



SMALL BANK

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

PUBLIC DISCLOSURE

September 30, 2004

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First National Bank of Phillips County
Charter Number 13520**

**425 E. Plaza Street
West Helena, AR 72390**

**Comptroller of the Currency
Little Rock Field Office
10201 West Markham, Suite 105 Ozark National Life Bld.
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.

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 operations of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institutions record of meeting the credit needs of its community.

*This document is an evaluation of the CRA performance of **First National Bank of Phillips County (FNBPC)** prepared by the **Office of the Comptroller of the Currency (OCC)**, the institution's supervisory agency, as of January 7, 2005. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.*

INSTITUTION'S CRA RATING:

This institution is rated "Outstanding".

- **The loan-to-deposit ratio is good when compared to its primary competition within the assessment area (AA).**
- **A substantial majority of loans are made within the AA.**
- **The bank has a good distribution of loans to borrowers of different income levels and businesses and farms or different sizes which are representative of the demographics of the AA.**
- **The geographic distribution of loans reflects a reasonable dispersion throughout the AA.**
- **Community Development services and investments benefit low and moderate individuals and geographies.**

DESCRIPTION OF INSTITUTION:

FNBPC is a Community Development Financial Institution (CDFI), a designation awarded by the United States Treasury Department to those organizations whose primary mission is to offer financial services in distressed communities and to effect and promote community development activities. FNBPC is a \$181 million institution located in West Helena, Arkansas, approximately 70 miles south of Memphis, Tennessee, and is a wholly owned subsidiary of Southern Development Bancorporation (Southern), a \$42 million multi-bank holding company.

The development mission of FNBPC is to promote economic improvement in the rural communities served by the bank. Southern's strategic plan has identified Phillips County as an area in which Southern will engage in comprehensive community development activities. The affiliation with Southern also provides FNBPC access to nontraditional sources of revenue from the United States Treasury Department in the form of Bank Enterprise Awards.

The bank's primary business focus consists of consumer loans, residential real estate, commercial loans, and agriculture credits due to the bank's proximity to the Mississippi Delta Region. The bank's loan portfolio composition as of September 30, 2003, is as follows:

Loan Type	\$ Volume (000's)	% Of Portfolio
Real Estate	\$27,564	33%
Agricultural	\$24,212	29%
Commercial	\$23,608	28%
Individual	\$ 7,994	10%
Other	\$ 152	<1%
TOTAL	\$83,530	100%

FNBPC operates seven full service branches in the cities of Helena, West Helena, Elaine, and Marvell, Arkansas. These communities are located in Phillips County with FNBPC being the market leader in Phillips County. There are no financial constraints that prohibit the bank from meeting the AA credit needs. The last CRA evaluation of FNBPC was performed as of May 3, 1999.

Bank competition in the local market consists of Helena National Bank. See the following table for a breakdown of deposit market share as of June 30, 2004, within the county.

DEPOSIT MARKET SHARE AND LOAN TO DEPOSIT RATIO WITHIN PHILLIPS COUNTY		
	FNB-Phillips County %	Helena National Bank
Loan to Deposit Ratio (13 QTRS)	62%	57%
Deposit Market Share (6/30/2004)	55.30%	43.78%

DESCRIPTION OF ASSESSMENT AREA:

FNBPC's AA consists of Phillips County, Arkansas, containing six (6) Block Numbering Areas (BNA). The updated 2000 U.S. Census median family income for non-metropolitan statistical areas in the AA for 2003 is \$38,500. This number is used to determine the income level of the BNAs in the AA. FNBPC's AA is comprised of one (1) low-income, three (3) moderate-income, and two (2) middle-income BNAs. None of the BNAs are considered upper-income. The bank's primary competition within the AA is Helena National Bank, a \$132 million institution located in Helena, AR.

