

# **PUBLIC DISCLOSURE**

April 4, 2011

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**First Federal Bank  
1401 Highway 62 - 65 North  
Harrison, AR 72601-4226  
Docket #: 02721**

**Office of Thrift Supervision  
Western Region  
225 E. John Carpenter Freeway, Suite 500  
Irving, Texas 75062-2326**

**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.



## Office of Thrift Supervision

Department of the Treasury

*Western Region*

225 East John Carpenter Freeway, Suite 500, Irving, TX 75062-2326 • Telephone: (972) 277-9500  
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June 2, 2011

Board of Directors  
First Federal Bank  
1401 Highway 62 - 65 North  
Harrison, AR 72601-4226

OTS No. 02721

Members of the Board:

Enclosed is your institution's written Community Reinvestment Act (CRA) Performance Evaluation. The Office of Thrift Supervision (OTS) prepared the evaluation as of April 4, 2011. Pursuant to the provisions of the CRA and OTS regulations (12 C.F.R. 563e), your institution must make this evaluation and your institution's CRA rating available to the public.

Your institution may prepare a response to the evaluation. You may place the response in each CRA public file along with the evaluation. In the event your institution elects to prepare such a response, please forward a copy of it to this office.

All appropriate personnel, particularly customer contact personnel, need to be aware of the responsibilities that the institution has to make this evaluation available to the public. Consequently, we suggest that your institution review internal procedures for handling CRA inquiries, including those pertaining to the evaluation and other contents of the CRA public file.

We strongly encourage the Board of Directors, senior management, and other appropriate personnel to review this document and to take an active interest and role in the CRA activities of your institution. If you should have any questions concerning this report, please call me at (972) 277-9559.

Sincerely,

Bill Williams  
Assistant Director, Compliance

Enclosure

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## **General Information**

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions 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 Federal Bank. The Office of Thrift Supervision (OTS) prepared the evaluation as of April 4, 2011. OTS evaluates performance in assessment area(s) delineated by the institution rather than individual branches. This assessment area evaluation may include visits to some, but not necessarily all, of the institution's branches. OTS rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 C.F.R. Part 563e.

***Institution***

**Overall Rating**

**INSTITUTION'S CRA RATING:** **Satisfactory**  
**The Lending Test is rated:** **Satisfactory**  
**The Community Development Test is rated:** **Satisfactory**

This evaluation of First Federal Bank (First Federal) CRA performance is based on the Federal Financial Institutions Examination Council's (FFIEC's) Intermediate Small Institution CRA examination procedures. We concluded the following from our review:

- Although there were impediments hindering the institution during the review period, we determined that the institution meets the credit needs of its assessment area.
- First Federal's loan-to-deposit ratio is reasonable given the bank's size, financial condition, and assessment area needs.
- A substantial majority of its residential loans were made within the defined assessment areas.
- First Federal showed reasonable penetration among individuals of different income levels, including low- and moderate-income (LMI) individuals.
- First Federal showed reasonable penetration among geographies of different income levels, including distressed and underserved areas in the non-metropolitan statistical area (non-MSA) assessment area.
- Community development loans enhanced economic development in the assessment areas.
- Community development investments and services enhanced the communities served.
- The institution did not receive any CRA-related complaints since the previous CRA performance evaluation.
- No fair lending or other illegal credit practices were identified during the most recent comprehensive examination.

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## ***Institution (continued)***

### **Scope of Examination**

This evaluation covers the review period from January 1, 2008 through December 31, 2010. CRA Intermediate Small Savings Association examination procedures were used to evaluate the institution's lending performance and community development activities in helping meet the needs of the assessment areas. The institution's lending results were compared to the 2000 Census data, updated for 2010, and to the aggregate Home Mortgage Disclosure Act (HMDA) data during 2008 and 2009 for all mortgage lenders in the assessment areas.

### **Description of Institution**

First Federal is a federally-chartered stock thrift and a subsidiary of First Federal Bancshares of Arkansas, Inc., a unitary savings association holding company. The institution has two assessment areas and operates its main office, 19 full-service branch offices, and 12 off-premise automatic teller machines (ATMs) in Northern and Northwest Arkansas. None of the branch offices are located in low- or moderate- income geographies, but one ATM is located in a moderate-income geography. Since the previous CRA performance evaluation, First Federal has opened two full-service branch offices and closed two full-service branch offices in Benton County which are included in the above totals.

