



INTERMEDIATE SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

September 8, 2008

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First National Bank and Trust Company
Charter Number: 20412

502 Hickory Street
Mountain Home, Arkansas 72653

Office of the Comptroller of the Currency

F. Christian Dunn, Assistant Deputy Comptroller

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 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 68% is reasonable given the bank's size, financial condition, and assessment area's (AA) credit needs.
- The substantial majority of the number and dollar volume of the bank's loans are located in its AA.
- The bank's loan originations reflect satisfactory distribution among individuals of different income levels and businesses of different sizes.
- Community development lending, investment activities, and services 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 samples of home loans, auto loans, small business loans, and small farm loans from January 1, 2007 through June 30 2008, and from each of the bank's AAs where these type loans are made. Loan sampling techniques were used since the bank only recently became a HMDA reporter in January of 2008. This performance evaluation for community development loans, investments, and services starts from the date of the bank's previous CRA examination covering the period from November 5, 2002, to September 8, 2008. Contacts were made with local community organizations with knowledge of the overall credit needs within the bank's AA, and were used in the evaluation process. These contacts indicated the bank is meeting the credit needs of the community.

Description of Institution

First National Bank and Trust Company of Mountain Home (FNBMH) is headquartered in Mountain Home, Baxter County, Arkansas. The bank is 100% owned by Mountain Home Bancshares, Incorporated, a one-bank holding company headquartered in Mountain Home. Mountain Home Bancshares, Inc. had total assets of \$350 million as of December 31, 2007. The bank was rated **Outstanding** at the previous CRA examination using applicable Small Bank criteria.

FNBMH meets the needs of its community by offering traditional banking services including commercial, consumer, and agricultural loans, and a variety of retail deposit products. Investment and trust services are also offered. FNBMH has also made community development loans, bought community development investments, and actively participates in community development services. There are no financial impediments that would limit the bank's ability to help meet the credit needs in its assessment area.

As of June 30, 2008, the bank reported total assets of \$362 million, deposits of \$273 million, and total loans of \$200 million. The loan portfolio composition as of June 30, 2008, is as follows:

Loan Category	\$ (000)	%
Commercial Real Estate Loans	83,725	42%
Residential Real Estate Loans	77,468	39%
Commercial Loans	19,133	10%
Consumer Loans	10,372	5%
Agricultural loans	8,806	4%
Total	\$199,504	100%

Source: 6/30/08 Call Report

Description of Assessment Area(S)

The bank has operates in three AAs. They include all 28 census tracts (CTs) in the Baxter / Marion County AA, the Randolph County AA, and the Craighead County AA. Based on 2000 census data, the combined population of FNBMH's three AAs was 155 thousand.

The Baxter / Marion County AA is comprised of twelve CTs. These include nine CTs (9501, 9502, 9503, 9504, 9505, 9506, 9507, 9508, and 9509) located in Baxter County and three CTs (9601, 9602, and 9603) located in Marion County. Baxter and Marion County are adjacent and comprise one single AA. The Baxter / Marion County AA's population was \$55 thousand according to the 2000 U. S. Census.

The Randolph County AA is comprised of three CTs (9601, 9602, and 9603). The Randolph County AA's population was 18 thousand according to the 2000 U. S. Census.

The Craighead County AA is comprised of thirteen CTs (0001, 0002,0003,0004,0005, 0006.01, 0006.02, 0007, 0008, 0009, 0010, 0011, and 0012). These CTs also comprise the Jonesboro, Arkansas metropolitan statistical are (MSA). The Craighead County AA's population was 82 thousand according to the 2000 U. S. Census.

These three AAs are located in north-central to north-eastern Arkansas. The AAs are reasonable, consist of whole geographies, and include all census tracts (CTs) in the counties listed above. These AAs are in compliance with requirements of the CRA regulation.

There is one low-income CT (0006.02) and two upper-income CTs (0005 and 0008) located in the Craighead County AA. There are no moderate-income CTs in any of the three AAs. The remaining 25 CTs located in the Baxter / Marion County AA, Randolph County AA, and Craighead County AA are all middle-income CTs.

