



## **PUBLIC DISCLOSURE**

January 12, 2015

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

Ozark Heritage Bank, National Association  
Charter Number 14731

802 East Main Street  
Mountain View, AR 72560

Office of the Comptroller of the Currency

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**

A summary of the major factors supporting the institution's rating:

- Ozark Heritage Bank, National Association's (OHB) loan-to-deposit (LTD) ratio is reasonable.
- Lending in the assessment area (AA) does not meet the standard for satisfactory performance. A majority of OHB's loans were made outside its AA. The levels of lending outside of the AA increased over the last two years as the bank modified its business plan to increase agricultural lending. Lending to small farmers is a need within the AA and surrounding counties.
- OHB's distribution of loans to moderate-income borrowers and small businesses within its AA is reasonable.
- OHB's geographic distribution of loans within its AA is reasonable.

## **SCOPE OF EXAMINATION**

OHB was examined using the small bank examination procedures. The evaluation period for this Community Reinvestment Act (CRA) Performance Evaluation (PE) was July 23, 2009, through January 12, 2015. Loan products used to assess the bank's performance under the Lending Test include residential, agricultural, and commercial loans. Loan samples consisted of 19 home purchase loans, 20 home improvement loans, 23 home refinance loans, 20 farm loans and 20 business loans. The loans were originated between January 1, 2013, through December 31, 2014.

### *Selection of Areas for Full-Scope Review*

As of December 31, 2014, OHB has two AAs: Stone County and Jefferson County. Stone County has been selected as a full-scope review with Jefferson County consisting of a limited scope review. Approximately 92.03 percent of AA loans were originated in Stone County while only 7.97 percent were originated in Jefferson County. Furthermore, as of June 30, 2014, the Deposit Market Share Report (DMSR) provided by the Federal Deposit Insurance Corporation (FDIC) indicates OHB has a 0.53 percent share of total deposits within the Jefferson County AA.

## **DESCRIPTION OF INSTITUTION**

Ozark Heritage Bank, National Association (OHB) is located in north-central Arkansas, approximately 106 miles north of Little Rock, AR. OHB operates two branch locations. The main branch is located in Mountain View, AR in Stone County and one additional branch is located in White Hall, AR in Jefferson County. The Mountain View location

has an automated teller machine (ATM) and drive-through facilities. All branch locations also provide onsite-lending services. There are no stand-alone ATMs.

The bank's primary loan products are residential, agricultural, and commercial loans. OHB also offers a range of other lending products including secured and unsecured consumer installment loans. Since August 2011, OHB has shifted its focus from residential loans to farm and agricultural lending. Two large poultry integrators are expanding their facilities in northeastern Arkansas and as a result, loan demand for new and refurbished poultry houses has increased. OHB has made a conscious effort to help fulfill these credit needs. OHB is a Standard Eligible Lender (SLE) for the Farm Service Agency (FSA) Guaranteed Farm Loan Program. The FSA Handbook for Guaranteed Loan Making and Service indicates the Guaranteed Farm Loan Program:

- enables lenders to extend credit to family farm owners or operators who do not qualify for standard commercial loans;
- benefits beginning farmers and family farmers experiencing financial distress, as well as lending institutions and local community as a whole; and
- serves the local community by protecting family farmers and farm-related businesses.

OHB's loan portfolio composition as reported in the September 30, 2014, Report of Condition and Income is as follows:

<b>Table 1 - Loan Portfolio Composition as of September 30, 2014</b>			
<b>Loan Type</b>	<b>Dollar Amount (\$000's)</b>	<b>Percent of Total Loans</b>	<b>Percent of Total Loan Originations</b>
Construction and Land Development	413	0.64%	0.82%
Secured by Farmland	9,364	14.49%	40.89%
One-to-Four Family	23,561	36.46%	8.74%
Multifamily Residential	0	0.00%	0.00%
Commercial Real Estate	2,583	3.99%	10.39%
<b>Total Real Estate Loans</b>	<b>\$35,921</b>	<b>55.58%</b>	<b>60.84%</b>
Agricultural	13,336	20.64%	32.74%
Commercial and Industrial	13,616	21.07%	5.10%
Consumer	1,751	2.71%	1.32%
<b>Total Loans</b>	<b>\$64,624</b>	<b>100.00%</b>	<b>100.00%</b>

Source: Call report and Bank core system reports

OHB does not have any legal or financial impediments that would limit its ability to meet the credit needs within its AAs. As of September 30, 2014, OHB reported total assets of \$83.55 million including \$64.62 million in gross loans (79.35 percent of total assets). Deposits totaled \$73.09 million and Tier 1 Capital was \$9.13 million, or 11.32 percent of adjusted average assets. OHB's prior CRA Examination was dated July 22, 2009, and performance was rated Satisfactory.

