



INTERMEDIATE SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

July 30, 2008

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First National Banking Company
Charter Number 16173

Highway 167 North
Ash Flat, AR 72513

Office of the Comptroller of the Currency

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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 Lending Test is rated: **Satisfactory**.

The Community Development Test is rated: **Satisfactory**.

The following performance factors were used in determining the bank's overall CRA rating:

- The average loan-to-deposit ratio at 97% is outstanding given the bank's size, financial condition, and assessment area (AA) credit needs.
- The substantial majority of the bank's loans are located in its AA.
- The distribution of loans reflects satisfactory penetration among individuals of different income levels and businesses of different sizes.
- The geographic distribution of loans reflects good dispersion throughout the bank's AA.
- Community development lending and investment activities are satisfactory and responsive to AA needs.

Scope of Examination

An onsite examination of the bank was performed to assess its performance under the Community Reinvestment Act (CRA). To determine its performance, the bank elected to be assessed under the Intermediate Small Bank CRA criteria. Loan information used for this evaluation included home loans, auto loans, and small business loans. The bank was rated **Satisfactory** at the previous examination. This performance evaluation starts from the date of the bank's previous CRA examination covering the period from June 2, 2003, to July 30, 2008. Contacts were made with local community agencies with knowledge of the overall needs within the bank's AA, and used in the evaluation process.

Description of Institution

First National Banking Company (FNBC) main headquarters is located in Ash Flat (Sharp County), Arkansas. As of March 31, 2008, FNBC reported total assets of \$416 million with \$301 million in deposits and \$288 million in loans. The bank's primary lending focus is on residential real estate, small business, commercial, and commercial real estate. In addition to the main office located in Sharp County, the bank operates 10 other full service branches in cities throughout Sharp, Fulton, IZard, Independence, and Baxter counties. These cities include Batesville, Cherokee Village, Hardy, Highland, Horseshoe Bend, Mammoth Springs, Melbourne, Mountain Home, and Salem. The bank operates 16 Automated Teller

Machines (ATM's) in its AA, and also offers Saturday banking at the Wal-Mart Super Center branch in Ash Flat, and branches in Batesville, Highland, and Mountain Home. FNBC also offers a full range of online banking products and services through its website at www.fnbc.us. There are no legal or financial constraints that would impede the bank from meeting its requirements under the CRA.

FNBC Loan Portfolio Composition as of May 30, 2008		
Loan Types	Dollar Amount (000's)	Percent of Total Loans
Construction and Land Development	33,000	11
Secured by Farmland	13,000	5
One-to-Four Family Residential	109,000	37
Commercial Real Estate	67,000	24
Total Real Estate Loans	222,000	77
Agricultural	9,000	3
Commercial and Industrial	29,000	11
Consumer	24,000	8
Other	4,000	1
Total Loans	288,000	100%

Source: Report of Condition

Description of Assessment Area

FNBC's assessment area (AA) includes all of Sharp, Fulton, Izard, Independence, and Baxter Counties in Arkansas; and a portion of Howell, Oregon, and Ozark Counties located in Missouri. The AA meets the requirements of the regulation and does not arbitrarily exclude low- and moderate-income geographies. There are 33 Block Numbering Areas (BNAs) in the AA, 29 are middle-income, three are moderate-income, and one is upper income. These BNAs are: 9701, 9702, 9703, and 9704 in Sharp County; 9501 and 9502 in Fulton County; 9601, 9602, 9603, and 9604 in Izard County; 9901, 9902, 9903, 9904, 9905, 9906, 9907, and 9908 in Independence County; 9501, 9502, 9503, 9504, 9505, 9506, 9507, 9508, and 9509 in Baxter County; 9904 and 9906 in Howell County, Missouri; 9802 and 9803 in Oregon County, Missouri; and 9701 and 9702 in Ozark County, Missouri. The Median Family Income (MFI) for non Metropolitan Statistical Areas (MSA) in Arkansas was \$34,611 in 2000. This income figure is used to determine the income level of individual BNAs. BNAs 9701 in Sharp County and 9802 and 9803 in Oregon County are moderate-income. BNA 9905 in Independence County is upper-income. The 2008 Housing and Urban Development (HUD) MFI for non-MSA in Arkansas was \$40,836. HUD MFI is updated annually and is used to determine the income level of individual applicants.

