



PUBLIC DISCLOSURE

August 3, 1998

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The First National Bank of Sharp County
Charter No. 16173

Highway 167 North
Ash Flat, Arkansas 72513

Office of the Comptroller of the Currency
Southwestern District
1600 Lincoln Plaza, 500 North Akard
Dallas, Texas 75201-3394

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 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 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 First National Bank of Sharp County** prepared by the **Office of the Comptroller of the Currency (OCC)**, the institution's supervisory agency, as of **August 3, 1998**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 C.F.R. Part 25.*

INSTITUTION'S CRA RATING: This institution is rated **SATISFACTORY**.

The conclusion is based on the following:

- ▶ The loan-to-deposit ratio is reasonable given the bank's size, financial condition, and the assessment area credit needs.
- ▶ A substantial majority of loans are made in the assessment area.
- ▶ The geographic distribution of loans reflects reasonable dispersion throughout the assessment area.
- ▶ 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 following table indicates the performance level of **The First National Bank of Sharp County** with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	<u>The First National Bank Sharp County</u> PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does not meet Standards for Satisfactory Performance
Loan-to-Deposit Ratio		X	
Lending in Assessment Area	X		
Lending to Borrowers of Different Incomes and to Businesses of Different Sizes		X	
Geographic Distribution of Loans		X	
Response to Complaints	No applicable CRA complaints have been received since the prior evaluation.		

DESCRIPTION OF INSTITUTION

First National Bank of Sharp County (FNBSC) has a main office and two automated teller machines (ATM's) located in Ash Flat, Sharp County, Arkansas, which has a population 667 people. The bank has a branch in Cherokee Village, Sharp County, Arkansas (a planned retirement community located 8 miles northeast of Ash Flat with an estimated population of about 4,500 people), a branch in Hardy, Sharp County, Arkansas (10 miles northeast of Ash Flat with a population of 538 people), a branch in Melbourne, Izard County, Arkansas (28 miles southwest of Ash Flat with a population of 1,562 people), and a branch in Salem, Fulton County, Arkansas (17 miles northwest of Ash Flat with a population of 1,474 people). Both the Melbourne and Salem branches were obtained in 1996 from other banks. One of the Ash Flat ATM's is located inside a Walmart Supercenter. All of the branches have drive-up facilities and ATM's. Lending services are available at the main office and all of the branches. As of June 30, 1998, the bank reported total assets of \$167 million with \$114 million in total loans.

The bank's primary business focus is residential home loans. FNBSC offers mortgage, home improvement, agricultural, commercial real estate, commercial, and consumer loans. The loan portfolio composition as of June 30, 1998, is as follows:

Loan Type	\$ Volume (000)	% of Portfolio
1-4 Family Residential	\$63,486	56%
Installment	12,587	11%
Farmland	4,540	4%
Commercial	13,352	12%
Commercial Real Estate	17,026	15%
Agriculture	3,188	2%
TOTAL	114,179	100%

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

The bank is 100% owned by First Sharp County Bancshares, Inc., a one-bank holding company. This Office performed the previous CRA examination as of May 17, 1995, and the bank was rated "Outstanding."

Since conversion to its current software system in November 1996, the bank has not performed a geocoding analysis of its loans. Although each loan is assigned a geocode, it is maintained only on the daily new loan list. Currently, the bank has no automated way to retrieve and analyze this information. Therefore, management does not analyze the geographic distribution of loans on an annual basis.

DESCRIPTION OF THE ASSESSMENT AREA

The bank’s assessment area is all of Fulton, IZard and Sharp counties. There are 10 block numbering areas (BNA’s) in the assessment area, seven of which are middle-income BNA’s and three of which are moderate-income BNA’s. These BNA’s are: 9501 and 9502 in Fulton County; 9601, 9602, 9603 and 9604 in IZard County; and, 9701, 9702, and 9703 in Sharp County. The assessment area meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income geographies.

According to 1990 Census Data, the population of Fulton, IZard and Sharp counties was 10,037, 11,364, and 14,109 respectively. In 1990, the median family income for non-Metropolitan Statistical Areas (MSA) in Arkansas was \$22,420. This income figure is used to determine the income level of individual BNA’s. BNA 9502 in Fulton County, BNA 9604 in IZard County and BNA 9701 in Sharp County are designated as moderate-income, according to 1990 Census Data. The Department of Housing and Urban Development has estimated that the median family income (MFI) in Arkansas for 1997 and 1998 were \$29,500 and \$30,100, respectively. The HUD estimated MFI is used to determine the income level of individual applicants and is updated annually.

The following table shows the income distribution of BNA’s and families that comprise the bank’s assessment area.

Income Distribution of BNAs and Families															
Low-Income				Moderate-Income				Middle-Income				Upper-Income			
BNA		Families		BNA		Families		BNA		Families		BNA		Families	
0	0%	2,544	23%	3	30%	2,270	21%	7	70%	2,781	26%	0	0%	3,289	30%

Source: 1990 U.S. Census

Income levels are defined as follows: low-income = less than 50% of MFI (\$30,100 in 1998); moderate-income = 50% to 79% of MFI, middle-income = 80% to 119% of MFI; and upper-income = more than 120% of MFI.