According to the 2000 U.S. Census demographic data, Phillips County reported a population of 26,445. The Department of Housing and Urban Development (HUD) 2003 updated median family income is \$38,500. This income figure is updated annually and is used to determine the income level of individual applicants. There are 6,812 families in the AA of which 2,307 (34%) are low-income, 1,201 (18%) are moderate-income, 1,295 (19%) are middle income, and 2,009 (29%) are

upper income.

Local economic conditions are depressed with 6% of households receiving some form of public assistance and 31% of households showing income below the poverty level. Approximately 15% of the population or 4,410 people are over the age of 65 in Phillips County. Phillips County has had a long history of high unemployment with a current unemployment rate of 10.7% versus state and national unemployment figures of 5.0% and 4.8%. The major employer with the county continues to be Phillips County Community College, which is affiliated with the University of Arkansas. Discussions with the community contact indicate that local banks are adequately meeting the credit needs of the community. The AA meets the requirements of the regulation and does not arbitrarily exclude low-or moderate-income geographies.

The 2003 Business Demographic Data of the businesses reporting shows 183 farms and 739 businesses in the Phillips County AA, of which 171 farms (92%) and 690 businesses (93%) had gross annual income of \$1 million or less and are considered to be small businesses.

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

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA	
Population	
Number of Families	6,812
Number of Households	9,701
Geographies	
Number of Census Tracts/BNA	6
% Low-Income Census Tracts/BNA	17%
% Moderate-Income Census Tracts/BNA	50%
% Middle-Income Census Tracts/BNA	33%
% Upper-Income Census Tracts/BNA	0%
Median Family Income (MFI)	
2000 MFI for AA	\$24,924
2003 HUD-Adjusted MFI	\$46,201
Economic Indicators	
Unemployment Rate (December 2004)	10.7%
2003 Median Housing Value	\$44,187
% of Households Below Poverty Level	31%

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

FNBPC's loan-to-deposit ratio is good given the bank's size, financial condition, and AA credit needs. FNBPC's loan-to-deposit ratio has averaged 62% over the 21-quarter period from May 1999 through September 2004. The primary competition, Helena National Bank, had a loan-to-deposit ratio of 57% as of September 30, 2004, versus 55% for FNBPC.

Lending in Assessment Area

FNBPC originates a substantial majority of loans within the AA. As of September 30, 2004, the loan portfolio consisted of 2,550 loans for a dollar amount of \$71,363,343 with 2,287 loans for \$58,261,420 being inside the AA of Phillips County and 263 loans for \$13,101,923 being outside the AA. It is noted that if participation loans outside the AA were taken out the totals then the percentages would be higher. Lending within the AA is detailed in the following table.

TOTAL LOAN PORTFOLIO								
	LOANS IN ASSESSMENT AREA				LOANS OUT OF ASSESSMENT AREA			
	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Total Loans	2,287	90%	\$58,261	82%	262	10%	\$13,101	18%

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

FNBPC has a good record of lending to individuals of different income levels (including low and moderate income). We used a sample of 40 real estate and consumer loans to determine the income distribution of borrowers. The following table shows that the number of consumer loans to borrowers of different income levels mirrors the demographics of the AA. The bank makes a significant portion of these type loans to moderate-income individuals. Upper income for this area is above \$46,201.

CONSUMER AND RESIDENTIAL REAL ESTATE LOANS				
Borrower Income Level	LOW INCOME	MODERATE INCOME	MIDDLE INCOME	UPPER INCOME
% of AA Households From updated Census	34%	18%	19%	29%
Bank Loans By Income Levels	35%	23%	15%	27%

FNBPC has a good record of making loans to small businesses and small farms and to businesses of different sizes. A small business or small farm is defined as an entity with annual gross revenues of less than \$1 million. A sample of 20 business and 20 farm loans was used to determine if FNBPC is making loans to businesses and farms of different sizes. The sample demonstrated that 39 of the 40 business and farm loans or 95% were to businesses and farms that had an original loan amount of less than \$1 million, with 26 or 60% having gross revenues of less than \$1 million.