## DESCRIPTION OF ASSESSMENT AREA(s)

### Stone County AA

OHB's full scope AA includes a contiguous area of three (3) census-tracts (CT) located in Stone County Arkansas. As of the 2010 Census data, the population of the Stone County AA is 12,394 persons. There are three CTs in the Stone County AA, including one moderate-income CT and two middle-income CTs. Both middle-income CTs are considered distressed. Nonmetropolitan middle-income geographies are designated as distressed as a result of high unemployment, high poverty or significant population loss. Banks can assist these distressed areas through community development, including activities that help attract new or retain existing businesses or residents. The Stone County AA includes only whole CTs and does not arbitrarily exclude any low- or moderate-income (LMI) areas. The delineation is in conformance with the CRA.

Local employment for the area is centered in services and retail trade. Table 2, shown below, reflects the demographic statistics for the Stone County AA based on the 2010 Census data.

<b>Table 2 - Demographic and Economic Characteristics 2010 Census</b>	
	<b>Stone County</b>
<b>Population</b>	
Number of Families	3,326
Number of Households	4,966
<b>Geographies</b>	
Number of Census Tracts/BNA	3
% Low-Income Census Tracts/BNA	0.00%
% Moderate-Income Census Tracts/BNA	33.33%
% Middle-Income Census Tracts/BNA	66.67%
% Upper-Income Census Tracts/BNA	0.00%
Not Applicable	0.00%
<b>Median Family Income (MFI)</b>	
MFI for Stone County	\$36,920
2014 HUD-Adjusted MFI	\$45,300
<b>Economic Indicators</b>	
Median Housing Value	\$89,986
% of Households Below Poverty Level	24.91%

*Source: 2010 US Census Data and US Department of Housing and Urban Development (HUD) Data*

Table 3 reflects high unemployment rates for Stone County from 2011 to 2014. In addition, the chart reflects unemployment rates for the United States and Arkansas for comparison purposes.

<b>Table 3 – Unemployment Rates</b>				
	<b>2014 Unemployment Rate</b>	<b>2013 Unemployment Rate</b>	<b>2012 Unemployment Rate</b>	<b>2011 Unemployment Rate</b>
United States	5.6%	7.4%	8.1%	8.9%
Arkansas	5.7%	7.5%	7.5%	8.0%
Stone County	8.8%	11.3%	10.8%	9.9%

Source: Bureau of Labor Statistics

Banking Competition within the Stone County AA

Banking competition within the Stone County AA is high. There are seven financial institutions operating eight branches in the AA including two multi-state regional institutions and five local community institutions. The following table illustrates the significant deposit market share within the AA as of June 30, 2014:

<b>Table 4 – Stone County Deposit Market Share</b>	
<b>Bank</b>	<b>Market Share</b>
Centennial Bank	38.12%
<b>Ozark Heritage Bank, NA</b>	<b>23.00%</b>
The Citizens Bank	9.20%
The First National Bank of IZARD County	8.99%
First Security Bank	8.28%
First Service Bank	7.32%
Simmons First National Bank	5.09%
<b>Total</b>	<b>100.00%</b>

Source: FDIC Deposit Market Share Data

Community Contact

Two community contacts were leveraged for this CRA examination. The first community contact, a regional housing authority whose coverage area includes Stone County, indicated that local banks provide support to the local community through loans and sponsorships of various community events. The contact indicated that Stone County was particularly poor as much of the land in this area is state or federal land and is not subject to property taxes. In addition, employment in many of these areas is scarce, with many people having to drive to work locations in other counties. The contact stated the needs of the community are low-income housing and funding for small cattle farmers. However, the contact also indicated that many in need of housing would not qualify for loans due to their income levels and credit histories.

