

PUBLIC DISCLOSURE

January 12, 2009

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Southern Bank of Commerce
RSSD # 2837059**

**1727 West Kingshighway
Paragould, Arkansas 72451**

Federal Reserve Bank of St. Louis

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

NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed, as an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

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

Southern Bank of Commerce meets the criteria for a satisfactory rating based upon an evaluation of the bank's overall lending performance. This conclusion is based on the bank's good distribution of loans to borrowers of different income levels, including low- and moderate-income (LMI) individuals, and to businesses of varying revenues. Although there is only one low-income census tract within the bank's assessment area, the overall geographic distribution of loans among all the census tracts is adequate. A majority of the bank's loans were originated within the bank's assessment area. The bank's loan-to-deposit (LTD) ratio is favorable given the bank's size and assessment area credit needs. Lastly, no Community Reinvestment Act (CRA) related complaints were filed against the bank for this review period.

SCOPE OF EXAMINATION

The bank's CRA performance was evaluated using the Federal Financial Institutions Examination Council's interagency small bank examination procedures. The review period covered the period from the date of the bank's previous CRA evaluation on November 8, 2004, through January 12, 2008. The bank's lending performance in residential real estate was evaluated based on loan data from the Home Mortgage Disclosure Act (HMDA) for the period from January 1, 2007, through September 30, 2008.¹ The evaluation of consumer motor vehicle loans was from a sample of loans originated in 2008, with the small business sample of loans taken from originations in 2007 and 2008. These loan categories are considered the bank's primary lines of business based upon lending volume by number and dollar amount. The lending analysis evaluated the bank's distribution of loans by borrower income and business revenues, the geographic distribution of loans among census tracts by income categories, lending within the bank's assessment area, and lending volume relative to bank deposits.

Two community contact interviews were performed to establish a performance context for the communities in which the bank operates and to better understand the credit needs of those communities. Information was obtained on the overall economic condition of the bank's assessment area and how financial institutions meet any credit needs identified. Comments from the community contacts are addressed in the applicable assessment area.

DESCRIPTION OF INSTITUTION²

Southern Bank of Commerce is a full-service retail bank offering both consumer and commercial loans and deposit products. The bank operates four full-service banking facilities in the state of Arkansas. The main bank facility is located in the city of Paragould (Greene County), with the other branches located in the cities of Leachville (Mississippi County), Brookland (Craighead County), and Jonesboro (Craighead County). Three of the offices are in middle-income census tracts and one is in an upper-income census tract. Two of the offices are in the Jonesboro, Arkansas, metropolitan statistical area (MSA) and two are in non-MSA Arkansas geographies.

¹ The HMDA loan category includes loans for the purpose of home purchase, refinancing, and home improvement.

² Any percentage row or column "Total" figure displayed throughout this evaluation that does not equal exactly 100 percent is strictly due to rounding differences, which are considered immaterial to overall performance conclusions.

In addition to being a full-service facility, each location offers both drive-up and walk-up accessibility, as well as a 24-hour full-service automated teller machine (ATM).

As of September 30, 2008, the bank had total assets of \$30.0 million, with gross loans and leases of \$19.6 million, representing 65.3 percent of total assets. Deposits total \$27.0 million as of this same period. The composition of the bank's loan portfolio is shown below.

Distribution of Total Loans (as of September 30, 2008)		
Credit Product Type	Amount in \$000s	Percentage of Total Loans
Construction and Development	\$ 117	0.6%
Commercial Real Estate	1,808	9.2%
Multifamily Residential	0	0.0%
1-4 Family Residential - Revolving	0	0.0%
1-4 Family Residential - Other	11,005	56.2%
Farmland	435	2.2%
Agricultural	0	0.0%
Commercial and Industrial	940	4.8%
Loans to Individuals	5,250	26.8%
Total Other Loans	10	0.1%
TOTAL Gross Loans	\$ 19,565	100%

As indicated by the table above, a majority of the bank's lending resources are directed to loans secured by 1-4 family residential properties (56.2 percent), with the second largest volume of loans by dollar amount being consumer loans to individuals (26.8 percent).

As part of this evaluation under the CRA, the bank's performance was evaluated in relation to the performance of regional competitors. Three financial institutions were determined to be regional competitors similarly situated to Southern Bank of Commerce. These three financial institutions had asset sizes ranging from \$69.3 million to \$201.4 million as of September 30, 2008.