The institution received a CRA rating of "Satisfactory" at the previous CRA evaluation dated October 16, 2007. Since the previous CRA performance evaluation, the assets decreased by \$252.5 million (29.6 percent) to \$599.7 million as of December 31, 2010. Deposits also decreased \$110.4 million (16.9 percent) to \$541.9 million. As of December 31, 2010, assets primarily consisted of mortgage loans (64.6 percent of total assets), cash, deposits and investment securities (20.1 percent of total assets), and U.S. government securities (8.5 percent of total assets).

The primary business strategy is to originate both fixed-rate and adjustable-rate mortgage loans for the construction, purchase, refinance or improvement of one-to-four-family dwellings. These loans are originated with loan-to-value ratios in excess of 80 percent with private mortgage insurance. Long-term fixed-rate mortgage loans are sold in the secondary market based on interest-rate-risk concerns. Government-sponsored products, private mortgage insurance, and first-time homebuyer programs that enhance underwriting flexibility and reduce lending costs were available to eligible borrowers. These flexible lending programs help expand First Federal's lending programs to help meet the credit needs in the assessment areas. First Federal also offers various types of small business, small farm, community development, and consumer loan products. Loans are funded through a deposit base and through Federal Home Loan Bank advances.

**Institution (continued)**

As of December 31, 2010, the loan portfolio totaled \$408.3 million. Table 1 indicates the dollar amount, percentage of total loans, and percentage of total assets for each loan category.

<b>Loan Category</b>	<b>Amount (\$000s)</b>	<b>Percent of Total Loans</b>	<b>Percent of Total Assets</b>
Residential Mortgage	270,383	66.2	45.1
Nonresidential Mortgage	117,166	28.7	19.5
Commercial Nonmortgage	9,163	2.2	1.5
Consumer	11,554	2.9	1.9
<b>Total</b>	<b>408,266</b>	<b>100.0</b>	<b>68.1</b>

First Federal has faced financial difficulty and regulatory restrictions during the review period that have limited the institution's ability to lend. On April 14, 2010, First Federal was issued a Cease and Desist Order by the OTS. The Cease and Desist Order places certain loan restrictions, capital requirements, and limitations on asset growth. The Cease and Desist Order is a public document. In addition, similar to other lenders in the assessment areas, the institution's operations in many communities has felt the impact of the national trend of trouble local economies, overbuilding, erratic housing prices, and the effects of the mortgage crisis. Although lending has decreased because of these impediments, examiners were able to review an adequate volume of lending activity to form reliable conclusions about the institution's CRA performance.

**Conclusions With Respect To Performance Tests**

**LENDING TEST**

**Loan-to-Deposit Ratio**

First Federal's loan-to-deposit ratio for the eight quarters ended December 31, 2010 averaged 80.3 percent. The institution's ratio is considered reasonable when compared to the ratios of similarly situated institutions in the state of Arkansas. First Federal's loan-to-deposit ratios trended downward during the eight-quarter review period. The ratio ranged from 92.5 percent as of December 31, 2008 to 71.3 percent as of December 31, 2010. The downturn was typical for the institution's assessment areas when comparing to other similarly situated institutions due to the downturn in the housing market in the state of Arkansas.

***Institution (continued)***

**Lending in Assessment Areas**

First Federal is a traditional thrift that specializes in residential mortgage loans. A substantial majority of these loans are secured by properties located within the two assessment areas. During the review period, the bank originated or purchased 1,282 HMDA-reportable residential mortgage loans (97.1 percent) totaling \$176.1 million (97.4 percent) in the combined assessment area.

Table 2 illustrates the total number and dollar amount of HMDA-reportable loans (home purchase, refinance, and home improvement loans) originated in and outside the assessment area during the 36-month review period. For comparison purposes, the table reflects lending activity by each year during the review period.

<b>Table 2– Concentration of Residential Loans *</b>					
<b>01/01/2008 – 12/31/2010</b>					
<b>(Dollars in thousands)</b>					
<b>Period By Year</b>	<b>In Assessment Area</b>		<b>Outside Assessment Area</b>		<b>Total Loans</b>
	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>
2008	599	97.6	15	2.4	614
2009	380	97.4	10	2.6	390
2010	303	95.9	13	4.1	316
Total	1,282	97.1	38	2.9	1,320
	<b>\$ Amt</b>	<b>%</b>	<b>\$ Amt</b>	<b>%</b>	<b>\$ Amt</b>
2008	86,633	97.4	2,274	2.6	88,907
2009	48,362	98.2	909	1.8	49,271
2010	41,112	96.6	1,446	3.4	42,558
Total	176,107	97.4	4,629	2.6	180,736

\* Percents are based on total loans originated during applicable year

It is notable that the institution’s lending performance has declined markedly over time, which can be attributed to the oversaturation of 1-4-family residences in the assessment areas, the greater economic recession felt nationally, and regulatory restrictions placed on the institution regarding its lending capacity. Considering the given factors, First Federal has maintained an adequate volume of lending activity to form reliable conclusions about the institution’s CRA performance.

