



SMALL BANK

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

PUBLIC DISCLOSURE

September 11, 2006

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**National Bank of Arkansas in North Little Rock
Charter Number 16941**

**400 McCain Boulevard
North Little Rock, AR 72115**

**Comptroller of the Currency
Little Rock (Memphis) Field Office
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: This institution is rated Satisfactory.

- ◆ The average loan-to-deposit ratio at 88% is more than reasonable given the bank's size, financial condition, and assessment area credit needs.
- ◆ A 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

National Bank of Arkansas (NBA) has its main office in North Little Rock (Pulaski County), AR. NBA's assessment area is Faulkner and Pulaski Counties, which are part of the Little Rock/North Little Rock Metropolitan Statistical Area (LR/NLR MSA). Faulkner and Pulaski Counties have a population of 447,561 according to the 2000 census. The LR/NLR MSA has a population of 583,845 according to the 2000 census.

NBA has a total of eight branches including six branches in Pulaski County with three offices located in North Little Rock, a branch in Sherwood, a branch in Little Rock, a branch in Maumelle, and two branches in Conway (Faulkner County). Since the 2001 CRA evaluation, the bank has closed a branch in North Little Rock and Maumelle, and relocated two North Little Rock branches. The bank has also opened a branch in Little Rock, a branch in Maumelle, and a branch in Conway since the previous evaluation. The main office and all of the branches have drive-up facilities and automated teller machines (ATMs). Lending services are available at all of the branches except for one office in North Little Rock and the Sherwood branch. As of June 30, 2006, the bank reported total assets of \$172 million with \$124 million in total loans (72% of total assets).

The bank's primary business focus is commercial real estate lending, and commercial and industrial loans. About 68% of the loan portfolio is in commercial real estate loans, with another 10% in commercial and industrial loans. NBA offers agricultural real estate, commercial, commercial real estate, consumer, home improvement, and home mortgage loans. The loan portfolio composition as of June 30, 2006, is as follows:

Loan Category	\$ (000)	%
Commercial Real Estate	\$84,874	68%
1-4 Family Residential	\$22,353	18%
Commercial and Industrial	\$13,551	10%
Consumer	\$2,100	2%
Agriculture Real Estate	\$1,997	2%
Total	\$124,875	100%

Source: 6-30-2006 Call Report

NBA 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.

NBA is 100% owned by National Banking Corp., North Little Rock, AR, a one-bank holding company with total assets of \$172 million as of June 30, 2006. The bank's last CRA examination was performed by the OCC as of February 5, 2001, and was rated **Satisfactory**.

There are 11 banks that are headquartered in Pulaski County and three banks headquartered in Faulkner County with asset size ranging from \$119 million to \$2.4 billion as of June 30, 2006. Some of the larger banks have state-wide branches. NBA is the ninth largest commercial bank that is headquartered in the AA. There are also branches of multi-national banks such as the Bank of America, multi-state banks such as US BancCorp (Minneapolis, MN), and Regions Bank (Birmingham, AL), and other large community banks that are headquartered in Arkansas such as Simmons First National Bank (Pine Bluff, AR) with assets of \$1.3 billion.

DESCRIPTION OF FAULKNER AND PULASKI COUNTIES, ARKANSAS

NBA assessment area (AA) is Faulkner and Pulaski Counties. The AA meets the requirements of the regulation and does not arbitrarily exclude low- and moderate-income geographies. There are 104 census tracts (CTs) in the AA. The Median Family Income (MFI) for the AA was \$46,168 in 2000. This income figure is used to determine the income level of individual CTs. According to the 2000 census, there are 7 (7%) low-income CTs, 30 (29%) moderate-income CTs, 46 (44%) middle-income CTs, and 21 (20%) upper-income CTs in the AA. The 2006 Housing and Urban Development (HUD) estimated MFI for the AA is \$51,500. HUD estimated MFI is updated annually and is used to determine the income level of individual applicants.

The local economy of Pulaski County is considered to be stable, while the economy of Faulkner County is considered to be moderately good. According to the U.S. Department of Labor, the July 2006 unemployment rate for Pulaski County was 5.4%, and the July 2006 unemployment rate for Faulkner County was 4.6%. The July 2006 unemployment rate for the state of Arkansas was 5.6%, and the national unemployment rate was 4.8%. The 2006 Business Demographic Data for Pulaski and Faulkner Counties showed 24,730 businesses of which 22,604 or 91% reported sales of less than \$1 million.