The bank received a satisfactory rating at its previous CRA evaluation conducted by this Reserve Bank on November 8, 2004.

DESCRIPTION OF THE INSTITUTION'S ASSESSMENT AREA

The bank has designated two contiguous assessment areas for purposes of this CRA evaluation. The Jonesboro assessment area consists of 12 of the 13 census tracts in Craighead County, Arkansas, which is in the Jonesboro, Arkansas MSA #27860 ("Jonesboro MSA"). The Jonesboro assessment area is comprised of 1 low-income census tract, 9 middle-income census tracts, and 2 upper-income census tracts. The Paragould assessment area, which is non-MSA Arkansas, is comprised of all 8 census tracts in Greene County, Arkansas, and 1 of 13 census tracts in Mississippi County, Arkansas. The Paragould assessment area is comprised of 7 middle-income census tracts and 2 upper-income census tracts. Appendix A contains a listing of the census tract numbers and the income categories of all the census tracts that comprise the bank's assessment areas.

INSTITUTION CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS³

Southern Bank of Commerce meets the criteria for a satisfactory rating based upon its lending performance as measured by the CRA small bank performance standards. This lending performance was based upon a review of samples of HMDA residential real estate loans, consumer motor vehicle loans, and small business loans. These loan categories are considered the bank's primary lines of business, and the loan activity represented by these credit products is deemed indicative of the overall lending performance of the bank. The CRA small bank performance standards evaluate the following five criteria as applicable:

- The bank's level of lending inside the designated assessment area.
- The bank's average LTD ratio.
- The bank's distribution of loans by borrower income and business revenue.
- The bank's geographic distribution of loans.
- A review of written complaints.

The five subsections that follow are based upon an analysis of the bank's lending performance under these performance criteria.

³ Statistical/demographic information cited in this evaluation, unless otherwise stated, is taken from 2000 United States Census Bureau data.

Lending in the Assessment Area

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

Lending Inside and Outside of the Bank’s Assessment Area			
Loan Type	Inside Assessment Area	Outside Assessment Area	TOTAL
2007-2008 HMDA	46	9	55
	83.6%	16.4%	100%
	\$ 2,120	\$ 449	\$ 2,569
2008 Motor Vehicle	82.5%	17.5%	100%
	68	17	85
	80.0%	20.0%	100%
2007-2008 Small Business	\$ 525	\$ 109	\$ 634
	82.8%	17.2%	100%
	69	27	96
TOTAL	71.9%	28.1%	100%
	\$ 965	\$ 387	\$ 1,352
	71.4%	28.6%	100%
TOTAL	183	53	236
	77.5%	22.5%	100%
	\$ 3,610	\$ 945	\$ 4,555
	79.3%	20.7%	100%

As noted above, a majority of loans sampled were extended to borrowers or businesses that reside or operate in the bank’s assessment area. In total, 77.5 percent of all loans sampled were extended inside the bank’s assessment area, which accounted for 79.3 percent of the dollar volume of total loans. HMDA real estate loans and motor vehicle loans exhibited the highest concentration of lending in the assessment area. In conclusion, the bank meets the standards for satisfactory performance under this criterion.

Loan-to-Deposit Ratio (LTD)

Another indication of the bank’s overall lending activity is its LTD ratio. The following table displays the bank’s quarterly average LTD ratio in comparison to that of local competitors.⁴ These financial institutions were determined to be similarly situated to Southern Bank of Commerce, based on their proximity, branch structure, and loan product mix.

⁴ The average net LTD ratio represents a 16-quarter average dating back to the bank’s last CRA examination (December 31, 2004, through September 30, 2008).

Loan-to-Deposit Ratio Analysis			
Name	Asset Size⁵	Headquarters	Average LTD Ratio
Southern Bank of Commerce	\$29,902	Jonesboro, AR	87.9%
Regional Bank Competitors	\$69,256	Piggott, AR	52.5%
	\$201,425	Blytheville, AR	44.3%
	\$254,049	Jonesboro, AR	93.1%

The bank's LTD ratio is considered favorable given the size of the bank and the credit needs of the assessment area. The bank's 16-quarter LTD average since the last CRA evaluation was 87.9 percent. The bank's performance under this criterion was compared to three financial institutions in Arkansas operating in the cities of Piggott, Blytheville, and Jonesboro. For the period ending September 30, 2008, the assets of these institutions ranged from \$69.3 million to \$254.0 million and their 16-quarter average LTD ratios ranged from 44.3 to 93.1 percent. The bank meets the standards for satisfactory performance under this criterion.