**Description of Assessment Area –**

**Fayetteville-Springdale-Rogers MSA - (Fayetteville AA)**

First Federal has defined the Fayetteville-Springdale-Rogers MSA, which consists of Benton, Washington, and Madison Counties, as one of its assessment areas (Fayetteville AA). The

**Institution (continued)**

assessment area contains two low-income geographies and eight moderate-income geographies. Table 3 illustrates the demographic data for the assessment area based on the 2000 Census.

Demographic Data	2000 Census
Population	325,364
Total Families	87,526
1-4 Family Units	108,041
Multi-family Units	14,105
% Owner-Occupied Units	60.7
% Rental-Occupied Units	30.9
% Vacant Housing Units	8.4
Weighted Average Median Housing Value	\$90,762

Table 4 indicates the number of geographies in each income category and compares it to the distribution of families living in those geographies and to 1-4-family dwellings located within those geographies.

Geog Inc Level	Geographies		Total Area Families		1-4 Family Dwellings	
2004 Revision:	#	%	#	%	#	%
Low	2	3.1	944	1.1	1,070	1.0
Moderate	8	12.5	7,042	8.0	9,378	8.7
Middle	45	70.3	64,987	74.2	79,258	73.3
Upper	9	14.1	14,553	16.7	18,335	17.0
Total	64	100.0	87,526	100.0	108,041	100.0

According to 2004 OMB revisions to the 2000 U.S. Census data, 36.3 percent of the families in the assessment area are classified as LMI, with 12.4 percent of the families reporting income below the poverty level. The Department of Housing and Urban Development (HUD) annually adjusts the 2000 Census data to update the income levels. The adjusted figures are used in the Lending to Borrowers of Different Incomes section of this Performance Evaluation. Table 5(a) indicates the median family income ranges of each income category based on the 2004 HUD adjustment; table 5(b) reflects the updated HUD median family income for each year during the review period; and table 5(c) shows the distribution of families in each income range of the assessment area.

**Institution (continued)**

Income Category (As % of MD Median)	Income Ranges	
	From	To
Low (< 50%)	1	27,499
Moderate (50% - 79%)	27,500	43,999
Middle (80% - 119%)	44,000	65,999
Upper (>= 120%)	66,000	+

Year	Amount
2008	52,600
2009	56,000
2010	55,000

\* Based upon HUD Median Family income for 2010

Family Income Category (As a % of MSA Median)	2004 Revisions	
	Number	Percent
Low (< 50%)	15,618	17.9
Moderate (50% - 79%)	16,099	18.4
Middle (80% - 119%)	21,141	24.2
Upper (>= 120%)	34,668	39.5
Total	87,526	100.0

The economy in the Fayetteville AA has been greatly affected by the economic downturn in the Northwest Arkansas market, partially manifested by an oversupply of single-family residences and subdivision lots. New and existing house sales are still slumping due to the oversaturation. Some of the larger employers in the area include Wal-Mart, JB Hunt, Tyson, and the University of Arkansas. The area is a major trade center as well as a center for medical care for Northwest Arkansas.

Numerous financial institutions, mortgage banking companies, and credit unions serve this assessment area with 299 HMDA reporters originating or purchasing 19,342 HMDA-reportable loans totaling \$2.7 billion in 2008 and 301 HMDA reporters originating or purchasing 23,231 HMDA-reportable loans totaling \$3.5 billion in 2009. First Federal represented 1.4 percent in 2008 and less than one percent in 2009 of the total market share of loans originated or purchased in the Fayetteville AA and ranked 14<sup>th</sup> and 25<sup>th</sup>, respectively, in overall lending. In the period of 2008, 2009, and 2010, First Federal originated 40.4 percent of its total loans in this assessment area. According to FDIC records, deposits in the Fayetteville AA totaled \$144.5 million, or 24.1 percent of all the institution's deposits as of June 30, 2010.

***Institution (continued)***

**Conclusions with Respect to Performance Tests - Fayetteville AA**

**Lending to Borrowers of Different Incomes**

As part of our lending analysis, we reviewed First Federal’s lending activity with respect to the distribution of loans among borrowers of different income levels within the Fayetteville AA. During the review period, First Federal originated and purchased 533 HMDA-reportable residential mortgage loans totaling \$98.8 million in the Fayetteville AA. Table 6 illustrates the distribution of loan originations and purchases, based on borrower income level, that were reported by First Federal during the review period. The table also compares the institution’s lending activity during the review period to the aggregate percentage of loans originated or purchased by HMDA-reporting lenders for 2008 and 2009.