Demographic and Economic Characteristics of the Baxter / Marion County Assessment Area						
Demographic Characteristics	# Total	Low % of #	Moderate % of #	Middle % of #	Upper % of #	* % of #
Geographies (Census Tracts)	15	0	0	100	0	0
Population by Geography	54,526	0	0	100	0	0
Owner-Occupied Housing by Geography	19,020	0	0	100	0	0
Businesses by Geography	5,897	0	0	100	0	0
Farms by Geography	129	0	0	100	0	0
Family distribution by Income Level	16,712	17	20	26	37	0
Distribution of Low and Moderate Income Families throughout AA Geographies	16,712	0	0	100	0	0
Median Family Income, last Census 2000		\$34,623	Median Housing Value			\$77M
HUD Adjusted Median Family Income for 2008		\$42,000				
Households Below Poverty Level		13%	Unemployment Rate			1.76%
% Businesses with Revenues < \$1 million		98%	% Farms with Revenues < \$1 million			100%
% Businesses with Revenues > \$1 million		2%	% Farms with Revenues > \$1 million			0%

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.

The economy of this AA is stable. Mountain Home, population 11,000 thousand, and Gassville, population 1,700, are the largest cities in Baxter County. Yellville and Flippin, both with populations of 1,400, are the largest cities in Marion County. The primary industries in this AA are manufacturing of durable and non-durable goods, construction, health services, tourism, agriculture, and forestry. There are over ten financial institutions competing in this AA. Details regarding population, median income, income distribution, and other demographic data are included in the table above.

Demographic and Economic Characteristics of the Randolph County Assessment Area						
Demographic Characteristics	# Total	Low % of #	Moderate % of #	Middle % of #	Upper % of #	* % of #
Geographies (Census Tracts)	3	0	0	100	0	0
Population by Geography	18,195	0	0	100	0	0
Owner-Occupied Housing by Geography	5,415	0	0	100	0	0
Businesses by Geography	1,580	0	0	100	0	0
Farms by Geography	97	0	0	100	0	0
Family distribution by Income Level	5,298	21	19	25	35	0
Distribution of Low and Moderate Income Families throughout AA Geographies	5,298	0	0	100	0	0
Median Family Income, last Census 2000	\$34,263	Median Housing Value				\$52M
HUD Adjusted Median Family Income for 2008	\$42,000					
Households Below Poverty Level	17%	Unemployment Rate				2.87%
% Businesses with Revenues < \$1 million	98%	% Farms with Revenues < \$1 million				100%
% Businesses with Revenues > \$1 million	2%	% Farms with Revenues > \$1 million				0%

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.

The economy of this AA is stable. Pocahontas, population 6,500, is the largest city in Randolph County. The primary industries in this AA are manufacturing, retail and wholesale, accommodations and food service, government services, agriculture, and finance. There are five financial institutions competing in this AA. Details regarding population, median income, income distribution, and other demographic data are included in the table above.

Demographic and Economic Characteristics of the Craighead County Assessment Area						
Demographic Characteristics	# Total	Low % of #	Moderate % of #	Middle % of #	Upper % of #	* % of #
Geographies (Census Tracts)	13	8	0	77	15	0
Population by Geography	82,148	0	6	92	2	0
Owner-Occupied Housing by Geography	20,649	1	0	76	23	0
Businesses by Geography	7,419	3	0	73	24	0
Farms by Geography	380	2	0	70	28	0
Family distribution by Income Level	22,283	19	17	22	42	0
Distribution of Low and Moderate Income Families throughout AA Geographies	22,283	4	0	74	22	0
Median Family Income, last Census 2000		\$38,696	Median Housing Value			\$75M
HUD Adjusted Median Family Income for 2008		\$48,600				
Households Below Poverty Level		16%	Unemployment Rate			2.95%
% Businesses with Revenues < \$1 million		96%	% Farms with Revenues < \$1 million			98%
% Businesses with Revenues > \$1 million		4%	% Farms with Revenues > \$1 million			2%

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.

The economy of this AA is stable. Craighead County's largest city is Jonesboro, population 59,000, and home to Arkansas State University. The primary industries are healthcare, education, finance, and agriculture. There are over twelve financial institutions competing in this AA. Details regarding population, median income, income distribution, and other demographic data are included in the table above.

Conclusions with Respect to Performance Tests

LENDING TEST

Loan-to-Deposit Ratio

FNBMH's average loan-to-deposit ratio of 68% is reasonable given its size, financial condition, competition, and AA's credit needs. The loan-to-deposit ratio was calculated using quarterly averages since the prior CRA evaluation as of November 4, 2002. The bank's average was then compared to the banks listed below, all having offices located within the bank's AA. Since Bank of the Ozarks and First Security Bank are much larger financial institutions conducting business throughout the state, and Twin Lakes Community Bank is smaller in size and branch distribution, only First National Banking Company, Heritage Bank, and FNB Lawrence County are considered to be similarly situated banks and are considered more closely when rating FNBMH's performance under this criteria.