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

The bank's distribution of loans by borrower income and revenue size of businesses is satisfactory. In the Jonesboro assessment area, the bank's distribution of HMDA real estate loans, consumer motor vehicle loans, and small business loans to businesses of different sizes for varying amounts is considered reasonable. In the Paragould assessment area, the bank's record of originating residential real estate and consumer motor vehicle loans to borrowers of various income levels is good. The bank's dispersion of loans to businesses of different sizes for varying amounts is considered satisfactory.

A detailed discussion of the conclusions and evaluation relating to the bank's lending to borrowers of different incomes and businesses of various sizes in the individual assessment areas can be found in the Jonesboro assessment area and Paragould assessment area sections that follow.

Geographic Distribution of Loans

The geographic distribution of loans evaluates the bank's distribution of loans based upon the dispersal among census tracts by income category compared to applicable demographic information, specifically focusing on loans to LMI census tracts. In the Jonesboro assessment area, which includes one LMI census tract, the geographic distribution of loans is adequate given the characteristics of the assessment area. There are no LMI census tracts in the Paragould assessment area; therefore, a detailed analysis of the geographic distribution of loans is not meaningful for evaluating this assessment area. Nevertheless, loan distribution among the other census tracts in the assessment area is adequate.

⁵ Asset figures in this table represent total assets as of September 30, 2008 (in \$000s).

A detailed discussion of the evaluation and conclusions relating to the bank's geographic distribution of loans in the individual Jonesboro assessment area and Paragould assessment area is found in the sections that follow.

Review of Complaints

No CRA-related complaints were received for this institution during the time frame used for this evaluation (November 8, 2004, through September 30, 2008).

Additional Information

During the Consumer Affairs examination conducted concurrently with this CRA evaluation, a fair lending analysis was performed to assess the bank's compliance under Regulation B (Equal Credit Opportunity) and the Fair Housing Act. The analysis concluded that the bank is in compliance with the substantive provisions of the antidiscrimination laws and regulations for the products and services reviewed.

METROPOLITAN STATISTICAL AREA

DESCRIPTION AND CONCLUSIONS: JONESBORO ASSESSMENT AREA

The Jonesboro assessment area is comprised of 12 of the 13 census tracts in Craighead County, Arkansas, which is in the Jonesboro MSA. Based upon 2000 census data, the total population of the Jonesboro assessment area was 77,939, which accounts for 72.3 percent of the entire Jonesboro MSA population.

According to the Federal Deposit Insurance Corporation (FDIC) market share data as of June 30, 2008, the bank is one of 14 financial institutions operating in Craighead County, with a deposit market share of .22 percent. The bank is ranked 12th in terms of deposits in Craighead County.⁶

The following table reflects the number of census tracts within the Jonesboro assessment area by each income category and the corresponding family populations within those census tracts.⁷

Assessment Area Geographical Information by Income Category						
2000 Census Data	Low-	Moderate-	Middle-	Upper-	Unknown	TOTAL
Assessment Area Census Tracts	1 8.3%	0 0.0%	9 75.0%	2 16.7%	0 0.0%	12 100%
Family Population	876 4.2%	0 0.0%	15,217 72.3%	4,955 23.5%	0 0.0%	21,048 100%

As shown in the table above, the Jonesboro assessment area contains one low-income, nine middle-income, and two upper-income census tracts. There are no moderate-income census tracts within this assessment area. There are two bank branches located in middle-income census tracts in this assessment area. The largest portion of the Jonesboro assessment area total family population (15,217) resides in middle-income census tracts, which accounts for 72.3 percent of the total family population. The one low-income census tract accounts for 4.2 percent of the assessment area family population.

⁶ The FDIC makes information regarding deposit market share available on its website, updated as of June 30 of each year.

⁷ Census tracts are classified by income level. See the glossary in Appendix B for the definitions of the low-, moderate-, middle-, and upper-income categories.

The following table displays the distribution of the Jonesboro assessment area families by income level, compared to the state of Arkansas and the Jonesboro MSA.