<b>Table 6- Distribution of First Federal’s Residential Mortgage Loans By Borrower Income Level in the Assessment Area (Dollars in thousands)</b>										
<b>Borrower Income Level</b>	<b>2008</b>		<b>2009</b>		<b>2010</b>		<b>Review Period 1/1/08-12/31/10</b>		<b>Aggregate 2008</b>	<b>Aggregate 2009</b>
	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>% by #</b>	<b>% by #</b>
Low	6	2.2	6	4.1	8	6.7	20	3.8	5.7	6.9
Moderate	24	9.0	10	6.8	14	11.8	48	9.0	15.4	15.5
Middle	41	15.4	20	13.6	21	17.6	82	15.4	21.6	20.5
Upper	132	49.4	104	70.7	65	54.6	301	56.5	44.1	43.4
Income NA	64	24.0	7	4.8	11	9.3	82	15.3	13.2	13.7
<b>Total</b>	<b>267</b>	<b>100.0</b>	<b>147</b>	<b>100.0</b>	<b>119</b>	<b>100.0</b>	<b>533</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
	<b>\$</b>	<b>%</b>	<b>\$</b>	<b>%</b>	<b>\$</b>	<b>%</b>	<b>\$</b>	<b>%</b>	<b>% by \$</b>	<b>% by \$</b>
Low	781	1.5	626	2.2	671	3.5	2,078	2.1	2.8	3.6
Moderate	2,264	4.4	652	2.3	1,197	6.3	4,113	4.2	10.6	10.5
Middle	4,110	7.9	2,660	9.5	2,492	13.1	9,262	9.4	17.9	17.1
Upper	28,613	55.2	22,627	81.1	12,655	66.3	63,895	64.7	53.6	53.5
Income NA	16,056	31.0	1,334	4.9	2,072	10.8	19,462	19.6	15.1	15.3
<b>Total</b>	<b>51,824</b>	<b>100.0</b>	<b>27,899</b>	<b>100.0</b>	<b>19,087</b>	<b>100.0</b>	<b>98,810</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

The distribution of loans reflects reasonable penetration among borrowers of different income levels, although slightly lower than the aggregate percentage distribution by number and dollar of HMDA lenders in this assessment area in 2008 and 2009. Improvement can be seen over the review period for accessing more LMI borrowers as a percentage distribution of total loans. Stiff competition in the Fayetteville area by larger national lenders with more liberal underwriting guidelines would also be a factor in why the institution was unable to meet the peer percentage distribution.

***Institution (continued)***

**Geographic Distribution of Loans**

As mentioned previously, First Federal originated or purchased 533 residential real estate loans totaling \$98.8 million in the Fayetteville AA from January 1, 2008 through December 31, 2010. Table 7 provides an analysis of the distribution of First Federal’s residential real estate loans categorized by geographic income level. Listed in parenthesis is the number of census tracts within each geography income level. The table also reflects a comparison of the institution’s lending results during the review period to the aggregate percentage of loans originated or purchased by HMDA-reporting lenders for 2008 and 2009.

<b>Table 7- Distribution of First Federal’s Residential Mortgage Loans By Geography Income Level in the Assessment Area (Dollars in thousands)</b>										
<b>Geography Income Level</b>	<b>2008</b>		<b>2009</b>		<b>2010</b>		<b>Review Period 1/1/08-12/31/10</b>		<b>Aggregate 2008</b>	<b>Aggregate 2009</b>
	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>% by #</b>	<b>% by #</b>
Low (2)	5	1.9	3	2.0	0	0.0	8	1.5	0.3	0.3
Moderate (8)	12	4.5	9	6.1	3	2.5	24	4.5	3.9	3.2
Middle (45)	192	71.9	110	74.9	85	71.4	387	72.6	75.9	73.9
Upper (9)	58	21.7	25	17.0	31	26.1	114	21.4	19.9	22.6
<b>Total</b>	<b>267</b>	<b>100.0</b>	<b>147</b>	<b>100.0</b>	<b>119</b>	<b>100.0</b>	<b>533</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
	<b>\$</b>	<b>%</b>	<b>\$</b>	<b>%</b>	<b>\$</b>	<b>%</b>	<b>\$</b>	<b>%</b>	<b>% by \$</b>	<b>% by \$</b>
Low (2)	1,779	3.4	660	2.4	0	0.0	2,439	2.5	0.7	0.3
Moderate (8)	2,103	4.1	1,422	5.1	465	2.4	3,990	4.0	3.7	2.7
Middle (45)	35,256	68.0	19,947	71.5	11,775	61.7	66,978	67.8	71.7	69.9
Upper (9)	12,686	24.5	5,870	21.0	6,847	35.9	25,403	25.7	23.9	27.1
<b>Total</b>	<b>51,824</b>	<b>100.0</b>	<b>27,899</b>	<b>100.0</b>	<b>19,087</b>	<b>100.0</b>	<b>98,810</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

The geographic distribution of loans reflects reasonable dispersion throughout the Fayetteville AA during the review period. In 2008 and 2009, the institution fared better than the peer aggregate for those years in penetrating LMI geographies. It should be noted, however, that the lending to LMI geographies declined in 2010, including no loans in low-income geographies.