The major cities in Pulaski County (population of 361,474 according to the 2000 census) are Little

Rock (183,133), North Little Rock (60,433), Jacksonville (29,919), Sherwood (21,411) and Maumelle (10,557). The largest city in Faulkner County (86,014) is Conway (43,167).

The economy in Pulaski County is diversified and includes a military base, light-medium manufacturing industries, and retail sales. Major employers include the Little Rock Air Force Base in Jacksonville (4,500 military and 1,000 civilian employees), the University of Arkansas for Medical Sciences in Little Rock (5,000 employees), the Baptist Health System in Little Rock (5,000 employees), Fort Roots Veterans Hospital in North Little Rock (3,000 employees) and Union Pacific Railroad in North Little Rock (2,200 employees). The state's largest mall, McCain Mall (with an estimated 10 million annual shoppers), is located in North Little Rock. In recent years, there has been a boom in the retail sector, particularly in the northeast part of North Little Rock, and in Sherwood along McCain Boulevard and US Highways 67/167 toward Jacksonville.

Faulkner County has a diversified employment base with major businesses being light-medium manufacturing industries, education, construction, and information data providers. Major employers include Acxiom, Inc. (information data provider with 2,500 employees), Virco Manufacturing Company (school equipment with 2,000 employees), and the University of Central Arkansas (2,000 employees and 12,000 students), all located in Conway, AR. The county has experienced significant growth since the 1990 census, particularly in the city of Conway. For 2000, Conway population was 43,167 compared to 35,993 at the 1996 special census and 26,481 in 1990. The 2000 population of Faulkner County was 86,014, compared to 60,006 in 1990.

According to the 2000 Census data, 57% of the housing units in the assessment area are owner-occupied. The median housing value is \$87,376 with 1974 as the median year built. About 13% of the population had income below the poverty level.

Community contacts were made with the Arkansas Capital Corporation (ACC) and the Small Business Administration (SBA), both of which were located in Little Rock. ACC is private, non-profit business development corporation, and has a strong working relationship with NBA. According to the SBA office, NBA is not a very active SBA lender.

The following table shows the demographic and economic characteristics of the Assessment Area.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA
Population

Number of Families	119,084
Number of Households	179,885
Geographies	
Number of Census Tracts/BNA	104
% Low-Income Census Tracts/BNA	7%
% Moderate-Income Census Tracts/BNA	29%
% Middle-Income Census Tracts/BNA	44%
% Upper-Income Census Tracts/BNA	20%
<i>Median Family Income (MFI)</i>	
2000 MFI for AA	\$46,412
2006 HUD-Adjusted MFI	\$51,500
Economic Indicators	
Unemployment Rate July 2006–Pulaski County	5.4%
Unemployment Rate July 2006–Faulkner County	4.6%
1974 Median Housing Value	\$87,376
% of Households Below Poverty Level	13%

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

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The loan-to-deposit (LTD) ratio is more than reasonable given the bank's size, financial condition, and assessment area credit needs. There are 13 financial institutions that are headquartered in the AA (Pulaski and Faulkner Counties), but none of the banks have the same assessment area as NBA or are similarly situated. Two of the banks have state-wide branches, two have branches only in Pulaski County but are considerably larger in asset size, two have branches in Pulaski County and other counties other than Faulkner, and all three Faulkner County banks have branches only in Faulkner County. There are three banks that have branches only in Pulaski County that are somewhat similarly situated and are comparable to NBA as to assets size: Bank of Little Rock, The Capital Bank, and Eagle Bank and Trust.

The following table shows total assets as of June 30, 2006, and the quarterly average loan-to-deposit ratio from December 31, 2000, through June 30, 2006, (23 quarters) for these four banks.

Institution	Assets (as of 6/30/2006)	Average LTD Ratio
NBA, North Little Rock, AR	\$172 million	88%
Bank of Little Rock, Little Rock	\$134 million	73%
The Capital Bank, Little Rock	\$131 million	57%
Eagle Bank and Trust, Little Rock	\$119 million	56%

Sources: Call Reports

Lending in Assessment Area

A majority of NBA's loans, particularly consumer, and commercial and commercial real estate, are in the bank's assessment area. A sample of 39 consumer loans, 38 commercial loans made during 2005-2006, and all Home Mortgage Disclosure Act (HMDA) reportable loans (home purchase, home improvement, and home refinancing) for 2004-2005 was reviewed to determine lending within the assessment area. Lending within the assessment area is detailed in the following table.

