



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks  
Washington, DC 20219

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## **PUBLIC DISCLOSURE**

**January 24, 2005**

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**The First National Bank of Hope  
Charter Number 12533**

**200 East Third Street  
Hope, AR 71801**

**Comptroller of the Currency  
Little Rock (Memphis)  
10201 West Markham, Suite 105 Ozark National Life Building  
Little Rock, AR 72205**

**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.**

## INSTITUTION'S CRA RATING

 **is institution is rated Satisfactory.**

- The average loan-to-deposit ratio at 71% is reasonable given the bank's size, financial condition, and assessment area credit needs.
- A substantial majority of loans are in the bank's assessment area.
- The distribution of loans reflects reasonable penetration among individuals of different income levels and businesses of different sizes.
- The geographic distribution of loans reflects reasonable dispersion throughout the assessment area.

## DESCRIPTION OF INSTITUTION

First National Bank of Hope (FNBH) is located in Hope (Hempstead County), Arkansas. Hope has a population of 10,616 according to the 2000 census, and Hempstead County has a population of 23,587 according to the 2000 census.

FNBH has a main office and three branches located in Hope. The bank has not opened or closed a branch since the previous CRA evaluation. The main office and all of the branches have drive-up facilities. All the banking locations, except the main office, have automated teller machines (ATM). Lending services are available only at the main office. As of September 30, 2004, the bank reported total assets of \$131 million with \$75 million in total loans (57% of total assets).

The bank's primary business focus is residential home loans, commercial real estate loans, agriculture (cattle and poultry), and agricultural real estate loans. The loan portfolio composition as of September 30, 2004, is as follows:

<b>Loan Category</b>	<b>\$ (000)</b>	<b>%</b>
1-4 Family Residential	\$33,409	44%
Commercial and Commercial Real Estate	\$20,231	27%
Agriculture	\$14,839	20%
Consumer	\$6,963	9%
<b>Total</b>	<b>\$75,442</b>	<b>100%</b>

Source: 9-30-2004 Call Report

FNBH offers convenient banking hours and a variety of loan and deposit products to meet the needs of the assessment area. There are no financial impediments that would limit the bank's ability to help meet the credit needs in its assessment area.

The bank is 100% owned by First National Bancshares of Hempstead County, Inc, a multi-bank holding company headquartered in Hope, Arkansas. As of September 30,2004, First National Bancshares of Hempstead County, Inc, had total assets of \$181 million. The bank's last CRA examination was performed by the OCC as of October 12, 1999 and was rated **Satisfactory**.

## **DESCRIPTION OF HEMPSTEAD COUNTY, ARKANSAS**

FNBH assessment area (AA) is Hempstead County. The AA meets the requirements of the regulation and does not arbitrarily exclude low- and moderate-income geographies. There are five block-numbering areas (BNA) in Hempstead County. The Median Family Income (MFI) for non-Metropolitan Statistical Areas (MSA) in Arkansas was \$33,467 in 2000. This income figure is used to determine the income level of individual BNAs. According to the 2000 census, there are 0 low-income BNAs, one moderate-income BNAs, four middle-income BNAs, and 0 upper-income BNAs in the AA. The 2004 Housing and Urban Development (HUD) estimated MFI for Hempstead County is \$40,000. HUD estimated MFI is updated annually and is used to determine the income level of individual applicants.

The economy of the AA is considered to be stable, despite a decline in the number of employees at the major employers. Since the 2000 census, a majority of the employee decline is a result of the weakening in the national economy. The leading employment industries are chicken production, light manufacturing, timber operations, and cattle. Major employers include: Tyson Foods Inc., (poultry processing, 700 employees), Meyers Bakery (food products, 400 employees), SMI Joist (steel joists, 400 employees), Champion Parts Inc., (auto parts, 350 employees), and Klipsch, Inc., (stereo speakers, 125 employees). According to 2003 Business Demographic Data, there were 780 businesses in the AA. Of those, 726 or 93% were businesses with annual gross revenues of less than \$1 million.