Description of Assessment Area -Baxter, Boone, Carroll, Marion and Newton counties – (Non-MSA AA)

First Federal has defined its Non-MSA AA as Baxter, Boone, Carroll, Marion and Newton Counties in Northern Arkansas. These counties border Missouri to the north and are contiguous with the Fayetteville-Springdale-Rogers MSA assessment area. The assessment area contains no low-income

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***Institution (continued)***

geographies and only one moderate-income geography. All other census tracts in the assessment area are middle-income including three “underserved” geographies and one “distressed” geography.

A distressed geography is a non-metropolitan middle-income geography that has been designated by the Agencies<sup>a</sup> to have one or more of the following triggers: (1) an unemployment rate of at least 1.5 times the national average; (2) a poverty rate of 20 percent or more; or (3) a population loss of ten percent or more between the previous and most recent census or a net migration loss of five percent or more over the five-year period preceding the most recent census. The census tract in Newton County was designated as distressed for 2008, 2009 and 2010 due to the poverty rate. An underserved nonmetropolitan middle-income geography must meet criteria for population size, density, and dispersion that indicate that an area’s population is sufficiently small, thin, and distant from a population center such that the geography is likely to have difficulty in financing the fixed costs of essential community needs. All three census tracts in Marion County were designated as underserved for 2008, 2009, and 2010. First Federal maintains a branch office and ATM in Yellville, Arkansas which is located in one of the underserved census tracts in Marion County.

The five counties that comprise the assessment area are primarily rural in nature. The largest cities include Harrison in Boone County and Mountain Home in Baxter County. The area which is in the heart of the Ozark Mountains attracts many tourists. Harrison serves as the primary trade center for the region. In addition to being a large manufacturing community, Harrison is provided additional economic opportunities through agriculture, tourism, and a growing retirement population. Although there are economic opportunities in the area, the housing market has also been victim to the national mortgage crisis and currently has an oversaturation of single-family housing units and subdivision lots. Major employers in Harrison include Fed Ex Freight, North Arkansas Regional Medical Center and Wal-Mart. Mountain Home is a retirement community and a recreation destination for Twin Lakes, Bull Shoals Lake and Lake Norfolk, including numerous recreation parks with rivers and streams that have world class fishing. Major employers in Mountain Home include the Baxter County Regional Hospital and Baxter Healthcare Corp.

Numerous financial institutions, mortgage banking companies, and credit unions serve this assessment area with 159 HMDA-reporters originating or purchasing 4,923 HMDA-reportable loans totaling \$487.4 million in 2008 and 166 HMDA-reporters originating or purchasing 5,261 HMDA-reportable loans totaling \$582.2 million in 2009. In 2008, First Federal ranked 4<sup>th</sup> of the 159 HMDA-reporters originating 332 HMDA-reportable loans totaling \$34.8 million. In 2009, the institution ranked 6<sup>th</sup> of the 166 HMDA-reporters originating 233 HMDA-reportable loans totaling \$20.5 million. In the period of 2008, 2009 and 2010, First Federal originated 56.7 percent of its total loans

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<sup>a</sup> **AGENCIES:** Office of the Comptroller of the Currency, Treasury (OCC); Board of Governors of the Federal Reserve System (Board); Federal Deposit Insurance Corporation (FDIC); Office of Thrift Supervision, Treasury (OTS).

**Institution (continued)**

in this assessment area. According to FDIC records, deposits in the non-MSA AA totaled \$455.3 million, or 75.9 percent of all the institution’s deposits as of June 30, 2010.

Table 8 illustrates the demographic data for the assessment area based on the 2000 Census.

<b>Demographic Data</b>	<b>2000 Census</b>
Population	122,439
Total Families	36,358
1-4 Family Units	47,039
Multi-family Units	2,336
% Owner-Occupied Units	66.1
% Rental-Occupied Units	19.9
% Vacant Housing Units	13.9
Weighted Average Median Housing Value	\$76,260

Table 9 indicates the number of geographies in each income category and compares it to the distribution of families living in those geographies and to 1-4-family dwellings located within those geographies. As previously noted, there are no low-income geographies and only one moderate-income geography in the assessment area.