TOTAL LOANS REVIEWED								
	IN ASSESSMENT AREA				OUT OF ASSESSMENT AREA			
LOAN TYPE	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Residential RE - Purchase	289	31%	\$39,399	32%	640	69%	\$85,660	68%
Residential RE - Home Improvement	35	83%	\$1,469	50%	7	17%	\$1,452	50%
Residential RE - Refinance	196	28%	\$29,937	24%	508	72%	\$93,753	76%
Consumer	28	72%	\$242	85%	11	28%	\$44	15%
Commercial and Commercial RE	33	87%	\$4,055	94%	5	13%	\$280	6%
Total Reviewed	581	33%	\$71,102	28%	1,171	67%	\$181,189	72%

For lending within the assessment area, more emphasis is given to the commercial and commercial real estate since about 78% of the bank's loan portfolio are in this category. In addition, the bank's mortgage company was making wholesale residential real estate loans statewide and out of state for sale to the secondary market, which accounts for the significant amount of out of assessment area lending.

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

The distribution of borrowers reflects, given the demographics of the assessment area, reasonable penetration among individuals of different income levels (including low-and moderate-income) and businesses of different sizes. The same sample of 39 consumer loans, 38 business loans, and HMDA 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.

RESIDENTIAL REAL ESTATE								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Families	21%		18%		21%		40%	
TYPE	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Purchase	6%	3%	17%	13%	24%	21%	53%	63%
Home Improv	11%	11%	20%	20%	20%	16%	49%	53%
Refinance	3%	1%	22%	13%	24%	20%	51%	66%

The above table shows that most of the residential loans were made to upper-income borrowers. The above table also shows that residential real estate loans to low-income borrowers are below the percentage of low-income people in the assessment area. However, residential real estate loans made to moderate-borrowers, particularly by number of loans, were near to or above the percentage of moderate-income people in the assessment area.

CONSUMER								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households	24%		17%		19%		40%	
LOANS BY YEAR	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
2005-2006	28%	11%	20%	6%	12%	14%	40%	69%

The above table shows that consumer loans made to low-income and moderate-income borrowers, particularly by number of loans, were above the percentage of low-income and moderate-income people in the assessment area. Consumer loans by dollar amount of loans were below the percentage of low-income and moderate-income people in the assessment area.

The distribution of small business loans (under \$1 million) reflects reasonable penetration among businesses of different sizes. Loans to businesses with revenues under \$1 million dollar by number of loans and by dollar volume of loans are somewhat below the percentage of businesses with revenues of under \$1 million in the assessment area. The following table shows lending to small businesses.

BORROWER DISTRIBUTION OF SMALL LOANS TO BUSINESSES		
Business Revenues	≤\$1,000,000	>\$1,000,000
% of AA Businesses	91%	9%
% of Bank Loans in AA #	73%	27%
% of Bank Loans in AA \$	67%	33%

Geographic Distribution of Loans

The geographic distribution of loans reflects reasonable dispersion throughout the assessment area. The same sample of 39 consumer loans, 38 business loans, and HMDA loans that were used to determine lending within the assessment area and lending to borrowers of different income were also used to determine lending to borrowers in different geographies.

RESIDENTIAL REAL ESTATE								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
%of AA Owner Occupied	2%		18%		48%		32%	
TYPE	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Purchase	2%	1%	8%	5%	46%	39%	44%	55%
Home Improv	3%	1%	23%	24%	34%	40%	40%	35%
Refinance	1%	1%	8%	4%	54%	48%	37%	47%

The above table shows that residential real estate loans to borrowers residing in the low-income tracts are comparable to the percentage of people residing in the low-income tracts in the assessment area. Home improvement loans to moderate-income borrowers exceed the percentage of people residing in the moderate-income tracts in the assessment area, but home purchase and refinancing were below the percentage of people residing in the moderate-income tracts in the assessment area.

CONSUMER								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
%of AA Households	4%		22%		46%		28%	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
2005-2006	0%	0%	18%	3%	50%	71%	32%	26%

The table above shows that there were no consumer loans made to borrowers residing in the low-tracts. However, consumer loans made to borrower in moderate-income tracts, by number of loans, are near to the population of the moderate-income tracts.

BUSINESS LOANS								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Businesses	8%		23%		42%		27%	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
2005-2006	3%	2%	24%	20%	48%	56%	24%	22%

The above table shows that the bank is making loans in the low- and moderate-income areas. Business loans made to borrowers located in the low-income tracts are below the percentage of businesses that are located in the low- income tracts. However, business loans made to borrowers located in the moderate-income tracts are near to or exceed the percentage of businesses that are located in the moderate-income tracts.

Responses to Complaints

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

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.”