



INTERMEDIATE SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

May 18, 2009

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First National Bank
Charter Number: 5929

135 Section Line Road
Hot Springs, AR 71903

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: Outstanding.

Summarize the major factors supporting the institution's rating.

- The loan-to-deposit ratio is reasonable, as compared to similarly situated institutions.
- A substantial majority of HMDA loans originated in the bank's assessment area.
- Distribution of loans to low- and moderate-income borrowers is good.
- Geographic distribution of loans is adequate.
- FNB has an outstanding level of community development loans, qualified investments, and community development services.

Scope of Examination

Evaluation Period/Products Evaluated

First National Bank is examined using the intermediate small bank examination procedures. The evaluation period for this CRA Performance Evaluation covers August 17, 2007 through May 18, 2009. These dates reflect the date the two banks in the bank's holding company merged. Refer to Description of Institution below. Loan products used to assess the bank's performance under the Lending Test include home mortgage loans and a sample of small loans to businesses and farms, and include loan originations from January 2, 2007, to December 31, 2008. Community development activities (loans, qualified investments, and services) were reviewed over the evaluation period.

Data Integrity

The accuracy of HMDA loans collected by the bank for 2007 and 2008 was reviewed. The HMDA data was found to be accurate. Additionally, community development loans, qualified investments, and community development services were reviewed to determine if these activities met the regulatory definition for community development. The bank's internal auditors review HMDA annually.

Selection of Areas for Full-Scope Review

FNB's assessment areas consist of nine non-MSA counties in southwest Arkansas (Little River, Sevier, Hempstead, Howard, Polk, Pike, Montgomery, Scott, and Clark), two census tracts in the Little Rock-North Little Rock MSA #30780 (one in Pulaski County and one in Saline County), portions of the Texarkana, AR/TX MSA #45500, and the Hot Springs, AR MSA #26300. The non-MSA counties and the Hot Springs, AR MSA were chosen for the full-scope review. More than 97 percent of the HMDA data originated in these assessment areas. The Little Rock-North Little Rock MSA and the Texarkana, AR/TX MSA were chosen for the limited-scope review.

Description of Institution

First National Bank (FNB) is owned by First National Security Company (FNSC), a multi-bank holding company headquartered in Hot Springs, Arkansas. As of year-end 2008, holding company assets totaled \$770 million. The original charter of First National Bank was based in DeQueen, Arkansas (Charter #5929). In 2005, FNSC bought First Community Banking Corporation (FCBC), a multi-bank holding company based in Hot Springs, AR. FCBC held banks in Mena, Mount Ida, Hot Springs, and Glenwood, AR. Throughout 2005 and 2006 a series of mergers left two charters by FNSC—one in Hot Springs and one in DeQueen, AR. These two institutions merged in August 2007, moving the original charter to Hot Springs. The total assets of FNB as of December 31, 2008, were \$680 million. FNB is an intrastate bank, which operates one main office and 28 branches in southwest and central Arkansas. Nineteen branches are full-service and have automated teller machines. During the evaluation period, FNB opened two branches and closed one. FNB has numerous competitors in its four assessment areas, ranging from locally owned institutions to regional and nationwide institutions.

The bank's primary business focus is commercial real estate, commercial, and residential real estate lending. FNB also offers a wide range of consumer loan products such as automobile, recreational vehicles, secured, unsecured, and fixed and adjustable rate real estate mortgage loans. FNB offers government-guaranteed/sponsored loan programs for residential mortgage and small business loans. FNB's loan portfolio composition as reported in the December 31, 2008 Report of Condition and Income is as follows:

Loan Category	\$ (000)	%
Commercial Real Estate Loans	199,577	44.42%
Commercial Loans	55,204	12.29%
Residential Real Estate Loans	118,308	26.32%
Farmland and Agriculture Loans	44,350	9.87%
Consumer Loans	31,889	7.10%
Total	449,328	100.00%

Source: 12/31/2008 Call Report

Table 1

There are no financial impediments that would limit the bank's ability to help meet the credit needs in its assessment area. FNB's net loans represent 66 percent of total assets and Tier 1 Capital is \$130 million according to the December 31, 2008 Call Report. The last CRA examination for this charter (when the bank was First National Bank of DeQueen, AR) was dated April 19, 2004. The bank was rated "**Satisfactory**."