<b>Geog Inc Level</b>	<b>Geographies</b>		<b>Total Area Families</b>		<b>1-4 Family Dwellings</b>	
<b>2004 Revision:</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>
Moderate	1	4.0	1,362	3.7	1,919	4.1
Middle	24	96.0	34,996	96.3	45,120	95.9
Total	25	100.0	36,358	100.0	47,039	100.0

For this evaluation, 2000 Census data was used for the analysis of loans originated during 2008, 2009 and 2010. Per the 2004 OMB revisions to the 2000 U.S. Census data, 37.6 percent of the families in the assessment area are classified as LMI, with 14.9 percent of the families reporting income below the poverty level. The Department of Housing and Urban Development (HUD) annually adjusts the 2000 Census data to update the income levels. Table 10(a) reveals the median family income range for each income category based on the 2010 HUD adjustment; Table 10(b) reflects the updated HUD median family income for each year during the review period; and Table 10(c) shows the distribution of families in each income range of the assessment area.

**Institution (continued)**

Table 10 (a) Median Family Income Range*		
Income Category (Percent of Median)	Income Range	
	From \$	To \$
Low (< 50%)	1	21,699
Moderate (50% - 79%)	21,700	34,719
Middle (80% - 119%)	34,720	52,079
Upper (>= 120%)	52,080	+

Table 10(b) Annual HUD Median Family Income	
Year	Amount
2008	42,000
2009	43,500
2010	43,400

\* Based on HUD 2010 Median Family Income.

Table 10(c) - Distribution of Families Assessment Area		
Family Income Category (As a % of MSA Median)	2004 Revisions	
	Number	Percent
Low (< 50%)	6,489	17.9
Moderate (50% - 79%)	7,156	19.7
Middle (80% - 119%)	8,952	24.6
Upper (>= 120%)	13,761	37.8
Total	36,358	100.0

**Conclusions With Respect To Performance Tests – Non-MSA AA**

**Lending to Borrowers of Different Incomes**

As part of our lending analysis, we reviewed First Federal’s lending activity with respect to the distribution of loans among borrowers of different income levels within the Non-MSA AA. During the review period, First Federal originated and purchased 749 HMDA-reportable residential mortgage loans totaling \$77.3 million in the assessment area. Table 11 illustrates the distribution of loan originations and purchases, based on borrower income level, that were reported by First Federal during the review period. The table also compares the institution’s lending activity during the review period to the aggregate percentage of loans originated or purchased by HMDA-reporting lenders for 2008 and 2009.

***Institution (continued)***

<b>Table 11- Distribution of First Federal's Residential Mortgage Loans By Borrower Income Level in the Assessment Area (Dollars in thousands)</b>										
<b>Borrower Income Level</b>	<b>2008</b>		<b>2009</b>		<b>2010</b>		<b>Review Period 1/1/08-12/31/10</b>		<b>Aggregate 2008</b>	<b>Aggregate 2009</b>
	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>% by #</b>	<b>% by #</b>
Low	22	6.6	27	11.6	8	4.4	57	7.6	7.1	6.1
Moderate	59	17.8	35	15.0	30	16.3	124	16.6	15.8	16.1
Middle	82	24.7	53	22.8	35	19.0	170	22.7	23.1	22.7
Upper	132	39.8	110	47.2	110	59.8	352	47.0	42.6	42.8
Income NA	37	11.1	8	3.4	1	0.5	46	6.1	11.4	12.3
<b>Total</b>	<b>332</b>	<b>100.0</b>	<b>233</b>	<b>100.0</b>	<b>184</b>	<b>100.0</b>	<b>749</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
	<b>\$</b>	<b>%</b>	<b>\$</b>	<b>%</b>	<b>\$</b>	<b>%</b>	<b>\$</b>	<b>%</b>	<b>% by \$</b>	<b>% by \$</b>
Low	1,535	4.4	1,070	5.2	459	2.1	3,064	4.0	3.3	2.8
Moderate	3,442	9.9	2,408	11.8	2,312	10.5	8,162	10.6	10.2	10.8
Middle	6,982	20.0	4,828	23.6	2,978	13.5	14,788	19.1	19.2	19.4
Upper	17,710	50.9	11,542	56.4	16,036	72.8	45,288	58.6	53.6	52.8
Income NA	5,140	14.8	615	3.0	240	1.1	5,995	7.7	13.7	14.2
<b>Total</b>	<b>34,809</b>	<b>100.0</b>	<b>20,463</b>	<b>100.0</b>	<b>22,025</b>	<b>100.0</b>	<b>77,297</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

The distribution of loans reflects reasonable penetration among borrowers of different income levels. The distribution of loans is comparable to the aggregate percentage distribution by number and dollar of HMDA lenders in this assessment area in 2008 and 2009. The institution's penetration among low-income borrowers exceeded the aggregate in 2009 by number and dollar amount.