Assessment Area Family Population by Income Level						
2000 Census Data	Low-	Moderate-	Middle-	Upper-	Unknown	TOTAL
Assessment Area	3,975 18.9%	3,498 16.6%	4,502 21.4%	9,073 43.1%	0 0.0%	21,048 100%
State of Arkansas	148,233 20.1%	131,570 17.9%	163,567 22.2%	292,693 39.8%	0 0.0%	736,063 100%
Jonesboro AR MSA 27860	6,292 21.3%	5,137 17.4%	6,408 21.7%	11,639 39.5%	0 0.0%	29,476 100%

As indicated in the prior table, there are no moderate-income census tracts in the Jonesboro assessment areas. However, as shown in the table above, families from all of the income categories are found in the assessment area. LMI families make up 35.5 percent of the assessment area’s family population. The Jonesboro assessment area has a slightly lower percentage of LMI families in comparison to the state of Arkansas and the Jonesboro MSA as a whole. LMI families comprise 38.0 percent of the state of Arkansas and 38.7 percent of the Jonesboro MSA.

Based on the 2000 census data, the median family income of the Jonesboro assessment area was \$41,110, compared to \$38,663 for the state of Arkansas and \$38,696 for the Jonesboro MSA. For 2008, the Department of Housing and Urban Development (HUD) estimates the median family income to be \$48,600 for Craighead County.

Residential housing in the assessment area is less affordable relative to the state of Arkansas and the Jonesboro MSA. The assessment area affordability ratio⁸ was 42.0 percent compared to 47.0 percent for the state of Arkansas and 46.0 percent for the Jonesboro MSA. The 2000 median gross rent was \$454 per month for the Jonesboro assessment area compared to \$453 for the state of Arkansas and \$435 per month for the Jonesboro MSA. The lower affordability ratio and higher median gross rent indicate that the assessment area is less affordable in terms of home purchases when comparing the median household income to the median housing value within the assessment area.

The major employment sectors in the assessment area include health care and social assistance (18.8 percent of all employees), manufacturing (18.1 percent), retail trade (17.6 percent), and accommodation and food service (9.4 percent).⁹ The 2007 annualized non-seasonally adjusted

⁸ This figure is calculated by dividing the median household income by the median housing value; it represents the amount of single family owner-occupied housing that a dollar of income can purchase for the median household in the geography. Values closer to 100 percent indicate greater affordability.

⁹ Source: U.S. Census Bureau: 2006 County Business Patterns

unemployment rate for Craighead County was 5.0 percent. For the Jonesboro MSA, the 2007 annualized non-seasonally adjusted unemployment rate was 5.5 percent, with the state of Arkansas rate at 5.4 percent.¹⁰

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

The borrower distribution performance criterion evaluates the bank’s loan originations to borrowers of different income levels and businesses of varying revenue sizes. Borrowers are classified into low-, moderate-, middle-, and upper-income categories by comparing their reported income to the most recent median family income figure as estimated by HUD. The 2008 HUD estimated median family income for Craighead County was \$48,600.

The following table shows the distribution of HMDA real estate loans in the assessment area by income level of the borrower in relation to the percentage of families in that income category in the assessment area.

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-	Unknown	
2007-2008 HMDA Real Estate	0	1	3	2	0	6
	0.0%	16.7%	50.0%	33.3%	0.0%	100%
	\$ -	\$ 29	\$ 111	\$ 48	\$ -	\$ 188
	0.0%	15.4%	59.0%	25.5%	0.0%	100%
Family Population	18.9%	16.6%	21.4%	43.1%	0.0%	100%

The preceding table indicates that the bank originated, by number, 16.7 percent of its HMDA residential real estate loans to LMI borrowers, with LMI borrowers comprising 35.5 percent of the family population in the assessment area. According to 2000 census data, the percentage of families in the Jonesboro assessment area living below the poverty level is 11.5 percent, which could affect their ability to purchase a house. In addition, the 2007 HMDA aggregate data indicates that, of the HMDA reporters within this assessment area, 17.2 percent of the loans were originated to LMI borrowers. Although originations are less than the percentage of LMI families, the bank’s percentage of LMI originations does approach the HMDA aggregate figure.¹¹ Therefore, the bank’s distribution of residential real estate loans within the Jonesboro assessment area is considered adequate.

¹⁰ Source: Bureau of Labor Statistics.

¹¹ HMDA aggregate data represents all lending activity collected and reported under HMDA for this assessment area, based upon all financial institutions required to report such data.

The following table shows the distribution of consumer motor vehicle loans by income level of the borrower compared to the household population percentages in that income category within the assessment area.