Unemployment as of November 2004 was 5.1% for Hempstead County. The unemployment rate for Hempstead County is below the Arkansas average of 5.6% and the U.S. average of 5.4% as of November 2004.

The following table shows the demographic and economic characteristics of the AA.

<b>DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA</b>	
<i>Population</i>	
Number of Families	6,401
Number of Households	8,963
<i>Geographies</i>	
Number of Census Tracts/BNA	5
% Low-Income Census Tracts/BNA	0%
% Moderate-Income Census Tracts/BNA	20%
% Middle-Income Census Tracts/BNA	80%
% Upper-Income Census Tracts/BNA	0%
<i>Median Family Income (MFI)</i>	
2000 MFI for AA	\$33,467
2004 HUD-Adjusted MFI	\$40,000
<i>Economic Indicators</i>	
Unemployment Rate November 2004	5.1%
1973 Median Housing Value	\$49,451
% of Households Below Poverty Level	20%

Source: 2000 Census; HUD; and U.S. Labor Department

A community contact with the director of the Hope/Hempstead County Chamber of Commerce was conducted in conjunction with this CRA examination. This contact revealed that local banks are meeting the primary credit needs in the area.

## **CONCLUSIONS ABOUT PERFORMANCE CRITERIA**

### **Loan-to-Deposit Ratio**

FNBH's loan-to-deposit ratio is reasonable given the bank's size, financial condition, and AA credit needs. There is no other bank that is similarly situated in the AA. The only other bank that is headquartered in Hempstead County is the Bank of Blevins, Blevins, AR, which is located 15 miles north of Hope. The Bank of Blevins is affiliated with FNBH through the holding company, has only the main office, and is eight times smaller than FNBH with total assets of \$17 million as of September 30, 2004. Diamond State Bank, which is headquartered in Murfreesboro (40 miles north of Hope) in adjacent Pike County and has a branch in Hope, is somewhat comparable in term of size and branch locations.

The following table shows total assets as of September 30, 2004, and the quarterly average loan-to-deposit ratio from December 31, 1999 through September 30, 2004, (20 quarters) for these two banks.

<b>Institution</b>	<b>Assets (as of 9/30/2004)</b>	<b>Average LTD Ratio</b>
FNB, Hope, AR	\$131 million	71%
Diamond State Bank, Murfreesboro, AR	\$194 million	70%

Sources: Call Reports

### **Lending in Assessment Area**

A substantial majority of FNBH's loans, particularly by dollar volume, are in the bank's AA. A sample of 40 residential real estate loans, 37 consumer loans, and 40 commercial loans made during 2004 was reviewed to determine lending within the AA. Lending within the AA is detailed in the following table.

<b>TOTAL LOANS REVIEWED</b>								
	<b>IN ASSESSMENT AREA</b>				<b>OUT OF ASSESSMENT AREA</b>			
<b>LOAN TYPE</b>	<b>#</b>	<b>%</b>	<b>\$ (000s)</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>\$ (000s)</b>	<b>%</b>
Real Estate	34	85%	\$1,654	91%	6	15%	\$165	9%
Consumer	29	78%	\$160	74%	8	22%	\$56	26%
Commercial	36	90%	\$4,580	97%	4	10%	\$149	3%
Total Reviewed	99	85%	\$6,394	95%	18	15%	370	5%

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

The distribution of borrowers reflects, given the demographics of the AA, reasonable penetration among individuals of different income levels (including low-and moderate-income), and businesses of different sizes. The same sample of 40 residential real estate loans, 37 consumer loans and 40 business loans that were used to determine lending within the assessment area were also used to determine lending to borrowers of different incomes. The following tables show the distribution of residential real estate and consumer loans within the various income levels.