**Geographic Distribution of Loans**

As mentioned previously, First Federal originated or purchased 749 residential real estate loans totaling \$77.3 million in the Non-MSA AA from January 1, 2008 through December 31, 2010. Table 12 provides an analysis of the distribution of First Federal's residential real estate loans categorized by geographic income level. Listed in parenthesis is the number of census tracts within each geography income level. As noted previously, there are no low-income census tracts and only one moderate-income census tract which was added to the Non-MSA AA since the last examination. The table also reflects a comparison of the institution's lending results during the review period to the aggregate percentage of loans originated or purchased by HMDA-reporting lenders for 2008 and 2009.

**Institution (continued)**

<b>Table 12- Distribution of First Federal's Residential Mortgage Loans By Geography Income Level in the Assessment Area (Dollars in thousands)</b>										
<b>Geography Income Level</b>	<b>2008</b>		<b>2009</b>		<b>2010</b>		<b>Review Period 1/1/08-12/31/10</b>		<b>Aggregate 2008</b>	<b>Aggregate 2009</b>
	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>% by #</b>	<b>% by #</b>
Low (0)	0	0.0	0	0.0	0	0.0	0	0.0	0.0	0.0
Moderate (1)	2	0.6	5	2.1	0	0.0	7	0.9	2.9	2.7
Middle (24)	330	99.4	228	97.9	184	100.0	742	99.1	97.1	97.3
Upper (0)	0	0.0	0	0.0	0	0.0	0	0.0	0.0	0.0
Total ( )	332	100.0	233	100.0	184	100.0	749	100.0	100.0	100.0
	<b>\$</b>	<b>%</b>	<b>\$</b>	<b>%</b>	<b>\$</b>	<b>%</b>	<b>\$</b>	<b>%</b>	<b>% by \$</b>	<b>% by \$</b>
Low (0)	0	0.0	0	0.0	0	0.0	0	0.0	0.0	0.0
Moderate (1)	141	0.4	335	1.6	0	0.0	476	0.6	1.7	1.5
Middle (24)	34,668	99.6	20,108	98.4	22,025	100.0	76,801	99.4	98.3	98.5
Upper (0)	0	0.0	0	0.0	0	0.0	0	0.0	0.0	0.0
Total ( )	34,809	100.0	20,443	100.0	22,025	100.0	77,277	100.0	100.0	100.0

Generally, the geographic distribution of loans would reflect poor dispersion throughout the Non-MSA AA during the review period. First Federal's level of dispersion in 2009 is comparable to the aggregate in the same period; however, the level of dispersion is considerably less than the aggregate for 2008. In addition, in 2010 the institution made no loans in the moderate-income census tract. However, during the review period, the institution also originated or purchased a total of 73 HMDA-reportable loans totaling \$6.1 million in the distressed and underserved designated middle-income areas. Considering this fact, the oversaturation of housing in this market, and the possibility that lending in the moderate-income census tract was challenging during the review period, we consider the geographic distribution of loans in this assessment area to be reasonable for the current market conditions.

**Conclusions With Respect To Performance Tests**

**COMMUNITY DEVELOPMENT TEST**

First Federal engaged in a number of diverse community development activities, within the combined assessment areas or benefited the assessment areas, which meet the standards for satisfactory performance under the community development test. Below is a listing of community development loans, investments, and services for the review period.

***Institution (continued)***

Community Development Loans

The institution made loans for community development purposes totaling over \$4.4 million during the review period. Table 13 details the purpose, amount and balance of each loan made during the period.

<b>Table 13 – First Federal Community Development Loans January 1, 2008-December 31, 2010</b>		
<b>Project Description</b>	<b>Year Opened</b>	<b>Opening Balance</b>
To finance the purchase of an 8-Plex property located in Farmington, Arkansas intended for rental to LMI families (Fayetteville AA)	2009	\$869,000
To finance the purchase of an apartment complex located in Rogers, Arkansas intended for rental to LMI families (Fayetteville AA)	2010	\$3,500,000
<b>Total Loans</b>		<b>\$4,369,000</b>

Qualified Investments

During the review period, First Federal made qualified investments for community development purposes totaling \$16.2 million in both assessment areas. These investments include municipal revenue bonds for public education facilities, utilities, and school districts. Included in this total are \$9.7 million in Qualified School Construction Bonds (QSCB), a part of the “Build America Bond” program. The Build America Bonds were created under the American Recovery and Reinvestment Act that President Obama signed into law in February of 2009. QSCBs allow schools to borrow at nominal rates for the rehabilitation, repair, and equipping of schools. In addition, QSCB funds can be used to purchase land on which a public school will be built. First Federal has made a significant investment in these types of bonds.