Description of Assessment Area(S)

Hot Springs, AR MSA #26300

The Hot Springs, AR MSA #26300 consisting of Garland County, is located in western Arkansas. The city of Hot Springs is a major attraction in the MSA and the state. Hot Springs is a resort community. There are two lakes in the city, historic Bathhouse Row, and numerous condominiums and lake homes. Hot Springs is home to Oaklawn Park, a horse racing track. The 2000 Census shows the population of the MSA at 79,974 persons. The table below shows the demographic statistics for the assessment area based on 2000 Census data. The local economy is diversified. Major employers include medical, retail,

tourism, education, and manufacturing. The 2008 unemployment figure for Garland County was 5.2%. This figure is slightly lower than the state unemployment rate of 5.7% and the national unemployment rate of 5.8%.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF HOT SPRINGS MSA	
Population	
Number of Families	22,461
Number of Households	33,875
Geographies	
Number of Census Tracts/BNA	18
% Low-Income Census Tracts/BNA	0.00%
% of Moderate-Income Census Tracts/BNA	33.33%
% of Middle-Income Census Tracts/BNA	55.56%
% of Upper-Income Census Tracts/BNA	11.11%
Median Family Income (MFI)	
2000 MFI for Assessment Area	\$38,002
2008 HUD-Adjusted MFI	\$45,900
Economic Indicators	
Unemployment Rate (2008)	5.2%
2000 Median Housing Value	\$72,263
% of Households Below Poverty Level	15%

Non-MSA Counties (Little River, Sevier, Hempstead, Howard, Polk, Pike, Montgomery, Scott, and Clark)

The non-MSA counties are located in the southwestern portion of Arkansas. The 2000 Census reports the total population of the nine contiguous counties at 108,295 persons. With the exception of Howard County, all the counties have either distressed or underserved middle-income census tracts. Distressed or underserved middle-income census tracts can have activities which revitalize or stabilize an area receive Community Reinvestment Act (CRA) consideration as “community development.” The table below shows the demographic statistics for the assessment area based on 2000 Census data.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF NON-MSA COUNTIES	
Population	
Number of Families	30,792
Number of Households	40,233
Geographies	
Number of Census Tracts/BNA	29
% Low-Income Census Tracts/BNA	0.00%
% of Moderate-Income Census Tracts/BNA	0.00%
% of Middle-Income Census Tracts/BNA	96.55%
% of Upper-Income Census Tracts/BNA	3.45%
Median Family Income (MFI)	
2000 MFI for Assessment Area	\$34,263
2008 HUD-Adjusted MFI	\$42,000
Economic Indicators	
Unemployment Rate (Avg of 9 Non-MSA Counties for 2008)	4.9%
2000 Median Housing Value	\$52,257
% of Households Below Poverty Level	18%

Local employment for the area is centered in manufacturing, education, medical, retail, and

timber. Unemployment rates for the counties in 2008 range from a low of 3.7% to a high of 5.7%, and averaged 4.9%. This average rate is slightly lower than the state unemployment rate of 5.7% and the national unemployment rate of 5.8%.

Non-MSA Counties	2008 Unemploy- ment Rate (%)
Clark County, AR	5.4
Hempstead County, AR	5.5
Howard County, AR	5.2
Little River County, AR	3.7
Montgomery County, AR	5.3
Pike County, AR	5.7
Polk County, AR	4.8
Scott County, AR	4.4
Sevier County, AR	3.7
Average	4.9

A community contact was conducted in Garland County and information cited in this evaluation was taken from this contact. This contact provides services for clients selling and purchasing real estate in Garland County. The contact stated the economic conditions in the area are consistent and stable when compared to the remainder of the state. Affordable housing is said to be adequate and housing values remain stable. The contact indicated the primary concern for residents is education.

Conclusions with Respect to Performance Tests

LENDING TEST

Loan-to-Deposit Ratio

FNB's loan-to-deposit (LTD) ratio is reasonable given its size, financial condition, and assessment area credit needs. The bank, as it currently exists, was formed August 17, 2007. Refer to the **Description of Institution** for information on merger activity. The LTD ratio was calculated over seven quarters beginning with the third quarter of 2007. FNB's average loan-to-deposit ratio was 78.23 percent. Similarly situated banks' loan-to-deposit ratio ranged from a low of 70.88 percent to a high of 101.85 percent. The following table shows FNB's average LTD ratio and similarly situated institutions.

Financial Institution	Assets (000s) as of 3/31/2009	Average LTD Ratio
First National Bank	\$695,402	78.23%
First State Bank of DeQueen	\$138,851	96.21%
Diamond Bank	\$406,139	70.88%
Hot Springs Bank & Trust Company	\$92,098	101.85%
The Union Bank of Mena	\$149,140	84.28%

Lending in Assessment Area

A substantial majority of FNB loans were made to borrowers located within the bank’s assessment area(s). Eighty-eight percent of the number and 83 percent of the dollar volume of home mortgage loans originated in the bank’s assessment area. A sample of small loans to businesses (24) and small loans to farms (10) was taken for use in the lending analysis of this Performance Evaluation. A majority (77 percent of the number and 69 percent of the dollar volume) of small loans to businesses and small loans to farms originated in the assessment area.

