



# INTERMEDIATE SMALL BANK

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## PUBLIC DISCLOSURE

September 04, 2012

### COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First National Bank of Clarksdale  
Charter Number 15284

402 East Second Street  
Clarksdale, MS 38614

Office of the Comptroller of the Currency

ADC – Little Rock Field Office  
Victory Building 1401 West Capitol Avenue, Suite 350  
Little Rock, AR 72201

**NOTE:** This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

**INSTITUTION'S CRA RATING: This institution is rated Satisfactory.**

**The Lending Test is rated: Satisfactory.**

**The Community Development Test is rated: Satisfactory.**

The following performance factors were used in determining the bank's overall CRA rating:

- The average loan-to-deposit ratio at 77.88% is reasonable given the bank's size, financial condition, and assessment area (AA) credit needs.
- A majority of the bank's loans at 70% are located in its 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 reasonable dispersion throughout the bank's AA.
- The level of community development activities is satisfactory.

## **Scope of Examination**

An onsite examination of the bank was performed to evaluate its performance under the Community Reinvestment Act (CRA). The bank was evaluated using Intermediate Small Bank CRA criteria, which is a change from the previous examination. Currently, the bank has two separate assessment areas: Coahoma County and Lafayette County. Neither county are located in Metropolitan Statistical Areas (MSA), therefore the bank is not a Home Mortgage Disclosure Act reporter. Loan information used for this evaluation was the major product types noted by the June 30, 2012, Call Report, as well as loan information provided by the bank. A random sample of 20 business/commercial, 20 Ag, and 20 consumer loans made during 2010 and 2011 were selected for the Coahoma County AA. The Bank's performance for this assessment period was primarily determined based on loan and deposit information from Coahoma County for the following reasons:

- Approximately 91.67% of the bank's deposits are located in Coahoma County based on the FDIC June 30, 2011, market share report;
- The bank has 45.43% of the deposit share in Coahoma County but only 2.64% of the deposit share in Lafayette County based on the FDIC June 30, 2011, market share report;
- Approximately, 75% of the loans are in Coahoma County as of December 31, 2011; and
- There are no low or moderate income areas in Lafayette County.

A contact was made with a local community agency with knowledge of the overall needs within the bank's AA and used in this evaluation process. This performance evaluation covers the periods from April 2008 to June 30, 2012.

## Description of Institution

First National Bank of Clarksdale (FNBC) was chartered in 1964 and is headquartered in Clarksdale, Mississippi. In addition to the main office located in Clarksdale, FNBC has three branches in Clarksdale, as well as two new branches in the city of Oxford, Mississippi, operating as Bank of Oxford. While all offices are full service, most lending activity is conducted through the main office located on Second Street in Clarksdale, and the new branch locations in Oxford. The bank offers a full range of loan and deposit products and services, and operates five automated teller machine (ATM) locations. FNBC is wholly-owned by its holding company, First Valley National Corporation. As of June 30, 2012, the bank had total loans of \$213 million, representing approximately 62.28 percent of total assets.

The bank's primary lending focus is small business, agricultural, and consumer loans based on number and dollar volume. Loan products include small business, commercial, agriculture, home-purchase and improvement, and consumer loans.

The loan portfolio composition as of June 30, 2012, is as follows:

<b>Loan Portfolio Composition as of June 30, 2012 (in 000s)</b>		
<b>Loan Type</b>	<b>Amount (000s)</b>	<b>Percent</b>
Construction and Land Development	\$25,613	12.06%
Farmland	14,780	6.96
1-4 Family Residential	31,594	14.87
Multifamily (5 or more) Residential	6,953	3.27
Commercial (nonfarm, nonresidential)	33,267	15.66
<b>Total Real Estate Loans</b>	<b>\$112,207</b>	<b>52.81%</b>
Agriculture	40,772	19.19
Commercial and Industrial	46,872	22.06
Consumer and Other Loans	12,434	5.85
Other Loans	177	0.08
<b>Total Gross Loans</b>	<b>\$212,462</b>	<b>100%</b>

Source: Consolidated Report of Condition as of June 30, 2012

One community contact was performed during the evaluation to obtain current information concerning the Coahoma County AA, since there are higher levels of poverty and unemployment in that AA. The contact indicated that high poverty and unemployment levels continue to be a problem in this area.

According to the contact, the Delta Region of the Mississippi has a chronic issue with unemployment levels being higher than the national average and a high poverty level caused by weak economy and poor educational opportunities in the immediate area. Historically, Coahoma County runs between 8 – 13% unemployment rates. The delta counties have some of the highest unemployment rates because farming is a seasonal industry. The economy is highly dependent on the agricultural (AG) industry. Most of the other industries in the area in the area to support and service the AG industry (Chemical Companies, Gins, etc). Due to high unemployment, poverty, and a weakened economy, there are many buildings and neighborhoods in dire need of repair or destruction.