The local economy is stable. The June 1998 unemployment rates for Fulton, Izard, and Sharp counties were 3.3%, 6.6%, and 5.8% respectively. Unemployment rate for the state of Arkansas was 5.0%, and the national unemployment rate was 4.5%. Most of the workforce are employed in tourist related industries, those who are dependent on retirees, and in agricultural related businesses. The 1990 Business Demographic data reports 53 farms and 849 businesses in the Fulton, Izard, and Sharp counties assessment area of which 53 (100%) farms and 799 (94%) businesses have gross annual revenues of \$1 million or less. There are six independent financial institutions located in assessment area, and branches of non-local financial institutions.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The loan-to-deposit (L/D) ratio is reasonable given the bank's size, financial condition, and assessment area credit needs. FNBSC is the largest bank in assessment area and has the second highest average L/D ratio with 72%. The Bank of Salem's average L/D ratio was almost 10% higher than FNBSC. The following table shows total assets (as of March 31, 1998) and the average loan-to-deposit ratio from June 30, 1995 to March 31, 1998 (12 quarters) of the banks in the assessment area.

Institution	Total Assets (Millions)	Avg. L/D Ratio
FNB-Sharp County, Ash Flat, AR	\$170	72%
FNB- Izard County, Calico Rock, AR	\$85	70%
Bank of Cave City, .Cave City, AR	\$48	66%
Bank of Evening Shade, Evening Shade, AR	\$13	58%
Bank of North Arkansas, Melbourne, AR	\$73	62%
Bank of Salem, Salem, AR	\$72	81%

Lending in Assessment Area

A substantial majority of loans originated were made in the bank's assessment area. The bank's internal auditor performed an analysis of the geographic distribution of all loans made during March 1998. Based on this analysis, 252 loans of 292 by loan volume or 86% were made within the bank's assessment area. By dollar volume, \$3.4 million of \$4.2 million or 81% were made within the assessment area. An additional 8 loans (3%) and \$341,000 (8%) were to borrowers outside the assessment area, but secured by collateral located within the assessment area. If these additional loans were deemed to be inside the assessment area, the loan volume and dollar volume both increase to 89%.

A sample of 150 loans made between the 12 month period of July 1997 through June 1998 was chosen to determine the percentage of loans made within the assessment area. The following table reflects the distribution of loans originated inside and outside the assessment area.

Distribution of Loans in Assessment Area Inside versus Outside				
LOCATION	Number	Percent	Amount	Percent
Inside	126	84	\$1,350,210	80
Outside	24	16	\$ 346,611	20
Total	150	100	\$1,696,821	100

An additional 5 loans (3%) and \$199,000 (11%) were made to borrowers outside the assessment area, but secured by collateral located within the assessment area. If these additional loans were deemed to be inside the assessment area, the loan volume would increase to 87% and the dollar volume would increase to 91%.

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. A sample of 150 loans was taken during the examination. Of these, 37 were loans to small businesses and small farms. The remaining 113 loans, consisting of installment and residential real estate, were used to determine the bank's record of lending to borrowers of different income levels. The table below shows the distribution by borrower income levels for the number and dollar volume of loans originated for July 1997 through June 1998.

Distribution of Loans in Assessment Area by Borrower Income								
Income Levels	Low		Moderate		Middle		Upper	
	#	%	#	%	#	%	#	%
Family Characteristics	2,544	23%	2,270	21%	2,781	26%	3,289	30%
Number of Loans	20	17%	19	17%	37	33%	37	33%
Dollar Volume	\$100,869	8%	\$239,383	19%	\$433,033	35%	\$475,326	38%

Based on the sample taken by the internal auditor of all loans made during March 1998, approximately 15% by number of loans were made to low-income borrowers, 25% to moderate-income borrowers, 23% to middle-income borrowers, and 27% to upper-income borrowers.

Based on the sample of 37 loans taken during this examination, FNBSC has a satisfactory record of making loans to businesses and farms of different sizes. All 15 farm loans sampled were made to small farms with gross annual revenues of \$1 million or less. Of the 22 business loans, 15 or 68% by number and 82% by dollar volume were made to small businesses with gross annual revenues of \$1 million or less. As stated in the **Description of the Assessment Area**, Business Demographic Data shows that 94% of the businesses and 100% of the farms meet the definition of small businesses and small farms.

Geographic Distribution of Loans

The geographic distribution of loans reflects reasonable dispersion throughout the assessment area. Of the BNA’s in the assessment area, 30% are moderate-income and 70% are middle-income. Of the 150 loans sampled, 18 loans or 12% were made in moderate-income tracts and 88% were made in middle-income tracts. By dollar volume, 10% of the sampled loans were made in moderate-income tracts and 90% in middle-income tracts. The bank made loans in all moderate-income BNA’s in the assessment area.

Response to Complaints

FNB has not received any formal complaints regarding its performance in meeting assessment area credit needs since the previous examination.

ADDITIONAL INFORMATION

Discrimination or Other Illegal Credit Practices

A Fair Lending review was conducted in conjunction with the bank's CRA performance. No evidence of discrimination or disparate treatment was noted during this review. FNBSC is in technical compliance with fair lending laws and regulations.