



# SMALL BANK

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## PUBLIC DISCLOSURE

**April 6, 2009**

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

The First National Bank of McGehee  
Charter Number 16256

500 North Second Street  
McGehee, AR 71654

Office of the Comptroller of the Currency

LITTLE ROCK (MEMPHIS)  
10201 West Markham, Suite 105  
Little Rock, AR 72205-2180

**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 53% is reasonable given the bank's size, financial condition, and assessment area (AA) credit needs.
- ◆ A majority of loans (83%) by number are in the bank's AA.
- ◆ The distribution of loans reflects reasonable penetration among individuals of different income levels and businesses of different sizes.
- ◆ The geographic distribution of loans reflects outstanding dispersion throughout the AA

**SCOPE OF EXAMINATION**

The bank was evaluated using Small Bank Community Reinvestment Act (CRA) criteria. The bank is not located in Metropolitan Statistical Areas (MSA); therefore the bank is not a Home Mortgage Disclosure Act (HMDA) reporter. Loan information used for this evaluation included a sample of residential, consumer and business/commercial and farm loans made during 2008.

**DESCRIPTION OF INSTITUTION**

First National Bank of McGehee (FNB) is located in McGehee (Desha County), Arkansas (AR). The bank has the main banking office and a full-service branch in McGehee, and a paying and receiving branch in Tillar, AR (seven miles northwest of McGehee). All of the offices have drive-in facilities and the McGehee offices have automated teller machines (ATMs). As of December 31, 2008, the bank reported total assets of \$44 million with \$38 million in deposits and \$22 million in loans (50% of total assets). However, since the bank is located in a farming community, loans peak during October with about \$5 million more in loans than at year-end.

The bank's primary business focus is agriculture (cotton, rice, and soybeans), commercial, and commercial real estate loans. FNB offers residential real estate, home improvement, consumer, agriculture, commercial, and business loans. The loan portfolio composition as of December 31, 2008, is as follows:

| <b>Table 1 - Loan Portfolio Composition as of December 31, 2008</b> |                                  |                                   |
|---------------------------------------------------------------------|----------------------------------|-----------------------------------|
| <b>Loan Type</b>                                                    | <b>Dollar Amount<br/>(000's)</b> | <b>Percent of Total<br/>Loans</b> |
| Construction and Land Development                                   | 4,209                            | 19.50%                            |
| Secured by Farmland                                                 | 1,746                            | 8.09                              |
| One-to-Four Family Residential                                      | 3,147                            | 14.58                             |
| Commercial Real Estate                                              | 4,400                            | 20.39                             |
| <b>Total Real Estate Loans</b>                                      | <b>13,502</b>                    | <b>62.56%</b>                     |
| <b>Agricultural</b>                                                 | <b>1,186</b>                     | <b>5.50</b>                       |
| <b>Commercial and Industrial</b>                                    | <b>3,385</b>                     | <b>15.69</b>                      |
| <b>Consumer</b>                                                     | <b>2,839</b>                     | <b>13.16</b>                      |
| <b>Other</b>                                                        | <b>669</b>                       | <b>3.09</b>                       |
| <b>Total Loans</b>                                                  | <b>21,581</b>                    | <b>100.00%</b>                    |

Source: *Report of Condition*

FNBM offers convenient banking hours and a variety of loan and deposit products to meet the needs of the AA. There are no financial impediments that would limit the bank's ability to help meet the credit needs in its AA.

The bank is 100% owned by First National Financial Corporation, a one-bank holding company located in McGehee, AR. The bank's last CRA examination was performed as of March 31, 2003, and was rated **Satisfactory**.