The primary credit needs of the community are financing options for small AG farmers and financing projects to help repair and repurpose dilapidated buildings within the area; which will ultimately help attract and retain more businesses and thus improve the local economy.

The community contact also indicated that there is a need to educate the local population on credit education. The contact indicated that there are generations of people that have been on welfare in that area that just don't know how to manage their money. The community contact indicated that there are two local community banks in the area that really service and help the local community. The contact indicated FNBC was one of the banks that "steps up to the plate first."

There are no legal or financial circumstances that would prevent the bank from meeting the credit needs of its assessment area (AA). The bank was rated "**Satisfactory**" at the April 14, 2008, examination.

## **Description of Assessment Area**

The bank has selected all of Coahoma and Lafayette Counties as its Assessment Area for purposes of determining its performance under the CRA. While these counties are not contiguous, the assessment area(s) meets the requirements of the regulation and does not arbitrarily exclude low and moderate-income geographies.

### **Coahoma County**

Coahoma County is located in the Mississippi Delta region of the state of Mississippi. As of 2000, the population was 30,622. The county seat is Clarksdale. Major industries in the county include services, non-classifiable establishments, and retail trade. There are primarily concentrated agricultural or agricultural related companies that provide gin or chemical services to local agricultural producers.

In 2011, there were two census tracts out of the 7 in the area that were designated as a distressed area due to high poverty levels in the middle-income census tracts. These two CT are 9503.00 and 9505.00.

The following table provides AA demographic data from the 2000 Census with updated unemployment data.

<b>Demographic and Economic Characteristics Coahoma County</b>	
<b>Population</b>	
Population	30,622
Number of Families	7,505
Number of Households	10,581
<b>Geographies</b>	
Number of Census Tracts	7
% Low-Income Census Tracts	14.29%
% Moderate-Income Census Tracts	28.57%
% Middle-Income Census Tracts	28.57%
% Upper-Income Census Tracts	28.57%
<b>Median Family Income (MFI)</b>	
2000 MFI for AA	\$28,165
2011 HUD-Adjusted MFI	\$41,600
<b>Economic Indicators</b>	
Unemployment Rate – Coahoma Co (July 2012)	13.8%
Unemployment Rate – Mississippi (July 2012)	10.1%
Unemployment Rate – USA (July 2012)	8.6%
2000 Median Housing Value	\$48,149
% of Households Below Poverty Level	32.57%

*Source: 2000 Census Data and Labor Market Data as of July 2012*

### **Lafayette County**

Lafayette County is primarily hilly, rural timberland with the local economy highly impacted by the University of Mississippi, located in Oxford, the county seat. Major employers are primarily situated in medical and educational services and include the University of Mississippi and the Baptist Memorial Hospital. The City of Oxford is primarily known as a college town and a retirement haven. The majority of the demographics are college student and retirement age citizens.

In 2011, there were two census tracts out of the 5 in the area designated as a distressed area due to high poverty levels in the middle-income census tracts. These

CT include 9501.00 and 9503.00. In 2012, CT 9504.20 was declared a distressed Middle-Income CT.

The following table provides AA demographic data from the 2000 Census with updated unemployment data.

<b>Demographic and Economic Characteristics Lafayette County</b>	
<b>Population</b>	
Population	38,744
Number of Families	8,391
Number of Households	14,390
<b>Geographies</b>	
Number of Census Tracts	5
% Low-Income Census Tracts	0%
% Moderate-Income Census Tracts	0%
% Middle-Income Census Tracts	40%
% Upper-Income Census Tracts	60%
<b>Median Family Income (MFI)</b>	
2000 MFI for AA	\$33,550
2011 HUD-Adjusted MFI	\$41,600
<b>Economic Indicators</b>	
Unemployment Rate – Lafayette Co (July 2012)	9.1%
Unemployment Rate – Mississippi (July 2012)	10.1%
Unemployment Rate – USA (July 2012)	8.6%
2000 Median Housing Value	\$89,143
% of Households Below Poverty Level	23.02%

*Source: 2000 Census Data and Labor Market Data as of July 2012*

## CONCLUSIONS ABOUT PERFORMANCE CRITERIA

### LENDING TEST

#### Loan-to-Deposit Ratio

FNBC's average loan-to-deposit ratio at 77.88 percent is reasonable given its size, financial condition, funding sources, and assessment area's credit needs.