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

Based on the demographics of the assessment area(s), the bank’s distribution of loans reflects reasonable penetration among individuals of different income levels (including low- and moderate-income) and businesses and farms of different sizes. More weight is given to HMDA loans as mortgage products comprise 26 percent of the bank’s loan portfolio.

Hot Springs, AR MSA

The following table reflects that FNB has good loan distribution of loans to low- and moderate-income borrowers for home mortgage products. Loan distribution to low-income borrowers is low as compared to the percentage of low-income families. Demographic data shows that 15.19 percent of households are below the poverty level in Garland County, making it more difficult to loan to low-income applicants. The bank’s loan distribution to moderate-income borrowers is near to the percentage of moderate-income families in the assessment area.

Borrower Distribution of Residential Real Estate Loans in Hot Springs AR MSA 26300 (Garland County) AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Purchase	20.98	4.44	18.48	15.56	22.48	15.56	38.06	55.56
Home Improvement	20.98	0.00	18.48	42.86	22.48	9.93	38.06	28.57
Refinance	20.98	4.65	18.48	13.95	22.48	65.31	38.06	51.16

Source: Indicate source, i.e., loan sample or data reported under HMDA; U.S. Census data. Income NA for 8.89% of Home Purchase and 11.63% of Refinance.

Based on the sample of small loans to businesses for the Hot Springs, AR MSA, the percentage of the number of bank loans to businesses with revenues of \$1 million or less is lower than the percentage of businesses in the assessment area that reported revenues of \$1 million or less. A total of six loans from the sample originated in the Hot Springs, AR MSA.

Borrower Distribution of Loans to Businesses in Hot Springs AR MSA 26300 (Garland County) AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	70.52	3.94	25.54	100%
% of Bank Loans in AA by #	33.30	66.70	0.00	100%
% of Bank Loans in AA by \$	16.10	83.90	0.00	100%

Source: Loan sample; Dunn and Bradstreet data.

The sample did not include any small loans to farms for the Hot Springs, AR MSA.

Borrower Distribution of Loans to Farms in Hot Springs AR MSA 26300 (Garland County) AA				
Farm Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Farms	96.86	1.26	1.89	100%
% of Bank Loans in AA by #	0.00	0.00	0.00	0%
% of Bank Loans in AA by \$	0.00	0.00	0.00	0%

Source: Loan sample; Dunn and Bradstreet data.

Non-MSA Counties: Little River, Sevier, Hempstead, Howard, Polk, Pike, Montgomery, Scott, and Clark

The bank has a good record of originating mortgage loans to low- and moderate-income borrowers. The table below reflects the percentage of bank loans to low-income borrowers is somewhat lower than the percentage of low-income families. The bank’s performance to low-income borrowers is mitigated because 17.69 percent of households in the assessment area are below the poverty level which makes it more difficult to extend credit to low-income borrowers. The percentage of bank loans to moderate-income borrowers for home purchase, home improvement, and refinance loans is near the percentage of moderate-income families in the assessment area.

Borrower Distribution of Residential Real Estate Loans in Arkansas Non MSA Counties: Little River, Sevier, Hempstead, Howard, Polk, Pike, Montgomery, Scott, and Clark AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Purchase	19.92	6.77	19.50	16.15	22.23	27.08	38.35	43.75
Home Improvement	19.92	11.54	19.50	19.23	22.23	25.00	38.35	65.17
Refinance	19.92	13.07	19.92	16.11	22.23	26.44	38.35	56.81

Source: Indicate source, i.e., loan sample or data reported under HMDA; U.S. Census data.

The following tables show that FNB has an excellent record of originating small loans to businesses and farms with revenues of \$1 million or less. The data reflects that FNB originated more loans to businesses and farms with revenues of \$1 million or less than the percentage of businesses and farms that reported revenues of \$1 million or less.

Borrower Distribution of Loans to Businesses in Arkansas Non MSA Counties: Little River, Sevier, Hempstead, Howard, Polk, Pike, Montgomery, Scott, and Clark AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	34.37	1.79	63.84	100%
% of Bank Loans in AA by #	55.60	33.30	11.10	100%
% of Bank Loans in AA by \$	67.20	10.50	22.30	100%

Source: Loan sample; Dunn and Bradstreet data.