## **DESCRIPTION OF ASSESSMENT AREA**

FNBM's AA is all of Desha County and the northern parts of adjacent Chicot and the western parts of adjacent Drew Counties. Desha County has five Census Tracts (CTs)/Block Numbering Areas (BNAs), one CT is in Chicot County, and one CT is in Drew County. The AA meets the requirements of the regulation and does not arbitrarily exclude low- and moderate-income geographies. The Median Family Income (MFI) for non Metropolitan Statistical Areas (MSA) in Arkansas was \$34,263 in 2000. This income figure is used to determine the income level of individual CTs. There are three moderate-income CTs and four middle-income CTs. The 2008 Housing and Urban Development (HUD) estimated MFI for non-MSA in Arkansas was \$42,000. HUD estimated MFI is updated annually and is used to determine the income level of individual applicants. The income ranges for the four income levels are as follow: Low-Income = under \$21,000; Moderate-Income = \$21,000 - \$33,599; Middle-Income = \$33,600 - \$50,400; and, Upper-Income = above \$50,400

McGehee is located in the Mississippi Delta, in the southeastern part of the state. McGehee has a population of 4,570 people according to the 2000 census, a decrease from 5,671 at the 1990 census. Desha County has a population of 14,341 people according to the 2000 census, a decrease from 16,978 at the 1990 census. The two largest cities in Desha County are McGehee and Dumas (18 miles north of McGehee and with a population of 5,238 people according to the 2000 census). The economy of Desha, Chicot, and Drew Counties is considered to be stagnant and is predicated primarily in row crop farming. The Mississippi Delta is considered one of the poorest areas in Arkansas in terms of personal income.

There are limited employment opportunities in Desha County with the largest employer being the Potlatch Corporation that manufactures paper products. The number of employees is about 350. Unemployment rate, not seasonally adjusted as of February 2009 was 11.0% for Desha County, 11.4% for Chicot County and 10.1% for Drew County. The unemployment rates for Desha, Chicot, and Drew Counties are significantly above the Arkansas average of 7.3% and the U.S. average of 8.9% as of February 2009.

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

| <b>Table 2 - Demographic and Economic Characteristics of FNB of McGehee AA</b> |          |                                                            |                 |               |                                           |                       |
|--------------------------------------------------------------------------------|----------|------------------------------------------------------------|-----------------|---------------|-------------------------------------------|-----------------------|
| Demographic Characteristics                                                    | # Total  | Low % of #                                                 | Moderate % of # | Middle % of # | Upper % of #                              | N/A* % of #           |
| Geographies (Census Tracts/BNAs)                                               | 5        | 0%                                                         | 42.86%          | 57.14%        | 0%                                        |                       |
| Population by Geography                                                        | 21,519   | 0%                                                         | 43.37%          | 56.63%        | 0%                                        |                       |
| Owner-Occupied Housing by Geography                                            | 5,473    | 0%                                                         | 39.05%          | 60.95%        | 0%                                        |                       |
| Businesses by Geography                                                        | 1,923    | 0%                                                         | 27.87%          | 72.13%        | 0%                                        |                       |
| Farms by Geography                                                             | 216      | 0%                                                         | 17.59%          | 82.41%        | 0%                                        |                       |
| Family distribution by Income Level                                            | 5,871    | 28.48%                                                     | 17.82%          | 18.69%        | 35.02%                                    |                       |
| Distribution of Low and Moderate Income Families throughout AA Geographies     | 2,718    | 0%                                                         | 50.52%          | 49.48%        | 0%                                        |                       |
| Median Family Income, 2000 Census                                              | \$34,263 | Median Housing Value (as of 2000)                          |                 |               | \$40,339                                  |                       |
| HUD Adjusted Median Family Income for 2008                                     | \$42,000 | Unemployment Rate: February 2009 (not seasonally adjusted) |                 |               |                                           |                       |
| Households Below Poverty Level                                                 | 27.48%   |                                                            |                 |               | United States<br>Arkansas<br>Desha County | 8.9%<br>7.3%<br>11.0% |
| % Businesses with Revenues < \$1 million                                       | 43.11%   | % Farms with Revenues < \$1 million                        |                 |               | 94.44%                                    |                       |
| % Businesses with Revenues > \$1 million                                       | 2.81%    | % Farms with Revenues > \$1 million                        |                 |               | 2.78%                                     |                       |

Source: 2000 U.S. Census data; 2007 HUD updated income data; Dun and Bradstreet; Bureau of Labor Standards.

