

PUBLIC DISCLOSURE

June 29, 1998

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Bank of Yellville

RSSD# 852142

**P.O. Box 325
Yellville, Arkansas 72687**

Federal Reserve Bank of St. Louis

P.O. Box 442

St. Louis, Missouri 63166-0442

NOTE: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the Federal Reserve concerning the safety and soundness of this financial institution.

GENERAL INFORMATION

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

*This document is an evaluation of the Community Reinvestment Act (CRA) performance of the Bank of Yellville, prepared by the **Federal Reserve System**, the institution's supervisory agency, as of June 29, 1998. 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 outstanding.

The Bank of Yellville meets the criteria for an outstanding rating. An institution in this category has an exemplary performance record and is a leader in activities undertaken to help meet the credit needs of its entire assessment area, particularly in low- and moderate-income (LMI) neighborhoods and to LMI borrowers, in a manner consistent with institutional capacity and constraints, assessment area credit needs and opportunities, relevant demographic and economic factors and safe and sound banking practices.

DESCRIPTION OF INSTITUTION:

The Bank of Yellville is a wholly-owned subsidiary of Mountain Bancshares Inc., a one-bank holding company headquartered in Yellville, Arkansas. The main branch is located in Yellville, Arkansas, the county seat of Marion County. All five of its branches, including the main office, are located in Arkansas and reside outside of a metropolitan statistical area (MSA). Since the previous examination by the Federal Deposit Insurance Corporation in November 1995, the bank has opened two branches, one in Lead Hill, and one in Mountain Home. These branches supplement the Bull Shoals, Flippin, and Yellville branches.

As of March 31, 1998, the bank reported total assets of \$103 million. The Bank of Yellville is a commercial and retail institution whose primary loan products include small business loans, residential real estate loans, and consumer loans secured by motor vehicles.

DESCRIPTION OF ASSESSMENT AREA:

The bank's assessment area, situated in north central Arkansas, consists of eleven block numbering areas (BNAs) located in Boone, Baxter and Marion Counties. Geographically, the assessment area consists of all of Marion County, most of Baxter County, and a quarter of Boone County¹. None of the BNAs are in a MSA. According to 1990 census data, the assessment area population is 40,850. The assessment area contains a number of small towns with populations of 1500 or less. The largest town in the assessment area, Mountain Home, has a population of less than 10,000. Much of the population lives in unincorporated areas outside of established city limits. Of the assessment area population, 27.5 percent are age 65 or older, and 27.15 percent claim all or part of their income as "retirement." The following table shows the distribution of the BNAs by income level within the bank's assessment area.

¹ The 1990 population of Boone County was 28,297. The population of the portion of Boone County in the bank's assessment area was 4,274. Thus, although the area physically contains 25 percent of Boone County, it contains only 15 percent of the population.

Assessment Area Number of BNAs by Income Level ²					
BNA Location	Low-	Moderate-	Middle-	Upper-	TOTAL
Marion County	0	0	9601.00 9602.00 9603.00	0	3
Boone County	0	0	9902.00	0	1
Baxter County	0	0	9501.00 9502.00 9503.00 9504.00 9507.00 9508.00 9509.00	0	7
TOTAL	0	0	11	0	11
	0.0%	0.0%	100.0%	0.0%	100.0%

Based on 1990 census data, the median family income level for the assessment area was \$21,558 compared to \$25,395 for the state of Arkansas and \$22,208 for the state non-metropolitan area. This median family income figure was used to determine the income level of the BNA. Although the bank's assessment area contains no LMI geographies, LMI families are present throughout the area. The table on the following page depicts the income characteristics of the population of the assessment area and the state non-metropolitan area per the 1990 census.

²Low-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 statewide non-metropolitan 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 statewide non-metropolitan 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 statewide non-metropolitan 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 statewide non-metropolitan median family income.

Income Characteristics of Assessment Area Population³				
Income Level	Low-	Moderate-	Middle-	Upper-
Assessment Area	16.9%	21.7%	24.6%	36.8%
Non-Metropolitan Arkansas	21.2%	17.5%	21.0%	40.3%

Economic activity in the assessment area is concentrated in the areas of tourism and small business. There are only a few employers with workforces greater than 250 employees. Job growth in the last decade has been mostly driven by the expansion of tourism and other service related industries, such as health care. The number of manufacturing jobs has decreased both in number and as a percentage of the labor force. Population growth is attributable partially to a large number of retirees relocating to the area to take advantage of the low cost of living, natural beauty and outdoor recreational opportunities.