The second community contact was a local council of governments located in Jefferson County that provides planning and technical services to the County and local governments within the County. The contact indicated that local banks provide financial support, assist with local charitable causes - particularly youth initiatives, and serve in various capacities as volunteers on local boards and community associations. The community contact indicated that Jefferson County is in critical need of jobs and job training. The community contact indicated this was the responsibility of the community leaders to recruit new businesses and industry, and not the responsibility of the banks. However, the community contact indicated that there was a lot of existing housing stock throughout Jefferson County that needed to be upgraded and banks could play a role in supporting housing rehabilitation initiatives. The contact also felt there was an opportunity for local banks to participate in financial literacy programs by educating homeowners and the general community.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

### **LENDING TEST**

#### **Loan-to-Deposit Ratio**

OHB's LTD ratio meets the standard for satisfactory performance. OHB's average LTD ratio of 77.30 percent is reasonable given its size, financial condition, funding sources, and credit needs of its AAs. This is a modest decrease from the previous 2009 CRA exam, noted at 79.00 percent. The average LTD ratio is derived from a twenty-one quarter average taken from September 2009 to September 2014.

For purposes of this analysis, five banks conducting business within the bank's AA and with comparable asset sizes were reviewed to determine the bank's performance relative to its competition. The five comparable institutions had an overall average LTD ratio of 75.77 percent during the same period. These institutions had average LTDs ranging from a high of 88.89 percent to a low of 60.00 percent.

The table on the following page illustrates OHB's average LTD ratio and that of similarly situated institutions:

<b>Table 5 - Loan to Deposit (LTD) ratios</b>		
<b>Financial Institution</b>	<b>Assets (000s) as of September 30, 2014</b>	<b>Average LTD Ratio</b>
First Service Bank	\$234,372	88.89%
Relyance Bank, National Association	\$535,387	82.82%
<b>Ozark Heritage Bank, National Association</b>	<b>\$83,547</b>	<b>77.30%</b>
Bank of Star City	\$93,300	74.96%
The First National Bank of Izard County	\$156,878	73.92%
The Citizens Bank	\$535,046	73.50%
FBT Bank & Mortgage	\$132,786	60.50%

*Source: Call Reports*

### **Lending in Assessment Area**

Lending in the AA does not meet the standard for satisfactory performance. A majority of loans are outside the AAs. The loan sample reflects that 50.98 percent of the number and 59.57 percent of the dollar volume originated by OHB are located outside the AAs, while 49.02 percent of the number and 40.43 percent of the dollar volume of loans were originated within the AAs. Banking competition within the Stone County AA is high. There are seven financial institutions operating eight branches in the AA including two multi-state regional institutions and five local community institutions. Additionally, 24.91 percent of households in the Stone County AA are below poverty level, thus affecting their ability to qualify for loans. This greatly reduces the number of lending opportunities within these geographies.

Since August 2011, OHB has shifted its focus from residential loans and small business loans to farm and agricultural lending. The local agricultural lending market has been saturated, making it necessary to expand lending to other areas of the state. As noted in Table 6, a majority of the residential and small business loans were originated inside the AAs while farm loans have a substantial majority outside of the AA.

<b>Table 6 - Lending in Assessment Area</b>										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
						(in 000s)			(in 000s)	
Residential R/E	34	54.84	28	45.16	62	3,015	50.57	2,947	49.43	5,962
Farm Loans	4	20.00	16	80.00	20	1,788	25.97	5,095	74.03	6,883
Business Loans	12	60.00	8	20.00	20	1,468	55.06	1,198	44.94	2,666
<b>Total</b>	<b>50</b>	<b>49.02</b>	<b>52</b>	<b>50.98</b>	<b>102</b>	<b>6,271</b>	<b>40.43</b>	<b>9,240</b>	<b>59.57</b>	<b>15,511</b>

Source: Loan Sample

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

Based on the demographics of the AAs, the bank’s distribution of loans meets the standard for satisfactory performance. The distribution reflects reasonable penetration among individuals of different income levels, businesses of different sizes, and farm operations of different sizes.