Geographic Distribution of Loans

As shown in the table below FNBPC has reasonable dispersion by geography. FNBPC's AA is composed of one low, three moderate, and two middle income BNAs. A review of the loan portfolio by geography was used to determine the geographic distribution of lending. Overall, 15% of loans were made in the low-income geography, while 48% were made in moderate-income geographies, which in total composes 63% of the population.

Geographic Distribution by Block Numbering Area				
Block Numbering Area (BNA)	Number of families	% of total	Number of loans within BNA	% of total loans within sample
9801 (Middle Income)	1,168	16%	353	15%
9802 (Moderate Income)	1,774	24%	623	27%
9803 (Middle Income)	1,849	25%	661	29%
9804 (Low Income)	807	11%	177	8%
9805 (Moderate Income)	1,078	14%	189	8%
9806 (Moderate Income)	747	10%	284	13%
TOTAL	7,423	100%	2,287	100%

Qualified Investments and Community Development Services

FNBPC is committed to serving the community in which it operates and demonstrates strong lending performance and community involvement. The Bank and its personnel are actively involved in community development services throughout the AAs.

The Delta Bridge Project in Phillips County is an initiative of Southern Development Bancorporation of which FNBPC is the active lead participant. The Project is a targeted geographic approach to community/economic development that focuses on an array of development activities. The programs and activities include: (1) development banking, (2) non-traditional lending, (3) business and technical assistance, (4) housing, (5) individual development account programs, (6) banking the unbanked initiatives, and (7) financial skills training.

The bank is involved in a community-lending program designed to promote small business and create jobs for low-and moderate-income individuals through Southern Financial Partners. As a result, the bank under the lending test is able to count \$4,393,048 that originated in the Helena office. The bank qualified under the investments by donating office space, phone lines and supplies totaling \$18,516. Under services, the bank participates in the Good Faith Fund for financial literacy, which totals several hundred savings accounts for approximately \$85,000.

The bank participates in obtaining affordable housing with Habitat for Humanity. FNBPC donated a vacant tract of land to Habitat for Humanity that allowed the construction of the first Habitat house in Phillips County. A former banking premise building was donated by FNBPC to the Habitat to be used as its headquarters.

FNBPC also provided a \$50,000 grant to the Property Standards Commission of the City of Helena to develop city codes for condemnation and to demolish substandard housing. Thirteen properties have been abated as of December 8, 2004, with an additional thirteen scheduled for abatement. Through Southern Bancorporation, 140 quality, affordable rental housing units for low- and

moderate-income residents and seniors have been built or renovated. A significant portion of the bank's dividends that are upstreamed to the holding company are used for this and similar purposes.

The bank also committed to give the Phillips County Chamber of Commerce a total of \$125,000 by 2008 in \$25,000 installments. Two of the \$25,000 annual installments have been paid. The funds are to assist in the research and development of economic and community initiatives in the county.

FNBPC has provided a \$1.9 million construction loan for the Knowledge is Power Program (KIPP) school expansion in Helena. The loan has allowed the completion of a 21,000 square foot building that will house grades five through eight. Additionally, FNBPC will provide \$1.2 million in permanent financing for the KIPP school. KIPP is a network of free open-enrollment college-preparatory public schools in under-resourced communities throughout the United States. KIPP has outstanding educators, a rigorous college-preparatory curriculum, a strong culture of achievement, and requires more time in school.

FNBPC will originate a \$4.4 million construction loan for a health care center for indigent residents of Phillips County in conjunction with the Helena Health Foundation. The bank will fund a \$1.6 million permanent loan with the United States Department of Agriculture financing the remainder. Other services provided by the bank, in conjunction with Southern include homeownership seminars that cover a broad range of topics. These include understanding and improving credit scores, finding affordable housing, and understanding the mortgage loan process.

Responses to Complaints

No complaints have been received from the public that specifically relate to the bank's performance in helping to meet community credit needs.

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of illegal discrimination or other illegal credit practices.