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

A community contact with the President of McGehee's Chamber of Commerce was conducted in conjunction with this CRA examination. This contact revealed that local banks are meeting the primary credit needs in the area.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

### Loan-to-Deposit Ratio

FNBM's loan-to-deposit ratio is reasonable given the bank's size, financial condition, and AA credit needs and is satisfactory. There are two other banks that are headquartered in Desha County and are somewhat similarly situated in the AA. These banks are McGehee Bank, McGehee, AR and the Merchants and Farmers Bank, Dumas, AR. There are four

banks with branches in Desha County and FNB has 11.89% of the deposit market share based on the June 30, 2008, FDIC Deposit Market Share Report. FNB is ranked third. McGehee Bank is ranked first with 27.02% of the deposit market share and the Merchants and Farmers Bank, is ranked second with 19.39% of the deposit market share. The following table shows total assets as of December 31, 2008, and the quarterly average loan-to-deposit ratio from March 30, 2003 through December 31, 2008 (24 quarters), for these three similarly situated banks.

| <b>Table 3 - Loan-to-Deposit Ratios</b>     |                           |                   |
|---------------------------------------------|---------------------------|-------------------|
| Institution                                 | Assets (as of 12-31-2008) | Average LTD Ratio |
| <b>First National Bank,<br/>McGehee, AR</b> | <b>\$44 million</b>       | <b>52.53%</b>     |
| McGehee Bank,<br>McGehee, AR                | \$112 million             | 67.87%            |
| Merchants and Farmers Bank,<br>Dumas, AR    | \$74 million              | 65.84%            |

Source: *Institution Reports of Condition*.

## Lending in Assessment Area

A majority of FNB loans (83%) by number are in the bank's AA and is satisfactory. A sample of 20 residential real estate loans, 20 consumer loans, 20 business loans and 20 agriculture loans made during 2008 was reviewed to determine lending within the AA. Lending within the AA is detailed in the following table.

| Loan Type   | Number of Loans |     |         |     | Dollars of Loans (000) |        |     |         | Total |       |  |
|-------------|-----------------|-----|---------|-----|------------------------|--------|-----|---------|-------|-------|--|
|             | Inside          |     | Outside |     | Total                  | Inside |     | Outside |       |       |  |
|             | #               | %   | #       | %   |                        | \$     | %   | \$      |       |       |  |
| Residential | 17              | 85% | 3       | 15% | 20                     | 916    | 60% | 600     | 40%   | 1,516 |  |
| Consumer    | 17              | 85% | 3       | 15% | 20                     | 218    | 87% | 33      | 13%   | 251   |  |
| Business    | 14              | 70% | 6       | 30% | 20                     | 1,377  | 45% | 1,678   | 55%   | 3,055 |  |
| Agriculture | 18              | 90% | 2       | 10% | 20                     | 3,184  | 98% | 56      | 2%    | 3,240 |  |
| Totals      | 66              | 83% | 14      | 17% | 80                     | 5,695  | 71% | 2,367   | 29%   | 8,062 |  |

Source: sample of loans used for CRA performance analysis.

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

The distribution of borrowers reflects, given the demographics of the AA, reasonable penetration among individuals of different income levels (including low-and moderate-income) and businesses of different sizes and is satisfactory. The poverty level in the AA at 27.48% hinders the bank's ability to make loans to low- and moderate-income borrowers, particularly for residential real estate loans, due to down payment and term requirements. The poverty level in the AA equals to approximately 96.49% of the low income AA families.

The same samples for lending within the AA were used to determine lending to borrowers of different incomes. While lending to different income levels varied within the bank's AA,

the overall lending pattern is satisfactory.

| <b>Table 5 - Borrower Distribution of Residential Real Estate Loans In FNB of McGehee AA</b> |              |             |              |             |              |             |              |             |
|----------------------------------------------------------------------------------------------|--------------|-------------|--------------|-------------|--------------|-------------|--------------|-------------|
| Borrower Income Level                                                                        | Low          |             | Moderate     |             | Middle       |             | Upper        |             |
| % of AA Families                                                                             | <b>32.45</b> |             | <b>15.50</b> |             | <b>16.16</b> |             | <b>35.89</b> |             |
| Loan Year<br>2008                                                                            | % of Number  | % of Amount |
| Home Purchase                                                                                | 20.00%       | 1.51%       | 0%           | 0%          | 10%          | 2.74%       | 70.00%       | 95.76%      |