The average loan-to-deposit (LTD) ratio was derived from a 17 quarter average taken from March 2008 to March 2012. For purposes of this analysis, two banks conducting business in the bank's assessment area with similar asset sizes were used to determine the bank's performance. These banks include Covenant Bank of Clarksdale, Mississippi and The First National Bank of Oxford of Oxford, Mississippi. The two institutions had an overall average LTD of 74.94 percent during the same quarters. These institutions had average LTDs ranging from a high of 88.44 percent to a low of 61.43 percent.

<b>Loan-to-Deposit Ratio</b> <i>17 Quarter Average from March 2008 to March 2012</i>		
Institution	Assets (as of 3/31/2012) \$(000)	Average LTD Ratio
First National Bank of Clarksdale	\$352,755	77.88%
Covenant Bank	\$237,091	88.44%
The First National Bank of Oxford	\$243,775	61.43%

*Source: Uniform Banking Performance Reports (Call Reports)*

#### Lending in Assessment Area

A majority of the bank's loans are located in its AA. A sample of 108 loans (20 each for, consumer, commercial and agricultural loans) was reviewed. It is important to note there were only 8 loans made for agricultural loans in Lafayette County for 2010 and 2011. The chart below disclosed that 70% of the number of loans made and 75% of the dollar volume were to borrowers located within the bank's AA.

**Table 1 - Lending in Coahoma & Lafayette AA**

Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Commercial	29	72.50	11	27.50	40	1,591,137	75.08	528,080	24.92	2,119,218
Agricultural	16	57.14	12	42.86	28	2,925,176	74.82	984,631	25.18	3,909,807
Consumer	31	77.50	9	22.50	40	704,099	74.45	241,669	25.55	945,768
<b>Totals</b>	<b>76</b>	<b>70.37</b>	<b>32</b>	<b>29.63</b>	<b>108</b>	<b>5,220,412</b>	<b>74.85</b>	<b>1,754,380</b>	<b>25.15</b>	<b>6,974,793</b>

Data Source: 2010 & 2011 Bank Data

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

The bank's level of lending to borrowers of different income levels is overall, satisfactory. The following charts reflect the sample distribution of small business, farm and consumer loans made by the bank in 2010 and 2011. As indicated in the previous demographic chart, 33% of households located in the bank's AA are below the national poverty level. While lending to different income levels varied within the bank's AA, the overall lending pattern is satisfactory.

#### Business Loans

The distribution of loans to businesses reflects excellent penetration among businesses of different sizes. A sample of 20 business loans made during 2010 & 2011 were reviewed. Eighty-five percent of the bank's loans reviewed in the loan sample were made to small businesses. Small businesses are businesses with gross annual revenues of one million dollars or less. The graph below shows that the bank is doing an excellent lending to businesses with \$1 million dollars or less.

**Table 2A - Borrower Distribution of Loans to Businesses in Coahoma AA**

Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unknown	Total
% of AA Businesses	66.20	2.06	31.74	100%
% of Bank Loans in AA by #	85.00	15.00	0	100%
% of Bank Loans in AA by \$	80.92	19.08	0	100%

Data Source: 2010 and 2011 Bank Data & 2000 US Census Data

#### Agricultural Loans

The distribution of loans to farmers reflects reasonable penetration among farms of different sizes. A sample of 20 agricultural loans made during 2010 & 2011 were reviewed. Seventy percent of the bank's loans reviewed in the loan sample were made to small farms. Small farms are farms with gross annual revenues of one million dollars or less. The table below shows that although as a % of bank loans by \$ volume is significantly lower due to high volume farmers requiring larger loans, the actual number of loans to small farmers was reasonable.

<b>Table 2A - Borrower Distribution of Loans to Farms in Coahoma AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unknown	Total
% of AA Farms	93.81	4.29	1.90	100%
% of Bank Loans in AA by #	70.00	15.00	5.00	100%
% of Bank Loans in AA by \$	33.65	64.23	2.12	100%

Data Source: 2010 and 2011 Bank Data & 2000 US Census Data

### Consumer Loans

The income distribution of consumer loans made in low and moderate income areas was *overall poor with reasonable mitigating factors noted*. As noted in the demographic data, Coahoma County has 33% Households that are below national poverty levels with high local unemployment rates of over 13%. These high levels of poverty and unemployment rates limit the opportunities to qualify borrowers for consumer loans.

<b>Table 2B - Borrower Distribution of Consumer Loans in Coahoma AA</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of #of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans
Consumer Loans	34.05	5	15.26	15	15.14	20	35.54	60

Data Source: 2010 and 2011 Bank Data & 2000 US Census Data

### Geographic Distribution of Loans

The geographic distribution of loans made by the bank reflects reasonable dispersion throughout its AA. The following charts compare the geographic distribution of consumer loans made by the bank in 2010 and 2011.