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-	Unknown	
2008 Motor Vehicle	2 13.3%	7 46.7%	4 26.7%	2 13.3%	0 0.0%	15 100%
	\$ 5 2.6%	\$ 46 24.0%	\$ 32 16.7%	\$ 109 56.8%	\$ - 0.0%	\$ 192 100%
Household Population	23.0%	15.4%	17.3%	44.4%	0.0%	100%

As shown in the table above, the bank originated a high level of consumer motor vehicle loans to LMI borrowers. The percentage of loans originated exceeds the LMI household population percentage within the assessment area. Of the loans sampled, 60.0 percent by number were extended to LMI borrowers, compared to an LMI household population of 38.4 percent. The bank's performance in lending to LMI borrowers exceeded the household population percentage of loans to LMI borrowers. Therefore, the distribution of the bank's motor vehicle loans to borrowers of different incomes within the Jonesboro assessment area is good.

A sample of business loans was reviewed to determine the bank's level of lending to small businesses.¹² The loans were analyzed by revenue size of the business and by the loan amount. The bank's performance for small business lending was compared to Dun & Bradstreet statistics.¹³ The following table illustrates the distribution of business loans by revenue and loan origination amount.

¹² Under the CRA, a small business is considered to be one in which the gross annual revenues for the preceding calendar year are \$1 million or less.

¹³ These statistics are derived from business geodemographic data for the assessment area for the year 2008.

Lending Distribution by Business Revenue Level				
Gross Revenue	Loan Origination Amount (in \$000s)			TOTAL
	≤\$100	>\$100≤\$250	>\$250≤\$1,000	
\$1 Million or Less	8 100%	0 0.0%	0 0.0%	8 100%
Greater Than \$1 Million	0 0.0%	0 0.0%	0 0.0%	0 0.0%
TOTAL	8 100%	0 0.0%	0 0.0%	8 100%

The analysis of the bank’s business loans revealed that 100 percent of the loans originated were made to businesses with gross revenues of \$1 million or less. In comparison, business demographic data from Dun & Bradstreet for the year 2008 indicate that 88.5 percent of businesses are small businesses. The 2007 CRA aggregate lending data indicates that 36.7 percent of the business loans by all lenders in the Jonesboro assessment area were made to small businesses.¹⁴ In addition, the bank’s willingness to lend to small businesses is further demonstrated in that 100 percent of the loans originated were in amounts of less than \$100,000. Therefore, the bank’s distribution of loans within the Jonesboro assessment area to businesses of various revenue sizes is considered strong.

Overall, for all three loan products analyzed, the borrower distribution of the bank’s loans reflect good penetration among individuals of different income levels, including LMI individuals, and businesses of different revenue sizes. The Jonesboro assessment area lending meets the standard for satisfactory performance under this criterion.

Geographic Distribution of Loans

The geographic distribution of loans in the Jonesboro assessment area is also considered in evaluating lending performance. As noted earlier, the Jonesboro assessment area contains one low-income, nine middle-income, and two upper-income census tracts. Loans are evaluated under this criterion based upon the distribution among census tracts by income category, compared to applicable demographic information. The following table displays the geographic distribution of the bank’s HMDA real estate lending, in comparison to owner-occupied housing statistics for the assessment area.

¹⁴ CRA aggregate data represents all lending activity collected and reported under the CRA for the assessment area, based on all financial institutions required to report such data.

Distribution of Loans (Number and Dollar Volume in \$000s) Inside Assessment Area by Income Level of Geography						
Loan Type	Geography Income Classification					TOTAL
	Low-	Moderate-	Middle-	Upper-	Unknown	
2007-2008 HMDA Real Estate	0 0.0%	0 0.0%	6 100%	0 0.0%	0 0.0%	6 100%
	\$ - 0.0%	\$ - 0.0%	\$ 188 100%	\$ - 0.0%	\$ - 0.0%	\$ 188 100%
Owner-Occupied Housing	1.1%	0.0%	74.0%	24.9%	0.0%	100%

As illustrated in the table above, 100 percent of the residential real estate loans within the Jonesboro assessment area were originated within the middle-income census tracts, with no loans originated in the assessment area's one low-income census tract. The Jonesboro assessment area affordability ratio at 42.0 percent is lower than both the state of Arkansas (47 percent) and the entire Jonesboro MSA (46 percent). Only 7.2 percent of the population within the Jonesboro assessment area resides in the one low-income census tract, which contains 75.8 percent rental units and 14.3 percent vacant units. In addition, because the Arkansas State University is located within the low-income census tract, an overwhelming majority of residential property is used for dormitories and university-owned housing. Given these circumstances, there is limited opportunity for the bank to originate real estate loans in the one low-income census tract. Although low in the single low-income census tract in the Jonesboro assessment area, the geographic distribution of HMDA lending is nevertheless commensurate with the percent of housing within that census tract.