Source: *Loan sample and U.S. Census data.*

The above table shows that residential real estate loans were made to low-income but not to moderate-income borrowers. Residential real estate loans, by number, made to low-income borrowers is somewhat lower than the percentage of low-income families in the AA and is considered to be adequate performance. Since there were no residential real estate loans to moderate-income borrowers, the bank's performance is considered to be poor.

| <b>Table 5A – Borrower Distribution of Consumer Loans in FNB of McGehee AA</b> |              |             |              |             |              |             |              |             |
|--------------------------------------------------------------------------------|--------------|-------------|--------------|-------------|--------------|-------------|--------------|-------------|
| Borrower Income Level                                                          | Low          |             | Moderate     |             | Middle       |             | Upper        |             |
| % of AA Households                                                             | <b>28.48</b> |             | <b>17.82</b> |             | <b>18.69</b> |             | <b>35.01</b> |             |
| Loan Type<br>2008                                                              | % of Number  | % of Amount |
|                                                                                | 23.53%       | 18.66%      | 29.41%       | 13.31%      | 23.53%       | 29.52%      | 23.53%       | 38.51%      |

Source: *Loan sample and U.S. Census data.*

The above table shows that consumer loans were made to low-income and moderate-income borrowers. Consumer loans, by number, made to low income borrowers are near to the percentage of low-income households in the AA and are considered to be good performance. Consumer loans, by number, made to moderate income borrowers exceed the percentage of moderate-income households in the AA and are considered to be outstanding.

| <b>Table 5B – Borrower Distribution of Loans to Businesses in FNB of McGehee AA</b> |              |              |                    |
|-------------------------------------------------------------------------------------|--------------|--------------|--------------------|
| Business Revenues(or Sales)                                                         | ≤\$1,000,000 | >\$1,000,000 | Revenues not known |
| % of AA Businesses                                                                  | <b>43.11</b> | <b>2.81</b>  | <b>34.08</b>       |
| % of Bank Loans in AA by #                                                          | 92.86%       | 7.14%        | 0%                 |
| % of Bank Loans in AA by \$                                                         | 38.25%       | 61.75%       | 0%                 |

Source: *Loan sample and Dun and Bradstreet data*

The above table shows that small business loans to borrowers with revenues under \$1,000,000, by number and dollar volume of loans, exceed the numbers of small businesses with revenues under \$1,000,000 in the AA and are considered to be

outstanding.

| <b>Table 5C – Borrower Distribution of Loans to Farms in FNB of McGehee AA</b> |              |              |                    |
|--------------------------------------------------------------------------------|--------------|--------------|--------------------|
| Business Revenues(or Sales)                                                    | <\$1,000,000 | >\$1,000,000 | Revenues not known |
| % of AA Businesses                                                             | <b>94.44</b> | <b>2.78</b>  | <b>2.78</b>        |
| % of Bank Loans in AA by #                                                     | 100.00%      | 0%           | 0%                 |
| % of Bank Loans in AA by \$                                                    | 100.00%      | 0%           | 0%                 |

*Source: Loan sample and Dun and Bradstreet data*

The above table shows that small farm loans to borrowers with revenues under \$1,000,000, by number and dollar volume of loans, exceed the numbers of small farms with revenues under \$1,000,000 in the AA and are considered to be outstanding.

### **Geographic Distribution of Loans**

The geographic distribution of loans reflects excellent dispersion throughout the AA and is outstanding. The same samples for lending within the AA were used to determine lending to borrowers of various geographic areas. The following tables show the distribution of residential real estate, consumer, and business/commercial loans within the various CT/BNA income levels.

| <b>Table 6 - Geographic Distribution of Residential Real Estate Loans in FNB of McGehee AA</b> |             |             |              |             |               |             |             |             |
|------------------------------------------------------------------------------------------------|-------------|-------------|--------------|-------------|---------------|-------------|-------------|-------------|
| Census Tract Income Level                                                                      | Low         |             | Moderate     |             | Middle        |             | Upper       |             |
| %of AA Owner Occupied Housing                                                                  | <b>0</b>    |             | <b>39.05</b> |             | <b>60.955</b> |             | <b>0</b>    |             |
| Loan Year 2008                                                                                 | % of Number | % of Amount | % of Number  | % of Amount | % of Number   | % of Amount | % of Number | % of Amount |
| Home Purchase                                                                                  | 0           | 0           | 82.35%       | 94.93%      | 17.65%        | 5.07%       | 0%          | 0%          |