Borrower Distribution of Loans to Farms in Arkansas Non MSA Counties: Little River, Sevier, Hempstead, Howard, Polk, Pike, Montgomery, Scott, and Clark AA				
Farm Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Farms	97.19	0.43	2.38	100%
% of Bank Loans in AA by #	87.50	0.00	12.50	100%
% of Bank Loans in AA by \$	99.20	0.00	0.80	100%

Source: Loan sample; Dunn and Bradstreet data.

Texarkana MSA and Little Rock-North Little Rock MSA

Lending activity in the Texarkana MSA and the Little Rock-North Little Rock MSA is considered limited scope. Loan volume is very minimal and deposit market share is less than 1 percent in both assessment areas. The Texarkana assessment area was added when the bank merged with FNB DeQueen in 2007. The Little Rock assessment area was added in 2008. FNB has one branch in each assessment area.

Geographic Distribution of Loans

The Hot Springs MSA assessment area has six moderate income tracts. An analysis of the Non-MSA Counties would not be meaningful due to the absence of low- and moderate-income census tracts for this assessment area.

Geographic distribution for home mortgage loans is adequate for the Hot Springs MSA assessment area. The geographic distribution for home purchase loans in moderate-geographies is excellent. The percentage of bank loans exceeds the percentage of owner-occupied housing in moderate-income geographies. Geographic distribution of home improvement loans is poor. There are no home improvement originations in moderate-income geographies for the evaluation period. The geographic distribution of refinance loans is adequate. The percentage of refinance loans is somewhat lower than the percentage of owner-occupied housing units in moderate-income geographies.

Geographic Distribution of Residential Real Estate Loans in Hot Springs AR MSA 26300 (Garland County) AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Purchase	0.00	0.00	18.57	22.22	64.82	66.67	16.61	11.11
Home Improvement	0.00	0.00	18.57	0.00	64.82	85.71	16.61	14.29
Refinance	0.00	0.00	18.57	13.95	64.82	76.74	16.61	9.30

Source: Indicate source, i.e., loan sample or data reported under HMDA; U.S. Census data.

Geographic distribution of small loans to businesses is poor. From the sample taken, small loans to businesses originated in either middle-income or upper-income census tracts.

Geographic Distribution of Loans to Businesses in Hot Springs AR MSA 26300 (Garland County) AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Businesses	0.00	0.00	31.72	0.00	56.22	83.33	12.07	16.67

Source: Indicate source, i.e., loan sample or data collected by bank; D & B data.

An analysis for the limited-scope assessment areas was not conducted as the Little Rock-North Little Rock MSA has two upper-income census tracts. The Texarkana, AR/TX MSA has low- and moderate-income census tracts, but all loan originations were made in middle-income geographies.

Responses to Complaints

FNB did not have any complaints relating to its lending practices.

COMMUNITY DEVELOPMENT TEST

FNB has an outstanding level of community development activities.

Number and Amount of Community Development Loans

During the evaluation period, FNB originated sixteen loans (16) totaling \$23 million to organizations/entities that meet the definition of community development or are located in a distressed and/or underserved middle-income census tract. The most notable loan is to a Community Development Financial Institution (CDFI). FNB has a \$20 million commitment to the CDFI. All loan originations were in the full-scope assessment areas (Hot Springs MSA and non-MSA Counties).

Number and Amount of Qualified Investments

FNB made thirty-four (34) grants/donations/qualified investments totaling \$30,475. The investments were made in the non-MSA Counties which is one of the full-scope assessment areas. FNB has committed to donating \$9,000 annually to a domestic violence center located in DeQueen, Arkansas (Sevier County).

Extent to Which the Bank Provides Community Development Services

FNB employees and officers have actively participated in forty-six (46) community development service activities. The services provided financial expertise to various organizations that provide services to low- and moderate-income individuals and families in the bank's assessment areas.

Responsiveness to Community Development Needs

FNB is responsive to community development opportunities throughout its assessment areas. Community development activity addressed services, revitalization and economic development needs and provided services to low- and moderate-income individuals.

The delivery systems of the bank are reasonably accessible to geographies and individuals of different income levels in its assessment areas. The bank operates 29 banking offices that are conveniently located in each AA. Additionally, a wide range of financial services are provided at each branch and are consistent throughout the bank's branch network. The bank offers ATMs, as well as offering telephone and Internet Banking services, ACH deposits and low cost checking accounts. The bank offers residential loan programs through the secondary market that provide low or no closing costs or down payments to low- and moderate-income individuals. In addition to retail banking services, bank officers are active in numerous local organizations that promote community development.

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.