Ash Flat is located in the north central part of the state. According to 2005 Census Data, the population of Sharp, Fulton, Izard, Independence, and Baxter County was 17,397; 11,934; 13,430; 34,737; and 40,330 respectively. The economy within the bank's AA is considered to be slow growth. Most of the workforce is employed in tourist-related industries, those who are dependent on retirees, and in agricultural-related businesses.

The largest employers in the assessment area are Townsends of Arkansas (poultry processing) in Batesville, Independence County, with about 1,384 employees, and White River Health System (health care) also in Batesville, with about 1,249 employees. Unemployment as of first quarter 2008 was 8.3% in Sharp County, 5.5% in Fulton County, 7.1% in Izard County, 8% in Independence County, and 6.3% in Baxter County. The unemployment rates for all five counties are above the Arkansas average of 5.2% and the US average of 4.9% as of March 2008.

A community contact with a representative of the Sharp County Cooperative Extension Service was conducted in conjunction with this CRA examination. This contact revealed that local banks are meeting the primary credit needs in the area.

Demographic and Economic Characteristics of the Assessment Area						
Demographic Characteristics	# Total	Low % of #	Moderate % of #	Middle % of #	Upper % of #	* % of #
Geographies (Census Tracts)	33	0	9	88	3	0
Population by Geography	140,284	0	6	92	2	0
Owner-Occupied Housing by Geography	45,942	0	7	92	1	0
Businesses by Geography	7,526	0	14	63	23	0
Farms by Geography	253	0	9	74	17	0
Family distribution by Income Level	41,631	0	6	92	2	0
Distribution of Low and Moderate Income Families throughout AA Geographies	41,631	0	9	87	3	0
Median Family Income, last Census 2000		\$34,611	Median Housing Value			\$64M
HUD Adjusted Median Family Income for 2008		\$40,836				
Households Below Poverty Level		16%	Unemployment Rate			5.27%
% Businesses with Revenues < \$1 million		94%	% Farms with Revenues < \$1 million			97%
% Businesses with Revenues > \$1 million		6%	% Farms with Revenues > \$1 million			3%

Source: 2000 U.S. Census data and HUD updated income data..

* N/A category consists of geographies that have not been assigned an income classification.

Conclusions with Respect to Performance Tests

LENDING TEST

Loan-to-Deposit Ratio

FNBC's average loan-to-deposit ratio of 97% is outstanding given its size, financial condition, and AA credit needs. The loan-to-deposit ratio was calculated using quarterly averages since the prior CRA evaluation as of June 3, 2003. The bank's average was then compared to the banks listed below all having offices located within the bank's AA. Since Simmons First National Bank and Liberty Bank are much larger financial institutions conducting business throughout the state, and Bank of Cave City is smaller in size and branch distribution, First Community Bank is considered to be a similarly situated bank and more closely considered when rating FNBC's performance under this criteria.

Loan-to-Deposit Ratios		
Banks within the AA	Assets (000's) As of 3-31-08	Average LTD
Bank of Cave City	98	76%
First Community Bank	483	90%
Liberty Bank	2,436	85%
Simmons First National Bank	1,432	91%
FNBC	416	97%

Source: Institution Reports of Condition.

Lending in Assessment Area

A substantial majority of FNBC's loans are located within its AA. The table below reflects loans made by the bank during 2007 in the following categories. As indicated, 96% of the number of loans, and 96% of the dollar volume were to borrowers located within the bank's AA.

Lending in Assessment Area										
Loan Types	Number of Loans					Dollars of Loans (000's)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Loans	485	96	21	4	506	37,384	96	1,733	4	39,117
Auto Loans	899	98	20	2	919	8,551	98	200	2	8,751
Small Business	132	90	15	10	147	6,381	96	292	4	6,673
Totals	1,516	96	56	4	1,572	52,316	96	2,225	4	54,541

Source: Bank data from loans originated in 2007.

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

The bank's level of lending to borrowers of different income levels is satisfactory. The following tables reflect the distribution of home purchase and automobile loans made by the bank in 2006 by borrower income levels. As previously indicated 16% of households located in the bank's AA are below the national poverty level. The bank's ability to qualify the low and moderate income sectors is somewhat limited due to down payment and term requirements. While lending to different income levels varied within the bank's AA, the overall lending pattern is satisfactory.

Borrower Distribution – Home Loans								
Borrower Income Level	Low Income		Moderate Income		Middle Income		Upper Income	
% of AA Families	19		20		24		37	
FNBC Home Loans	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
	6	3	29	18	23	25	42	54

Source: Bank data from loans originated in 2007 and 2000 U.S. Census data.