The unemployment rates for the assessment area were reported as 4.9 percent for Marion County, 5.7 percent for Baxter County, and 8.8 percent for Boone County⁴. However, because the assessment area has only one BNA in Boone County (see footnote one), the unemployment rate for the assessment area as a whole is closer to the rates of Marion and Baxter counties.

One community contact was conducted in conjunction with the CRA assessment of the bank. In addition, community contacts obtained from a recent CRA examination of a nearby bank were used for this examination.

According to community contacts, the local economy is strong, with the current unemployment rate estimated at two percent. Local financial institutions provide adequate capital and resources to encourage industrial expansion. A combination of high employment levels and low wages have created an unmet need for additional low-income housing. If more low-cost housing were available, the number of low wage employees available for business expansion would increase. Prior contacts also indicated a need for low-income housing and public transportation to serve the rural areas of the region.

Several banks operate in the assessment area. Three were chosen and considered as the bank's primary competition due to location, asset size, and products offered. The asset sizes of the competing institutions are \$214 million, \$222 million, and \$507 million.

CONCLUSIONS WITH RESPECT TO THE PERFORMANCE TESTS:

³ Population income levels were determined using the 1990 census median family income.

⁴ All unemployment figures are as of March 1998, and are not seasonally adjusted.

The bank's performance was evaluated using the CRA small bank performance standards. Loan information was taken from statistical samples of motor vehicle, residential real estate⁵, and commercial loans⁶. Loan samples were taken from the bank's most recent six-month lending activity. The performance standards evaluate:

- The bank's lending to borrowers of different income levels and businesses of different sizes;
- Overall level of lending within the assessment area;
- Geographic distribution of loans;
- The bank's average loan-to-deposit ratio; and
- Any written complaints received since the last examination.

An analysis of the bank's performance with respect to these standards is discussed in the following sections. In addition, a review of the bank's qualified investments and services, used to enhance the bank's overall rating, also follows.

⁵ The sample was drawn from loans secured by residential real estate, which included the following categories: home purchase, home improvement, home refinance and home equity.

⁶ Commercial loans include business loans that are either secured by real property, secured by other collateral or unsecured.

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

The distribution of loans originated by the bank shows an excellent penetration among borrowers of different income levels⁷. The following table illustrates the penetration of motor vehicle and residential real estate loans among borrowers of different income levels.

Distribution of Loans (Number and Dollar Volume) Inside Assessment Area by Income Level of Borrower \$(000's)						
Loan Type	Borrower Income Classification					Totals
	Low-	Moderate-	LMI Combined⁸	Middle-	Upper-	
Residential Real Estate	13	22	35	21	31	87
	14.9%	25.3%	40.23%	24.2%	35.6%	100%
	\$345	\$676	\$1,021	\$748	\$1,830	\$3,599
Motor Vehicle	9.6%	18.8%	28.4%	20.8%	50.8%	100%
	22	21	43	27	19	89
	24.7%	23.6%	48.3%	30.3%	21.4%	100%
Total	\$75	\$119	\$194	\$261	\$235	\$690
	10.9%	17.2%	28.1%	37.8%	34.1%	100%
	35	43	78	48	50	176
Assessment Area Population	19.9%	24.4%	44.3%	27.3%	28.4%	100%
	\$420	\$795	\$1,215	\$1,009	\$2,065	\$4,289
	9.8%	18.5%	28.3%	23.5%	48.2%	100%
Assessment Area Population	16.9%	21.7%	38.6%	24.6%	36.8%	100%

The bank's real estate and motor vehicle lending to LMI borrowers is strong. The previous table demonstrates that the bank extended 44.3 percent of its residential real estate and motor vehicle loans to LMI borrowers, who account for 38.6 percent of the families in the assessment area. The bank extends 40.23 percent of its real estate lending to LMI borrowers, which is exceptional by itself. The motor vehicle lending demonstrates an even stronger commitment to needs of LMI individuals.

⁷ The borrowers' income levels were categorized using the income definitions in footnote two and 1997 non-metropolitan median income of \$29,500, as provided by the Department of Housing and Urban Development.

⁸ This column is the combination of LMI figures, and is not included in the "Total" column.

The following table illustrates the level of lending to businesses of different sizes.