#### Business and Farm Loans

The geographic distribution of loans to businesses and farms in Coahoma AA are reasonable given the limited number of businesses and farms in the area. The following chart compares the geographic distribution of commercial loans and agriculture loans made by the bank in 2010 and 2011. While there was a limited amount of agriculture loans made in the low-income area, the commercial loans in the low-income area far exceed that of the number of businesses located in the low-income areas.

The geographic distribution of commercial loans in moderate-income areas was slightly below the number of small businesses that are located in moderate-income areas. However, the geographic distribution of agriculture loans in moderate-income areas exceeds the number of farms that are located in moderate-income areas.

<b>Table 3A - Geographic Distribution of Loans to Businesses and Farms in Coahoma AA</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA	% of # of Loans	% of AA	% of # of Loans	% of AA	% of # of Loans	% of AA	% of # of Loans
Businesses	5.89	15.0	24.04	15.0	30.56	30.0	39.51	45.0
Farms	0.00	0.00	15.24	20.00	46.19	25.00	38.57	55.00

Data Source: 2010 and 2011 Bank Data & 2000 US Census Data

*Consumer Loans*

FNB’s geographic distribution of consumer loans is overall poor with reasonable mitigating factors noted. While there appears to be a concentration in middle and upper income levels, the bank has limited access to make consumer loans due to a limited number of low-income families. Additionally, as mentioned above, there is a high level of poverty and unemployment in the area that ultimately affects the overall lending possibilities without causing an unsound underwriting practice by the institution.

<b>Table 3B - Geographic Distribution of Consumer Loans in Coahoma AA</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans
Consumer Loans	6.02	0	37.20	20	31.17	25	25.61	55

Data Source: 2010 and 2011 Bank Data & 2000 US Census Data

**Responses to Complaints**

No formal CRA complaints have been received since the prior examination. The bank has a process of receiving and responding to customer complaints.

## **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.

## **COMMUNITY DEVELOPMENT TEST**

Performance under the community development test is Satisfactory. FNBC has invested in or donated to entities and organizations whose services primarily benefit low- and moderate-income families. Bank staff was involved with organizations that provide affordable housing for low- and moderate-income families, promote economic development, revitalize/stabilize low- and moderate-income areas, and provide social services primarily to low- and moderate-income families.

### **Number and Amount of Qualified Investments**

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

The number and amount of MNB's qualified investments is acceptable. During the evaluation period FNB purchased investments totaling \$856 thousand. The bank's investments are centered in Lafayette County school district bonds, in which schools receive Title I funding.

### **Extent to Which the Bank Provides Community Development Services**

The bank's level of participation in community development services is good, based on its capacity, distribution of retail branches, needs of the assessment area, and number of community development opportunities available for FNBC to participate in.

### **Responsiveness to Community Development Needs**

The primary delivery system is the bank's branch network. In total, FNB has five (5) branches, of which four (4) are full service branches and one (1) is a deposit-only branch. The bank offers a wide variety of loan and deposit products. Products and services include free checking and special school accounts. All programs are available at all full-service branches. Banking hours are reasonable throughout the bank's assessment area.

Alternative delivery systems include ATMs and free Internet banking services. There is no way to determine the effectiveness or accessibility of the Internet banking services; however, it is offered to all customers including low- and moderate-income individuals. The bank has five (5) ATMs.

## **Retail Banking Services**

### Coahoma County AA

The bank's service delivery systems are reasonably accessible to geographies and individuals of different income levels in the assessment area. The Coahoma County assessment area has two (2) full service branches and one (1) deposit-only branch. Based on the 2000 census, there are three CT that are low or moderate-income areas and four CT that are middle or upper-income CT.

### Lafayette County AA

The bank's service delivery systems are reasonably accessible to geographies and individuals of different income levels in the assessment area. The Lafayette County assessment area has two (2) full service branches. Based on the 2000 census, there are no low or moderate-income census tracts in the area.

## **Qualified Community Development Services**

FNB's level of qualified community development services is adequate. Bank employees participated with organizations that create and promote financial literacy and offer services to low- and moderate-income individuals/families in the assessment area. The following are some of the CD service activities noted:

### Clarksdale Care Station Shut-Ins

This is an organization that provides meals and services to low-income individuals and elderly in the community. One bank employee serves as the book keeper to the organization.

### Mississippi Young Bankers

Mississippi Young Bankers is an organization that focuses on teaching the Mississippians financial literacy and money management skills. As part of these activities, bankers go to low and moderate income areas and schools and teach money management skills to students. A bank employee participates in this organization as president and helps schedule different educational classes. Additionally, the employee participates in the teaching of financial literacy.