Borrower Distribution – Auto Loans								
Borrower Income Level	Low Income		Moderate Income		Middle Income		Upper Income	
% of AA Households	24		18		21		38	
FNBC Auto Loans	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
	21	11	26	20	42	58	11	11

Source: Bank data from loans originated in 2007 and 2000 U.S. Census data.

Borrower Distribution of Loans to Businesses			
Business Revenues	≤\$1,000,000	>\$1,000,000	Revenues not known
% of AA Businesses	43	3	54
% of Bank Loans in AA by #	75	25	
% of Bank Loans in AA by \$	47	53	

Geographic Distribution of Loans

The geographic distribution of loans made by the bank reflects good dispersion throughout its AA. The following tables compare the geographic distribution of home and auto loans made by the bank in 2007. The distribution of home and auto loans made by the bank in moderate income tracts exceeds the overall geographic distribution of the AA.

Geographic Distribution – Home Loans								
Borrower Income Level	Low Income		Moderate Income		Middle Income		Upper Income	
% of AA Owner Occupied	None		6		92		1	
FNBC Home Loans	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
	None	None	19	9	80	90	1	1

Source: Bank data from loans originated in 2007 and 2000 U.S. Census data.

Geographic Distribution – Auto Loans								
Borrower Income Level	Low Income		Moderate Income		Middle Income		Upper Income	
% of AA Households	None		6		92		1	
FNBC Home Loans	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
	None	None	15	14	84	85	1	1

Source: Bank data from loans originated in 2007 and 2000 U.S. Census data

COMMUNITY DEVELOPMENT TEST

Performance under the community development test is satisfactory. The bank provides a satisfactory level of community development lending, CRA qualified investments, and community development services in relation to the overall needs and opportunities in its AA.

Community Development Lending

The definition of community development includes the following: affordable housing for low- and moderate-income individuals, community services targeted toward low- and moderate-income individuals, activities that promote economic development by financing small businesses or farms, and activities that revitalize or stabilize low- and moderate-income geographies. As of September 1, 2005, the following activities were added to the definition: activities that revitalize or stabilize low- or moderate-income areas, designated disaster areas, and distressed or underserved non-metropolitan middle-income geographies that have been designated by the Federal Reserve, the OTS, the FDIC, and the OCC.

FNBC's performance for granting community development loans during the evaluation period is satisfactory. For purposes of the CRA, the bank granted the following qualifying community development loans totaling approximately \$5 million during the evaluation period. This equates to approximately 13% of the bank's capital.

- FNBC made 79 loans totaling \$5 million on 1-4 family homes. These loans were made through the Guaranteed Rural Housing Loan Program offered by the United States Department of Agriculture (USDA) Rural Development. The loan program allows households with moderate income to finance the purchase of a home at 100% of appraised value or acquisition cost, whichever is less.
- FNBC made two loans under the Homebuyer Equity Leverage Partnership (HELP) grant program sponsored by the Federal Home Loan Bank (FHLB) Dallas. The program allows first time homebuyers to obtain a grant up to \$7 thousand with FNBC contributing \$350 toward the financial or other concessions in connection with providing the financing to the homebuyer. The household must have a family income of 80% or less of the median income for the area.
- FNBC made one loan totaling \$60 thousand to an organization that provides adult day care and Medicare waiver services, the majority of their clients are to low- and moderate-income individuals.

Community Development Investments

FNBC's performance of purchasing qualified CRA investments is satisfactory. Total qualifying investments during the evaluation period include \$3.7 million for school district bonds. Investments represent 10% of the bank's capital.

FNBC purchased 23 issues of school district bonds totaling \$3.7 million from one school district located in Sharp County that has been designated as a distressed non-metropolitan middle-income geography by the Federal Reserve, the OTS, the FDIC, and the OCC. The bonds were used to benefit Title I schools.

Community Development Services

FNBC offers a satisfactory level of community development services based on its capacity and needs in the AA. FNBC employees serve on various boards and committees that provide community service to low- and moderate- income individuals or families. Although none of the activities are innovative or complex, these activities are encouraged by the bank by allowing the attendance at meetings and activities during normal banking hours and payment of membership dues.

Responses to Complaints

No formal CRA complaints have been received since the prior examination. The bank has a formal process of receiving, documenting, and responding to customer complaints.

Fair Lending or Other Illegal Credit Practices Review

No evidence was found of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.