Loan-to-Deposit Ratios		
Banks within the AA	Assets (000's) As of 6-30-08	Average LTD
Twin Lakes Community Bank	\$46,585	98%
First National Banking Company	\$418,997	96%
Heritage Bank	\$240,431	90%
Bank of the Ozarks	\$3,051,653	83%
First Security Bank	\$1,899,562	72%
First National Bank and Trust Company	\$351,664	68%
First National Bank of Lawrence County at Walnut Ridge	\$147,176	65%

Source: Institution Reports of Condition.

Lending in Assessment Area

The substantial majority of the number and dollar volume of FNBMH's loans are located in its AA. As indicated, 98% of the number of loans originated and 98% of the dollar volume of loans were to borrowers located within the bank's AA.

The chart below reflects the results sampling results of loans originated from January 1, 2007 through June 30, 2008 in the following categories.

Lending in Assessment Area										
Loan Types	Number of Loans Sampled					Dollars of Loans (000's)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Loans	51	94	3	6	54	3,331	97	113	3	3,444
Auto Loans	52	100	0	0	52	502	100	0	0	502
Small Business	66	99	1	1	67	15,556	97	498	3	16,054
Small Farm	28	100	0	0	28	8,328	100	0	0	8,328
Totals	197	98	4	2	1,572	27,717	98	611	2	28,328

Source: Bank data from loans originated from January 1, 2007 through June 30, 2008.

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

The distribution of the number of loans originated and dollar volume of home loans to low-income borrowers is below the distribution of low-income families in the Baxter / Marion County, Randolph County, and Craighead County AAs. However lending opportunities to these borrower's are limited given the percentage of families with incomes below the poverty level in these AAs. The distribution of the number loans originated and dollar volume of home loans to moderate-income borrowers is below the distribution of moderate-income families in the Baxter / Marion County AA, near the distribution of moderate-income families in the Randolph County AA, and exceeds the distribution of moderate-income families in the Craighead County AA.

The following charts reflect the distribution of home loans made by FNBM from January 1, 2007 through June 30, 2008 by the borrower's income levels.

Borrower Distribution - Home Loans Sampled								
Borrower Income Level	Low		Moderate		Middle		Upper	
% of AA Families Baxter and Marion County AA	17		20		26		37	
FNB Loans Made 2007 - 2008	% of Number	% of Amount						
	12	5	8	4	32	20	48	71
% of AA Families Randolph County AA	21		19		25		35	
FNB Loans Made 2007 - 2008	% of Number	% of Amount						
	16	6	16	15	56	54	12	25
% of AA Families Craighead County (MSA)	19		17		22		42	
FNB Loans Made 2007 - 2008	% of Number	% of Amount						
	0	0	67	76	0	0	33	24

Source: Bank data on loans originated from January 1, 2007 through June 30, 2008, HMDA Data, and 2000 U.S. Census Data

The distribution of the number of loans originated and dollar volume of automobile loans to low- and moderate -income borrowers is below the distribution of low- and moderate-income families in the Craighead County AA. The distribution of the number of loans originated and dollar volume of automobile loans to low- income borrowers is below the distribution of low-income families in the Randolph County AA and near the distribution of low-income families in the Baxter / Marion County AA. However lending opportunities to these borrower's are limited given the percentage of families with incomes below the poverty level in the Craighead and Randolph County AAs. The distribution of the number and dollar volume of automobile loans to moderate- income borrowers exceeds the distribution of moderate- income families in the Randolph and Baxter / Marion County AA's.

The following charts reflect the distribution of automobile loans made by FNBM from January 1, 2007 through June 30, 2008 by the borrower's income levels.

Borrower Distribution – Automobile Loans Sampled								
Borrower Income Level	Low		Moderate		Middle		Upper	
% of AA Families Baxter and Marion County (MSA)	17		20		26		37	
FNB Loans Made 2007 - 2008	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
	16	8	36	30	36	39	12	23
% of AA Families Randolph County	21		19		25		35	
FNB Loans Made 2007 - 2008	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
	12	8	20	24	16	16	52	52
% of AA Families Craighead County (MSA)	19		17		22		42	
FNB Loans Made 2007 - 2008	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
	0	0	0	0	0	0	100	100

Source: Bank data on loans originated from January 1, 2007 through June 30, 2008, HMDA Data, and 2000 U.S. Census Data

The distribution of the number and dollar volume of loans to businesses with revenues less than \$1 million is below the distribution of businesses with revenues less than \$1 million in the Randolph and Craighead County AA's. FNBMH acquired the former Bank of Pocahontas, Craighead County, in 2004 and opened its first branch in Craighead County in 2007. The distribution of the number and dollar volume of loans to businesses with revenues less than \$1 million is near the distribution of businesses with revenues less than \$1 million in the Baxter / Marion County AA.