Distribution of Small Business Loans				
Gross Revenue	Loan Origination Amount \$(000's)			Total Loans
	<\$100	>\$100≤\$250	>\$250≤\$1,000	
Less than \$1 million	25	4	0	29
	69.4%	11.1%	0.0%	80.6%
\$1 million or more	6	1	0	7
	16.7%	2.8%	0.0%	19.4%
Total Loans	31	5	0	36
	86.1%	13.9%	0.0%	100%

The above table demonstrates a significant volume of loans made to small businesses, which are business entities having gross annual revenues of less than \$1 million. The bank originated 80.6 percent of its commercial loans sampled to small businesses. Furthermore, of those loans, 86.1 percent were for loan amounts of \$100,000 or less. This figure indicates a willingness to meet small business needs.

The bank has excellent penetration among individuals of different income levels, especially LMI levels. It also shows an excellent penetration of loans made to businesses of different sizes.

Lending in the Assessment Area

A review of the sample of loans originated by the bank revealed a substantial majority of the loans to borrowers within the assessment area. The following table identifies, by loan type, the number, dollar volume and percentage of loans originated inside the assessment area.

Distribution of Loans In/Out of the Assessment Area \$(000's)					
Loan Type	Sample Size	Inside Assessment Area		Outside Assessment Area	
		Number	Dollar	Number	Dollar
Residential Real Estate	100	90 90.0%	\$3,736 88.0%	10 10.0%	\$508 12.0%
Commercial	41	38 92.7%	\$1,743 91.1%	3 7.3%	\$171 8.9%
Motor Vehicle	141	128 90.8%	\$907 84.1%	13 9.2%	\$171 15.9%
Total	282	256 90.8%	\$6,386 88.3%	26 9.2%	\$850 11.7%

Overall, 256 of the 282 loans sampled, or 90.8 percent, were located within the assessment area. By dollar volume, 88.3 percent were located within the assessment area. All categories of loans sampled showed a very high percentage of loans made within the assessment area.

Geographic Distribution

As shown in the table on page three, all of the bank's assessment area BNAs are designated as middle-income. Therefore, an analysis of the bank's lending by census tract would not be meaningful.

Loan-to-Deposit Ratio

The bank's loan-to-deposit ratio exceeds the standard for satisfactory performance considering its capacity to lend, the capacity of other similarly-situated banks to lend in the assessment area, demographic and economic factors present in the assessment area, and lending opportunities available in the bank's assessment area. For the previous ten quarters, the bank's average loan-to-deposit ratio was 79.0 percent. In comparison, the average loan-to-deposit ratio for three local competitors for the same time period range from 54.2 percent to 90.5 percent.

	Asset Size⁹	Average LTD¹⁰
Bank of Yellville	\$103	79.0%
Local Competitors	\$214	54.2%
	\$222	60.9%
	\$507	90.5%

The Bank of Yellville's loan-to-deposit ratio has exhibited a sustained upward trend since the last exam: from 70.6 percent for the quarter ending December 31, 1995 to 86.3 percent for the quarter ending March 31, 1998. As a result, the bank's loan-to-deposit ratio is considered exceptional given its performance context.

⁹ The bank's total assets (in millions) as of December 31, 1997, Consolidated Report of Condition and Income.

¹⁰ This figure represents a 10 quarter average dating from the CRA evaluation of the Bank of Yellville in November 1995.

Review of Complaints

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

Qualified Investments and Retail Banking Services

Qualified Investments

To qualify for consideration under the CRA, an investment must have as its primary purpose community development. In this context, “community development” must do one of the following:

- target LMI individuals;
- prompt economic development of small businesses or farms; or,
- revitalize or stabilize LMI geographies.

The only investment submitted by the Bank of Yellville for consideration is a modest donation to the Marion County Nursing Home towards the purchase of a van for the resident’s use. Because a substantial majority of the residents of the facility are LMI, the donation is considered a qualified investment.

Retail Banking Services

The bank has five branches, spaced over the large geographical area of its assessment area. In response to a grassroots request, the bank participated in a feasibility study of opening a branch in the Diamond City/Lead Hill region. Two banks had abandoned the area, leaving no banking services conveniently available to residents. Opening the branch to serve Diamond City/Lead Hill greatly enhances credit availability in that portion of the assessment area. This fact was favorably noted by the community contact. To a lesser extent, the opening of the branch in Mountain Home also enhances the availability of credit in the assessment area. Additionally, the bank has an ATM at each location, a comprehensive web page and the ability to initiate a loan request via e-mail. These additional branches and electronic access enhance the services available to the largely rural assessment area. Given the resources and opportunities available to the bank, its performance in providing retail-banking services supports the outstanding rating.

Additional Information

Finally, 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.