The geographic distribution of loans secured by motor vehicles is displayed in the following table.

Distribution of Loans (Number and Dollar Volume in \$000s) Inside Assessment Area by Income Level of Geography						
Loan Type	Geography Income Classification					TOTAL
	Low-	Moderate-	Middle-	Upper-	Unknown	
2008 Motor Vehicle	1	0	14	0	0	15
	6.7%	0.0%	93.3%	0.0%	0.0%	100%
	\$ 3	\$ -	\$ 188	\$ -		\$ 191
	1.6%	0.0%	98.4%	0.0%	0.0%	100%
Household Population	6.1%	0.0%	73.1%	20.8%	0.0%	100%

The bank originated 6.7 percent of its motor vehicle secured loans in the low-income census tract, which represents 1.6 percent by dollar volume. In comparison, 6.1 percent of the households in the Jonesboro assessment area reside in the low-income census tracts. The bank does not have a physical presence in the low-income census tract but does have two offices in the middle-income census tracts. The bank’s level of motor vehicle lending within the Jonesboro assessment area for LMI geographies is limited.

The geographic distribution of small business loans is displayed in the following table.

Distribution of Loans (Number and Dollar Volume in \$000s) Inside Assessment Area by Income Level of Geography						
Loan Type	Geography Income Classification					TOTAL
	Low-	Moderate-	Middle-	Upper-	Unknown	
2007-2008 Small Business	0	0	4	4	0	8
	0.0%	0.0%	50.0%	50.0%	0.0%	100%
	\$ -	\$ -	\$ 28	\$ 43	\$ -	\$ 71
	0.0%	0.0%	39.4%	60.6%	0.0%	100%
Business Institutions	2.8%	0.0%	72.4%	24.8%	0.0%	100%

As indicated in the table above, small business lending in the one low-income census tract was less than the percentage of businesses located within the census tract. According to Dun & Bradstreet data, 2.8 percent of the reporting small businesses are located in the low-income census tract. The CRA aggregate lending for the Jonesboro assessment area indicates that 1.5 percent of all business loans were made to small businesses in LMI census tracts. Both of the bank’s offices in the Jonesboro assessment area are in middle-income census tracts, and the bank does not have an immediate presence within the low-income census tract. Although penetration

of small business loans in the low-income census tract does not compare favorably to the distribution of businesses, the level is considered adequate based on the location of the bank's branches and the small percentage of small businesses located within the low-income census tract.

NONMETROPOLITAN STATISTICAL AREA

DESCRIPTION AND CONCLUSIONS: PARAGOULD ASSESSMENT AREA

The Paragould assessment area is a part of non-MSA Arkansas. It is comprised of all eight census tracts in Greene County, Arkansas, and one of 13 census tracts in Mississippi County, Arkansas. Based on 2000 census data, the total population of the Paragould assessment area was 44,164. Greene County accounts for 84.5 percent of the total population, with Mississippi County accounting for the remaining 15.5 percent.

According to the FDIC market share data as of June 30, 2008, the bank is one of nine financial institutions in Greene County, ranking 12th in total deposits (.2 percent). In Mississippi County, the bank is one of seven financial institutions, with the bank ranked 7th in total deposits (.7 percent).

The following table reflects the number of census tracts within the assessment area by each income category and the corresponding family populations within those census tracts.

Assessment Area Geographical Information by Income Category						
2000 Census Data	Low-	Moderate-	Middle-	Upper-	Unknown	TOTAL
Assessment Area Census Tracts	0 0.0%	0 0.0%	7 77.8%	2 22.2%	0 0.0%	9 100%
Family Population	0 0.0%	0 0.0%	8,702 69.2%	3,865 30.8%	0 0.0%	12,567 100%

As shown in the table above, the Paragould assessment area contains seven middle-income and two upper-income census tracts. There are no low- or moderate-income census tracts within this assessment area. There is one branch office in a middle-income census tract in Mississippi County, plus the main office is in an upper-income census tract in Greene County. The largest portion of the assessment area family population resides in middle-income census tracts, which accounts for 69.2 percent of the total family population.

The following table displays the distribution of assessment area families by income level compared to the state of Arkansas and non-MSA Arkansas.