The following charts reflect the distribution of loans to businesses with revenues less than \$1 million made by FNBM from January 1, 2007 through June 30, 2008.

Borrower Distribution of Businesses Loans Sampled in Baxter and Marion Counties		
Business Revenues	≤\$1,000,000	>\$1,000,000
% of Businesses in AA	98%	2%
% of Bank Loans in AA #	96%	4%
% of Bank Loans in AA \$	82%	18%

Source: Bank data on loans originated from January 1, 2007 through June 30, 2008 and 2000 U.S. Census Data

Borrower Distribution of Businesses Loans Sampled in Randolph County		
Business Revenues	≤\$1,000,000	>\$1,000,000
% of Businesses in AA	98%	2%
% of Bank Loans in AA #	72%	28%
% of Bank Loans in AA \$	53%	47%

Source: Bank data on loans originated from January 1, 2007 through June 30, 2008 and 2000 U.S. Census Data

Borrower Distribution of Businesses Loans Sampled in Craighead County (Jonesboro MSA)		
Business Revenues	≤\$1,000,000	>\$1,000,000
% of Businesses in AA	96%	4%
% of Bank Loans in AA #	82%	18%
% of Bank Loans in AA \$	86%	14%

Source: Bank data on loans originated from January 1, 2007 through June 30, 2008 and 2000 U.S. Census Data

FNBMH had no farm loans in the Craighead County AA from January 1, 2007 through June 30, 2008. The distribution of the number of loans originated and dollar volume of loans to farms with revenues less than \$1 million exceeds the distribution of farms with revenues less than \$1 million in the Baxter County AA. FNBMH is not an agricultural lender in Craighead County and has limited agricultural loan activity in Baxter / Marion County AA. The distribution of the number of loans originated and dollar volume of loans to farms with revenues less than \$1 million is below the distribution of farms with revenues less than \$1 million in the Randolph County AA. However, FNBMH is considered one of the county's three largest banks competing for agriculture loans in the Randolph County AA and has several large farm relationships which significantly lowered the percentage of dollars loaned to farms with revenues less than \$1 million.

The following charts reflect the distribution of loans to farms with revenues less than \$1 million made by FNBM from January 1, 2007 through June 30, 2008.

Borrower Distribution of Farm Loans Sampled in Baxter and Marion Counties		
Farm Revenues	≤\$1,000,000	>\$1,000,000
% of Farms in AA	100%	0%
% of Bank Loans in AA #	100%	0%
% of Bank Loans in AA \$	100%	0%

Source: Bank data on loans originated from January 1, 2007 through June 30, 2008 and 2000 U.S. Census Data

Borrower Distribution of Businesses Loans Sampled in Randolph County		
Farm Revenues	≤\$1,000,000	>\$1,000,000
% of Farms in AA	100%	0%
% of Bank Loans in AA #	80%	20%
% of Bank Loans in AA \$	37%	63%

Source: Bank data on loans originated from January 1, 2007 through June 30, 2008 and 2000 U.S. Census Data

Borrower Distribution of Businesses Loans Sampled in Craighead County (Jonesboro MSA)		
Farm Revenues	≤\$1,000,000	>\$1,000,000
% of Farms in AA	98%	2%
% of Bank Loans in AA #	0%	0%
% of Bank Loans in AA \$	0%	0%

Source: Bank data on loans originated from January 1, 2007 through June 30, 2008 and 2000 U.S. Census Data

Geographic Distribution of Loans

No analysis was performed to determine lending performance by geographic distribution of loans in low- and moderate-income AAs. There is only one low-income CT in the Craighead County AA and FNBMH has only had its branch open a year as of this date. Also, there are no moderate-income CTs in any of the three AAs.

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.

COMMUNITY DEVELOPMENT TEST

Performance under the community development test is satisfactory. FNBMH provides an adequate level of community development lending and CRA qualified investments given the limited opportunities to make these type loans or purchase qualified investments. FNBMH's level of participation in community development services though out their AA is good.

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.

Number and Amount of Community Development Loans

FNBMH is meeting the Community Development (CD) lending needs of its assessment area. Although opportunities are limited, the bank made one loan totaling \$48 thousand to a domestic violence victim shelter that primarily serves low- and moderate-income individuals. This loan is approximately 1% of the bank's capital. FNBMH has funded many housing and small business loans included in the lending test that also meet the underlying principle behind Community Development.