<b>RESIDENTIAL REAL ESTATE</b>								
<b>Borrower Income Level</b>	<b>LOW</b>		<b>MODERATE</b>		<b>MIDDLE</b>		<b>UPPER</b>	
<b>% of AA Families</b>	<b>23%</b>		<b>18%</b>		<b>20%</b>		<b>39%</b>	
<b>LOANS BY YEAR</b>	<b>% of Number</b>	<b>% of Amount</b>	<b>% of Number</b>	<b>% of Amount</b>	<b>% of Number</b>	<b>% of Amount</b>	<b>% of Number</b>	<b>% of Amount</b>
2004	10%	6%	6%	1%	16%	13%	68%	81%

The above tables show that most of the residential loans were made to upper-income borrowers. The above tables show that residential real estate loans to low-income and moderate-income borrowers are significantly below the percentage of low-income and moderate-income people in the AA.

CONSUMER								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
<b>% of AA Households</b>	<b>26%</b>		<b>14%</b>		<b>18%</b>		<b>42%</b>	
LOANS BY YEAR	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
2004	31%	25%	34%	20%	10%	5%	24%	50%

Consumer loans made to low-income and moderate-income borrowers were significantly above the percentage of low-income and moderate-income people in the AA. Consumer loans by number of loans and dollar amount of loans were above the percentage of low-income and moderate-income people in the AA.

The distribution of business and agriculture loans reflects reasonable penetration among businesses of different sizes. Loans to businesses with revenues under \$1 million dollar, by number of loans, are slightly below the percentage of businesses with revenues of under \$1 million in the AA. Loans to businesses with revenues under \$1 million dollar, by dollar volume of loans, are significantly below the percentage of businesses with revenues under \$1 million dollar in the AA. The following table shows lending to small businesses.

BORROWER DISTRIBUTION OF SMALL LOANS TO BUSINESSES		
Business Revenues	≤\$1,000,000	>\$1,000,000
<b>% of AA Businesses</b>	<b>93%</b>	<b>7%</b>
% of Bank Loans in AA #	86%	14%
% of Bank Loans in AA \$	43%	57%

### Geographic Distribution of Loans

The geographic distribution of loans reflects reasonable dispersion throughout the AA. The same sample of 40 residential real estate loans, 37 consumer loans and 40 business loans that were used to determine lending within the AA and lending to borrowers of different incomes were also used to determine lending to borrowers in different geographies.

RESIDENTIAL REAL ESTATE								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
<b>% of AA Owner Occupied</b>	<b>0%</b>		<b>14%</b>		<b>86%</b>		<b>0%</b>	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
2004	0%	0%	26%	22%	74%	78%	0%	0%

The above tables show that residential real estate loans to borrowers residing in the moderate-income tract are significantly above, both in number and dollar volume, the percentage of people residing in the moderate-income tract in the AA.

CONSUMER								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households	0%		18%		82%		0%	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
2004	0%	0%	7%	2%	93%	98%	0%	0%

The table above shows that consumer loans made to borrowers residing in the moderate-income tract are significantly lower, both in number and dollar volume, than the population of the moderate-income tract.

BUSINESS LOANS								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Businesses	0%		21%		79%		0%	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
2004	0%	0%	17%	26%	83%	74%	0%	0%

The above table shows that the bank is making loans in the moderate-income area. Business loans by number made to borrowers located in the moderate-income tract are slightly below the percentage of businesses that are located in the moderate-income tract. However, business loans by dollar volume made to borrowers located in the moderate-income tract are above the percentage of businesses that are located in the moderate-income tract.

### Responses to Complaints

First National Bank of Hope has not received a formal CRA complaint since the previous examination.

### Fair Lending or Other Illegal Credit Practices Review

An analysis of public comments and consumer complaint information was performed according to the OCC's risk based fair lending approach. Based on its analysis of the information, the OCC decided that a comprehensive fair lending examination would not need to be conducted in connection with the CRA evaluation this year. The latest comprehensive fair lending examination was performed in 1999.