*Source: Loan sample and U.S. Census data.*

The above table shows that the bank is making residential real estate loans to borrowers located in the moderate-income CTs. The sample of residential real estate loans, by number and dollar amount, made to borrowers residing in moderate-income tracts exceeds the percentage of owner-occupied houses in moderate-income tracts and is considered to be outstanding.

| <b>Table 6A - Geographic Distribution of Consumer Loans in FNB of McGehee AA</b> |             |             |              |             |              |             |             |             |
|----------------------------------------------------------------------------------|-------------|-------------|--------------|-------------|--------------|-------------|-------------|-------------|
| Census Tract Income Level                                                        | Low         |             | Moderate     |             | Middle       |             | Upper       |             |
| % of AA Households                                                               | <b>0</b>    |             | <b>42.57</b> |             | <b>57.43</b> |             | <b>0</b>    |             |
| Loan Year 2008                                                                   | % of Number | % of Amount | % of Number  | % of Amount | % of Number  | % of Amount | % of Number | % of Amount |
| Consumer                                                                         | 0           | 0           | 100%         | 100%        | 0%           | 0%          | 0%          | 0%          |

Source: *Loan sample and U.S. Census data.*

The above table shows that the bank is making consumer loans to borrowers located in the moderate-income CT/BNAs. The sample of consumer loans, by number and dollar amount, made to borrowers residing in moderate-income tracts exceed the percentage of borrowers in moderate-income tracts and is considered to be outstanding performance.

| <b>Table 6B - Geographic Distribution of Business Loans in FNB of McGehee AA</b> |             |             |              |             |              |             |             |             |
|----------------------------------------------------------------------------------|-------------|-------------|--------------|-------------|--------------|-------------|-------------|-------------|
| Census Tract Income Level                                                        | Low         |             | Moderate     |             | Middle       |             | Upper       |             |
| % of AA Businesses                                                               | <b>0</b>    |             | <b>27.87</b> |             | <b>72.13</b> |             | <b>0</b>    |             |
| Loan Year                                                                        | % of Number | % of Amount | % of Number  | % of Amount | % of Number  | % of Amount | % of Number | % of Amount |
| 2008                                                                             | 0           | 0           | 92.86%       | 92.73%      | 7.14%        | 7.27%       | 0%          | 0%          |

Source: *Loan sample and U.S. Census data.*

The above tables show that most of the business loans are made to borrowers located in the moderate-income CTs. The sample of business loans, by number and dollar volume, made to borrowers residing in moderate-income tracts substantially exceeds the percentage of businesses located in the moderate-income CTs and is considered to be outstanding.

| <b>Table 6c - Geographic Distribution of Farm Loans in FNB of McGehee AA</b> |             |             |              |             |              |             |             |             |
|------------------------------------------------------------------------------|-------------|-------------|--------------|-------------|--------------|-------------|-------------|-------------|
| Census Tract Income Level                                                    | Low         |             | Moderate     |             | Middle       |             | Upper       |             |
| % of AA Businesses                                                           | <b>0</b>    |             | <b>17.59</b> |             | <b>72.41</b> |             | <b>0</b>    |             |
| Loan Year                                                                    | % of Number | % of Amount | % of Number  | % of Amount | % of Number  | % of Amount | % of Number | % of Amount |
| 2008                                                                         | 0           | 0           | 77.78%       | 32.00%      | 22.22%       | 68.00%      | 0%          | 0%          |

Source: *Loan sample and U.S. Census data*

The above tables show that most of the farms loans are made to borrowers located in the moderate-income CTs. The sample of farm loans, by number and dollar volume, made to borrowers residing in moderate-income tracts substantially exceeds the percentage of businesses located in the moderate-income CTs and is considered to be outstanding.

## **Responses to Complaints**

FNB-McGehee 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.