%

As the table shows, 30.0 percent of sampled loans were originated to LMI borrowers, well below the LMI population of 40.6 percent. However, in consumer loans the bank exceeded the level of LMI population (50 percent of consumer loans made versus 40.6 percent LMI population). Real estate lending to LMI borrowers of 27.1 percent exceeds the aggregate lending of 24.1 percent.

Bank of Bentonville's small business and small farm lending for 1999 were analyzed to determine lending by loan size and by business revenue size.

For 1999, the bank originated 145 small business loans.⁴³ All 145 loans were to small businesses, which are businesses with gross revenues less than \$1 million. In addition, 132 (91.0 percent) were in amounts of less than \$100,000. When these numbers are compared to the CRA Aggregate Data for 1998 and the Dun & Bradstreet information, the bank's level of lending exceeds its peers. The 1998 aggregate data indicates that 79.6 percent of all originated small businesses loans in the assessment area were to businesses with gross annual revenues of less than \$1 million. Based on the Dun & Bradstreet data, 92.9 percent of reporting businesses in the assessment area are classified as small businesses.⁴⁴ This indicates that the bank is well serving the borrowing needs of small businesses in its assessment area.

For 1999, the bank originated 74 farm loans. All (100 percent) were directed to small farms. In addition, 65 of these loans (87.8 percent) were in amounts of less than \$100,000. The 1998 CRA Aggregate Data indicate that 92.2 percent of all originated loans in the assessment area were directed to small farms. When compared to the aggregate lending data, the bank shows an excellent responsiveness to the credit needs of the agricultural community.

Community Development Lending

⁴³ A "small business loan" is a loan of less than \$1million to a business of any revenue size.

⁴⁴ The source data is provided by Dun & Bradstreet. This information is based upon information supplied by reporting businesses. The source data used in this report are as of June 1999.

Opportunities within the bank's assessment area are limited for community development lending. No qualifying loans have been made in the Missouri assessment area.

Innovative or Flexible Lending Practices

Please refer to page 16 of this evaluation for information regarding the bank's level of innovative or flexible lending practices, as most loan programs are available throughout all of the bank's assessment areas.

INVESTMENT TEST

Qualified Investments

Through its provision of qualified community development investments, the bank exhibits an adequate responsiveness to credit and community economic development needs within Missouri. As a result, the bank's performance in the investment test is considered low satisfactory.

One donation was given by the Walton Foundation in the amount of \$5,000 that benefited a high school located in a moderate-income area.

SERVICE TEST

Summary Community Development Services

Overall, the bank provides a good level of community development services in the Missouri portion of its assessment area. Of particular note is the relationship between the personnel at the branch in Noel with the local housing authority. This is described in full on page 20.

Retail Services

Although the bank only has three locations in Missouri, they are well located given the demographics of the area. The only area that appears underserved is a low-income BNA that is almost totally separated from the rest of the area by a lake.

APPENDIX

A

SCOPE OF EXAMINATION			
<i>The bank's three major product lines were reviewed for analysis under the lending test. The loans used in the analysis included all of the bank's 1999 HMDA data, 1999 CRA data regarding small business and farms, 1999 affiliated real estate lending and a sample of consumer retail installment loans originated in the last 6 months of 1999. Also, the bank was asked to provide information concerning the number and dollar volume of community development loans, the number and dollar volume of qualified community development investments, and retail services including any qualified community development services. The bank has one assessment area, and the bank's activities in this area were reviewed using the large bank examination procedures.</i>			
TIME PERIOD REVIEWED		<i>Full Year 1999</i>	
FINANCIAL INSTITUTION		PRODUCTS REVIEWED	
<i>Bank of Bentonville Bentonville, Arkansas</i>		<i>Consumer Retail Installment Lending, Affiliate Residential Lending, Residential, Small Business and Small Farm</i>	
AFFILIATE(S) REVIEWED	AFFILIATE RELATIONSHIP		PRODUCTS REVIEWED
<i>Arvest Mortgage Company</i>	<i>Mortgage Company</i>		<i>Real Estate</i>
LIST OF ASSESSMENT AREAS AND TYPE OF EXAMINATION			
ASSESSMENT AREA	TYPE OF EXAMINATION	BRANCHES VISITED	OTHER INFORMATION
<i>Benton County, Sebastian County Arkansas; Barry, Stone, McDonald County, Missouri</i>	<i>On site</i>	<i>-Main Office; -Noel, MO; -Financial Center Blvd; -Supercenter Branch</i>	