In addition to qualified investments in First Federal’s assessment areas, additional \$8.2 million in investments for community development purposes were made in the broader statewide/regional areas where the institution has also originated or purchased loans.

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**Institution (continued)**

Community Development Services

Management and staff at First Federal participated in community development activities, attending meetings, and technical expertise to community organizations. Organizations that provide services benefiting LMI individuals and/or geographies are listed below, as well as, some information on additional community development investments (donations).

- NARMC Foundation—The North Arkansas Regional Medical Center Foundation is a non-profit organization with a mission of raising money to support the North Arkansas Regional Medical Center. The Foundation provides financial support to assist with expenses incurred due to the medical center’s philosophy to not turn away any patient regardless of the ability to pay their medical expenses. An employee provides financial expertise by serving on the Board of Directors for the Foundation. First Federal donated \$10,000 to the Foundation during the review period.
- Boys and Girls Club of Fayetteville—The Boys and Girls Club is a non-profit organization with a mission to serve the youth in the community by providing social, physical, academic, cultural, and family experiences in a safe environment. The Boys and Girls Club provide scholarships to LMI youth who need financial assistance to attend. First Federal donated \$3,000 to the Club to renovate and enhance the facilities during the review period.
- Hospice of the Hills—Hospice of the Hills is a non-profit organization that relies on community support to offset medical expenses for hospice patients not covered by insurance. Two employees provide financial expertise by serving on the Board of Directors for the organization. First Federal donated \$1,000 to the organization during the review period.
- Junior Auxiliary Financial Fitness—Program that provides financial education to high school seniors. Employees volunteer to assist this organization. Approximately, \$1,000 was donated to this organization and other clubs at various schools during the review period.
- County Rural Help Center—An outreach program for human and social services for LMI individuals. An employee provides financial expertise by serving as the Director of Services and was instrumental in founding the organization in 2010.
- Various Human Service Organizations—During the review period, First Federal provided financial assistance, including clothing, food, medical and utility assistance, including to victims of natural disasters in the assessment area. Donations total \$910. Although not necessarily providing financial expertise, it should be noted that employees contributed over 100 hours of assistance to these organizations.

***Institution (continued)***

Although not specific to the guidelines of the CRA, it should be noted that First Federal is committed to reinvesting back into the communities it serves through various donations and through volunteerism in the community.

**Response to Complaints**

During the review period, the institution received no written complaints pertaining to its performance in helping to meet the credit needs within the assessment areas.

**Fair Lending or Other Illegal Credit Practices Review**

No violations of the substantive provisions of the laws and regulations pertaining to fair lending or other illegal credit practices were identified during the most recent examination which OTS evaluated compliance with consumer laws and regulation.

## **CRA Rating Definitions**

There are five separate and distinct CRA assessment methods set forth in the CRA: the lending, investment, and service tests for large, retail institutions; the intermediate small institution test for intermediate small savings associations; the streamlined examination method for small institutions; the community development test for wholesale and limited purpose institutions; and the strategic plan option for all institutions. OTS will assign an institution one of the four assigned ratings required by Section 807 of the CRA:

1. "Outstanding record of meeting community credit needs."
2. "Satisfactory record of meeting community credit needs."
3. "Needs to improve record of meeting community credit needs."
4. "Substantial noncompliance in meeting community credit needs."

OTS judges an institution's performance under the test and standards in the rule in the context of information about the institution, its community, its competitors, and its peers. Among the factors to evaluate in an examination are the economic and demographic characteristics of the assessment area(s); the lending, investment, service, and community development opportunities in the assessment area(s); the institution's product offerings and business strategy; the institution's capacity and constraints; the prior performance of the institution; in appropriate circumstances, the performance of a similarly situated institution; and other relevant information. An institution's performance need not fit each aspect of a particular rating profile in order to receive that rating, and exceptionally strong performance with respect to some aspects may compensate for weak performance in others. The institution's overall performance, however, must be consistent with safe and sound banking practices and generally with the appropriate rating profile. In addition, OTS adjusts the evaluation of an institution's performance under the applicable assessment method in accordance with §563e.21 and §563e.28, which provide for adjustments on the basis of evidence of discriminatory or other illegal credit practices.