Assessment Area Family Population by Income Level						
2000 Census Data	Low-	Moderate-	Middle-	Upper-	Unknown	TOTAL
Assessment Area	2,047 16.3%	2,274 18.1%	2,870 22.8%	5,376 42.8%	0 0.0%	12,567 100%
State of Arkansas	148,233 20.1%	131,570 17.9%	163,567 22.2%	292,693 39.8%	0 0.0%	736,063 100%
Non - MSA Arkansas	66,236 20.4%	58,047 17.9%	70,642 21.8%	129,307 39.9%	0 0.0%	324,232 100%

Although the Paragould’s assessment area contains only middle- and upper-income census tracts, LMI families comprise 34.4 percent of the assessment area family population. The assessment area has a slightly lower percentage of LMI families in comparison to the state of Arkansas (38.0 percent) and non-MSA Arkansas (38.3 percent).

Based on the 2000 census data, the median family income for the Paragould assessment area was \$36,455, compared to \$38,663 for the state of Arkansas and \$34,263 for non-MSA Arkansas. For 2008, HUD estimates the median family income to be \$42,000 for Greene County and Mississippi County.

The Paragould assessment area affordability ratio was 49.0 percent compared to 47.0 percent for the state of Arkansas and 50.0 percent for non-MSA Arkansas. The 2000 median gross rent for this assessment area was \$419 per month compared to \$453 for the state of Arkansas and \$389 per month for non-MSA Arkansas. The higher affordability ratio and median gross rent when compared to the state of Arkansas is an indication that housing in the Paragould assessment area is more affordable, but less affordable when compared to non-MSA Arkansas. The 2000 median housing value for the Paragould assessment area was \$59,000, with the medium value in the state of Arkansas at \$67,400 and \$55,810 in non-MSA Arkansas.

The major employment sectors in the assessment area include manufacturing (40.4 percent of all employees), retail trade (13.9 percent), health care and social assistance (13.6 percent), and accommodation and food service (8.5 percent). The 2007 annualized non-seasonally adjusted unemployment rate for the counties in the Paragould assessment area is 6.5 percent for Greene County and 7.5 percent for Mississippi County.¹⁵ The annual unemployment rates for both counties within the bank’s assessment area were both higher than the state of Arkansas unemployment rate of 5.4 percent.

The community contacts in the Paragould assessment area (one a real estate company owner and the other associated with a housing authority) indicated that the economic conditions of the area

¹⁵ Source: Bureau of Labor Statistics.

have worsened recently. The weakened economy was commensurate with the downturn seen in the economy nationwide and not specific to any issue in the assessment area. .

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

The following table shows the distribution of HMDA real estate loans in the Paragould assessment area by income level of the borrower in relation to the percentage of families in that income category in the assessment area.

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-	Unknown	
2007-2008 HMDA Real Estate	4	6	13	17	0	40
	10.0%	15.0%	32.5%	42.5%	0.0%	100%
	\$ 137	\$ 304	\$ 719	\$ 772	\$ -	\$ 1,932
	7.1%	15.7%	37.2%	40.0%	0.0%	100%
Family Population	16.3%	18.1%	22.8%	42.8%	0.0%	100%

The analysis revealed that the distribution of residential real estate loans within the Paragould assessment area to borrowers of different income levels is adequate. The bank extended 25.0 percent of its residential real estate loans to borrowers classified as LMI, with LMI borrowers comprising 34.4 percent of the family population in the assessment area. The bank’s performance in HMDA lending to LMI borrowers, although less than family population levels, exceeded the 2007 HMDA aggregate lending of 21.3 percent by all lenders in the assessment area.

The following table shows the distribution of consumer motor vehicle loans by income level of the borrower compared to the household population percentages in that income category within the Paragould assessment area.

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-	Unknown	
2008 Motor Vehicle	12 22.6%	12 22.6%	12 22.6%	17 32.1%	0 0.0%	53 100%
	\$ 49 14.7%	\$ 62 18.6%	\$ 64 19.2%	\$ 159 47.6%	\$ - 0.0%	\$ 334 100%
Household Population	21.5%	15.2%	18.6%	44.7%	0.0%	100%

The analysis revealed that the distribution of the bank’s motor vehicle loans to borrowers of different income levels within the Paragould assessment area is good. The bank extended 45.2 percent by number of motor vehicle loans originated to LMI borrowers, which exceeds the LMI household population of 36.7 percent. The bank achieved this level of lending even though 15.4 percent of households live below the poverty level.

