



SMALL BANK

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

PUBLIC DISCLOSURE

January 23, 2007

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The First National Bank of Lawrence County at Walnut Ridge
Charter Number 11312**

**202 West Main Street
Walnut Ridge, AR 72476**

**Comptroller of the Currency
Little Rock (Memphis)
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.

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 CRA performance of First National Bank of Lawrence County, Walnut Ridge, Arkansas, as prepared by **The Comptroller of the Currency**, the institution's supervisory agency, as of January 23, 2007. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.

INSTITUTION'S CRA RATING IS SATISFACTORY:

The conclusion is based on the following:

- **A substantial majority of loans are made in the assessment area.**
- **The distribution of loans reflects good penetration among individuals of different income levels (including low and moderate income) and businesses of different sizes.**
- **The loan to deposit ratio is reasonable given the bank's size, financial condition, and the assessment area credit needs.**

DESCRIPTION OF INSTITUTION

First National Bank of Lawrence County (FNB), with assets of \$131.4 million, is located in Walnut Ridge, Arkansas. The bank's primary business focus is residential real estate, commercial, consumer, and agricultural loans with the loan portfolio representing approximately 60 percent of total assets. The bank's loan portfolio composition as of September 30, 2006, is as follows:

Loan Type	\$ Volume (000)	% of Portfolio
Residential Real Estate	35,479	45%
Agricultural	25,532	32%
Commercial	11,516	14%
Consumer & Other	6,915	9%
Total	79,442	100%

FNB only operates in Arkansas. The main facility is located in Walnut Ridge, and they have three branches, Hoxie, Pocahontas, and Walnut Ridge. They are also affiliated with the holding company First National Capital Corporation. The bank offers a full range of banking services that are accessible at the branches and main office. There are no legal, merger and acquisition, or financial constraints that prohibit the bank from meeting the assessment areas credit needs. FNB received a satisfactory CRA rating at its previous evaluation dated June 11, 2001.

The bank's market share totals 36.85 percent within Lawrence County, and totals 9.09 percent in Randolph County. Deposit competition consists of two state banks, three national banks and one savings and loan. Refer to the table below for a breakdown of deposit market shares as of June 30, 2006, for the combined assessment area of Lawrence and Randolph Counties.

Deposit Market Share Within Assessment Area			
FNB	State Banks	National Banks	Savings & Loan
22.97%	8.57%	27.88%	40.60%

DESCRIPTION OF ASSESSMENT AREA

The bank's assessment area (AA) consists of Lawrence and Randolph County, located in north-central Arkansas, containing eight middle income geographies. The assessment area meets the requirements of the regulation and does not arbitrarily exclude low and moderate-income geographies. The 2000 Census median family income for Non-Metropolitan Statistical Areas (MSA) in Arkansas, including the assessment area, was \$32,868.

According to the 2000 U.S. Census demographic data, Lawrence County reported a population of 17,774 and Randolph County reported a population of 18,195 with 18 percent of households showing income below the poverty level in the AA. The 2006 updated median family income (MFI) is \$40,000 for non-MSA in Arkansas. This income figure is updated annually and for purposes of this evaluation was to determine the income levels of borrowers.

There are 10,329 families in the assessment area of which 2,128 (21%) are low-income, 1,975 (19%) are moderate-income, 2,515 (24%) are middle-income and 3,711 (36%) are upper-income. The average cost of housing in the assessment area is \$48,658, with owner occupied housing representing 64 percent of the population.

Unemployment in the AA is high compared to the state and national averages. The unemployment rate in Lawrence County was 7 percent in 2005, and Randolph County was 7.4 percent. In contrast, the State of Arkansas' unemployment rate was 5.1 percent and the national average was 5.6 percent. The unemployment can best be explained by the limited growth of new employment opportunities in that market.

The bank's AA currently has three primary industries. Service related businesses account for 24.08 percent, retail trade for 16.11 percent, and agriculture for 10.22 percent of local employers. Some of the larger employers in the area are Lawrence Memorial Hospital and Douglas Quick Cut, which employ approximately 200 people each. There are several smaller businesses located in the area such as Waterloo Industries, Pinnacle Frame & Accents, and MacLean-ESNA.

The 2005 Business Demographic Data reported 236 farms in the AA. Two hundred twenty-four or 96 percent had gross annual revenue of \$1 million or less. In addition, there are 2,073 businesses in the AA. Of these businesses, 1,060 or 51 percent had gross annual income of \$1 million or less and considered to be small businesses.

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

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA	
Population	
Number of Families	10,329
Number of Households	14,394
Geographies	
Number of Census Tracts/BNA	8
% Low-Income Census Tracts/BNA	0%
% Moderate-Income Census Tracts/BNA	0%
% Middle-Income Census Tracts/BNA	100%
% Upper-Income Census Tracts/BNA	0%
Median Family Income (MFI)	
2000 MFI for AA	\$32,868
2006 HUD-Adjusted MFI	\$40,000
Economic Indicators	
Unemployment Rate (December 2006)	7.2%
2006 Median Housing Value	\$48,658
% of Households Below Poverty Level	18%

One community contact was made during this CRA review period. According to the contact person there were no credit needs identified that have not been adequately satisfied by area financial institutions.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The loan to deposit ratio is reasonable given the bank's size, financial condition, and AA credit needs. For purposes of the loan to deposit ratio, the quarterly loan to deposit ratio was calculated for the last 18 quarters.

Financial Institution	Assets (as of 9/30/06)	Average LTD Ratio
First National Bank of Lawrence County	131.4 million	63.44%
Similarly situated institutions N/A	N/A	N/A%

Lending in Assessment Area

A substantial majority of loans and other lending-related activities are in the bank's AA. For the time period of January 1, 2006, through December 31, of 2006, the bank made a total of 1,487 new loans totaling \$51 million with 1,370 totaling \$46 million made inside the bank's AA.

Lending within the AA is detailed in the following table.

TOTAL LOAN PORTFOLIO								
	LOANS IN ASSESSMENT AREA				LOANS OUT OF ASSESSMENT AREA			
	#	%	\$(000s)	%	#	%	\$(000s)	%
Total Loans	1,370	92%	\$46,419	91%	117	8%	\$4,712	9%

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

A random sample of 80 loans were reviewed, which consisted of 20 consumer loans, 20 commercial loans, 20 real estate loans, and 20 agriculture loans. The loans reviewed reflect the demographics of the AA, penetration among individuals in all income levels (including low and moderate income), and loans to businesses of different sizes.

Our review shows that the bank has an excellent record of making loans to low- and moderate-income individuals. The analysis reflected that the percentage of loans to low- and moderate-income families is greater than the percentages of low- and moderate-income families in the AA. The following table reflects the results of the sample.

Distribution of Loans in Assessment Area by Borrower Income										
	Low		Moderate		Middle		Upper		Total	
	#	%	#	%	#	%	#	%	#	%
Family within Census Tracts	2,128	21%	1,975	19%	2,515	24%	3,711	36%	10,329	100%
Borrower Distribution of Loans	12	30%	8	20%	9	22.5%	11	27.5%	40	100%

FNB also has a good record of making loans to small businesses, small farms, and businesses of different sizes. From the loan sample, the analysis shows that the bank made 36 commercial and farm loans or 90 percent to businesses or farms with revenues of \$1 million or less.

Geographic Distribution of Loans

An analysis of the geographic distribution of the bank's lending was not performed as part of this evaluation. The analysis would not be meaningful since none of the eight geographies in the AA are designated as low- or moderate-income.

Responses to Complaints

No complaints have been received from the public specifically related to the bank's performance in helping to meet community credit needs.

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.