Number and Amount of Qualified Investments

Qualified investments are investments, deposits, grants, donations, or in-kind contributions of property that have as their primary purpose “Community Development” as defined in the CRA regulation.

FNBMH’s purchase of qualified CRA investments is satisfactory. During the evaluation period FNBMH purchased community development investments totaling \$4.12 million. FNBMH also purchased five qualified school district bonds and 21 qualified water and sewer bonds located in Randolph County, an area designated as a distressed or underserved non-metropolitan middle-income geography by the Federal Reserve, the OTS, the FDIC, and the OCC. Additionally, FNBMH’s qualified grants and donations during the assessment period totaled over \$72 thousand. FNBMH’s total qualified Investments and grants / donations represent approximately 9% of the bank’s capital.

Extent to Which the Bank Provides Community Development Services

FNBMH is very active in community development services based on its capacity and needs in the AA. Many of FNBMH’s employees are participate in various service related organizations. However, for the purposes of CRA, only the provision of financial or technical expertise to the benefit of individuals of low- to moderate-income or to small businesses and farms may be designated as qualified services. Some of the more notable qualified community development services that FNBMH’s employees participated in were:

- Teach Children to Save
Twenty FNBMH employees participated in this program to teach children about savings and the basics of finance at Nelson Wilkes Herron Elementary School, which serves primarily low- to moderate-income families.
- Mountain Home Education Foundation
An FNBMH employee served as Secretary of the organization’s Board of Directors where she provided technical assistance with the foundation’s financial matters. This foundation raises money for need-based scholarships primarily for low- and moderate-income individuals.
- Serenity, Inc.
An FNBMH employee served as Treasurer and Chair of the Finance Committee for this organization. This employee provided technical financial expertise with this non-profit corporation’s financial policies. Another FNBMH employee served as the Bookkeeping Consultant for this organization. This organization primarily serves low- and moderate-income individuals by providing shelter for victims of domestic violence.

- Baxter County Single Parent Scholarship Board
An FNBMH employee provided technical assistance on financial matters for this organization. This organization provides scholarships primarily for low- to moderate-income single parents.
- Pregnancy Resource Center
An FNBMH employee provided technical assistance for this organization's finances. This organization provides pre-natal services primarily low- to moderate-income women.
- Twin Lakes Community Foundation
An FNBMH employee served on the Board of Directors and provided technical assistance with this foundation's finances. This foundation provides grants to non-profit organizations that serve primarily low- to moderate-income individuals.

Responsiveness to Community Development Needs

FNBMH's primary delivery system is its branch network. In total, FNBMH has 10 branches, of which nine are full service branches, and one is a limited service branch. The bank sold one of its branches in the Randolph County AA. Two new branches were opened in the Baxter/Marion AA and two new branches were opened in the Craighead AA. FNBMH offers a wide variety of loan and deposit products. The bank's products and services include low cost checking, USDA Rural Housing, Community Homebuyer Programs for low- and moderate-income households, and SBA 504 and 7 (A) programs. Bookkeeping and data processing operations are located at the main branch in Mountain Home. Banking hours are reasonable throughout the AAs. Four of the nine full service branches and the limited service branch are open on Saturdays.

Alternative delivery systems include ATMs, telephone, and Internet banking services. The bank has five onsite ATMs and five offsite ATMs. There is no way to determine the effectiveness or accessibility of the telephone and Internet banking services to low- and moderate-income individuals.

Retail Banking Services

Baxter/Marion Counties AA

FNBMH's service delivery systems are reasonably accessible to geographies and individuals of different income levels in the AA. The Baxter/Marion Counties AA has four full service branches with onsite ATM, one full service branch without an ATM, one limited service branch and three stand-alone ATMs. All branch locations are found in middle-income census tracts. Based on the 2000 census, all census tracts are middle-income tracts.

Randolph County AA

FNBMH's service delivery systems are reasonably accessible to geographies and individuals of different income levels in the AA. The Randolph County AA has two full service branches and two stand alone ATMs. All locations are found in middle-income census tracts. Based on the 2000 census, all census tracts are middle-income tracts.

Craighead County AA

FNBMH's service delivery systems are reasonably accessible to geographies and individuals of different income levels in the AA. The Craighead County AA has two full service branches. All locations are found in middle-income census tracts. Based on the 2000 census, there is one low- and no moderate-income census tracts in the AA.

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.