The bank’s performance in the Paragould assessment areas for small business lending was compared to Dun & Bradstreet statistics. The following table illustrates the distribution of business loans by revenue and loan origination amount.

Lending Distribution by Business Revenue Level				
Gross Revenue	Loan Origination Amount (in \$000s)			TOTAL
	≤\$100	>\$100≤\$250	>\$250≤\$1,000	
\$1 Million or Less	60 98.4%	1 1.6%	0 0.0%	61 100%
Greater Than \$1 Million	0 0.0%	0 0.0%	0 0.0%	0 0.0%
TOTAL	60 98.4%	1 1.6%	0 0.0%	61 100%

The analysis of business loans revealed that 100 percent of the loans originated were made to businesses with gross revenues of \$1 million or less. Data from Dun & Bradstreet indicate that 91.3 percent of the reporting businesses inside the assessment area are small businesses. The 2007 CRA aggregate lending data indicate that 39.4 percent of the business loans by all lenders in this assessment area were made to small businesses. Further, the analysis of small business data revealed that the bank originated 98.4 percent of the loans in amounts of less than \$100,000. Therefore, the bank’s willingness and level of lending to small businesses are considered strong.

For all three loan products analyzed in the Paragould assessment area, the borrower distribution of the bank's loans reflect good penetration among individuals of different income levels, including LMI individuals, and businesses of different revenue sizes. The assessment area lending meets the standard for satisfactory performance under this criterion.

Geographic Distribution of Loans

The analysis of the geographic distribution of loans evaluates the bank's distribution of loans among census tracts within the Paragould assessment area by income level. The CRA places specific emphasis on the bank's performance in LMI census tracts. However, as previously noted, the Paragould assessment area does not include any LMI census tracts and is comprised of middle- and upper-income census tracts only. Therefore, a detailed analysis of the distribution of the bank's lending within the non-MSA Arkansas assessment area by geographic income level is not as meaningful for evaluating the bank's performance under this criterion. Nevertheless, the dispersion of loan products sampled within the seven middle-income and two upper-income census tracts that comprise the assessment area was reviewed. The analysis indicated that loans were adequately dispersed and consistent with the population in these areas and the location of the branches.

Appendix A

Listing of Census Tracts in CRA Assessment Area				
County	Census Tract Number	Census Tract Income Category	MSA	Contains Bank Office
Craighead	0006.02	Low	27860	No
Craighead	0001.00	Middle	27860	Yes
Craighead	0002.00	Middle	27860	No
Craighead	0003.00	Middle	27860	No
Craighead	0004.00	Middle	27860	No
Craighead	0006.01	Middle	27860	No
Craighead	0007.00	Middle	27860	No
Craighead	0009.00	Middle	27860	No
Craighead	0010.00	Middle	27860	No
Craighead	0011.00	Middle	27860	Yes
Greene	9801.00	Middle	N/A	No
Greene	9802.00	Middle	N/A	No
Greene	9803.00	Middle	N/A	No
Greene	9805.00	Middle	N/A	No
Greene	9806.00	Middle	N/A	No
Greene	9807.00	Middle	N/A	No
Mississippi	0108.00	Middle	N/A	Yes
Craighead	0005.00	Upper	27860	No
Craighead	0008.00	Upper	27860	No
Greene	9804.00	Upper	N/A	Yes
Greene	9808.00	Upper	N/A	No

Appendix B

GLOSSARY

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

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

Community development: All Agencies have adopted the following language. Affordable housing (including multifamily rental housing) for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs (13 CFR 121.301) or have gross annual revenues of \$1 million or less; or, activities that revitalize or stabilize low- or moderate-income geographies.

Effective September 1, 2005, the Board of Governors of the Federal Reserve System, Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation have adopted the following additional language as part of the revitalize or stabilize definition of community development. Activities that revitalize or stabilize-

- (i) Low-or moderate-income geographies;
- (ii) Designated disaster areas; or
- (ii) Distressed or underserved non-metropolitan middle-income geographies designated by the Board, Federal Deposit Insurance Corporation, and Office of the Comptroller of the Currency, based on-
 - a. Rates of poverty, unemployment, and population loss; or
 - b. Population size, density, and dispersion. Activities that revitalize and stabilize geographies designated based on population size, density, and dispersion if they help to meet essential community needs, including needs of low- and moderate-income individuals.

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

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

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

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

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

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

Household: Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

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

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

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

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

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

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

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

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

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

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

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

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

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

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