### Residential Real Estate Loans

#### Stone County AA:

Penetration of loans to LMI borrowers for residential real estate products within the Stone County AA is reasonable. Table 7 reflects the loan distributions by type within the Stone County AA. The loan distributions for residential real estate lending to low-income borrowers is near to the percentage of low-income families within the AA and is excellent given low-income represents poverty level income. The loan distribution for residential real estate lending to moderate-income borrowers is lower than the percentage of moderate-income families in the AA. The poor penetration of residential real estate loans to moderate-income borrowers is mitigated by the 24.91 percent of families below the poverty line living in the geography. This high level of poverty makes it more difficult to qualify LMI borrowers for residential real estate loans while also maintaining sound underwriting standards.

<b>Table 7 - Borrower Distribution of Residential Real Estate Loans in Stone County AA</b>								
Borrower 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
Residential R/E	23.30	21.43	21.29	7.14	23.30	10.71	32.11	60.71

Source: Loan Sample and 2010 US Census Data

## Small Business Loans

### Stone County AA:

OHB has reasonable penetration of loans to business with revenues of \$1 million or less within the Stone County AA as a percent of number of loans, as reflected in Table 8. The number of loans to businesses with revenues of \$1 million or less is near to the percentage of businesses in the Stone County AA that reported revenues of \$1 million or less. The dollar volume of loans to businesses with revenues of \$1 million or less is somewhat lower than the percentage of businesses in the Stone County AA that reported revenues of \$1 million or less. The distribution by dollar volume is somewhat lower due to a larger number of smaller credits to small borrowers and the presence of a small number of relatively large loans included in the loan sample.

<b>Table 8 – Borrower Distribution of Loans to Businesses in Stone County AA</b>				
<b>Business Revenues (or Sales)</b>	<b>≤\$1,000,000</b>	<b>&gt;\$1,000,000</b>	<b>Unavailable/ Unknown</b>	<b>Total</b>
% of AA Businesses	96.13	3.87	0.00	100.00
% of Bank Loans in AA by #	90.00	10.00	0.00	100.00
% of Bank Loans in AA by \$	64.35	35.65	0.00	100.00

*Source: Loan Sample and 2010 US Census Data*

To supplement the business lending review, the distribution of loans by loan size was analyzed as a proxy for business size. The business loan sample primarily consisted of loans less than \$250 thousand, which is indicative of a reasonable level of lending to small businesses. As illustrated in Table 9 below, 85 percent of loans by number were under \$250 thousand, which indicates a reasonable amount of loans to smaller borrowers within the Stone County AA.

<b>Table 9 - Borrower Distribution of Loans to Businesses by Loan Size in Stone County AA</b>				
<b>Loan Size</b>	<b>Number of Loans</b>	<b>Percent of Number</b>	<b>Dollar Volume of Loans (\$000s)</b>	<b>Percent of Dollar Volume</b>
\$0 - \$100,000	11	55.00	199.00	8.92
\$100,001 - \$250,000	6	30.00	873.00	39.11
\$250,001 - \$500,000	2	10.00	624.00	27.96
\$500,001 - \$1,000,000	1	5.00	536.00	24.01
Over \$1,000,000	0	0.00	0.00	0.00

*Source: Loan Sample and 2010 US Census Data*

**Small Farm Loans**

Stone County AA:

OHB has reasonable penetration of loans to farmers with revenues of \$1 million or less within the Stone County AA, as reflected in Table 10. The number and dollar volume of loans to business with revenues of \$1 million or less is near to the percentage of businesses in the Stone County AA that reported revenues of \$1 million or less.

<b>Table 10 - Borrower Distribution of Loans to Farms in Stone County AA</b>				
<b>Farms Revenues (or Sales)</b>	<b>≤\$1,000,000</b>	<b>&gt;\$1,000,000</b>	<b>Unavailable/ Unknown</b>	<b>Total</b>
% of AA Farms	100.00	0.00	0.00	100.00
% of Bank Loans in AA by #	95.00	5.00	0.00	100.00
% of Bank Loans in AA by \$	97.54	2.46	0.00	100.00

Source: Loan Sample and 2010 US Census Data

LIMITED Scope: Jefferson County AA

Based on a limited-scope review, the bank’s performance under the Lending Test in the Jefferson County AA is consistent with the bank’s overall performance under the lending test. This is due to an overall reasonable penetration for residential real estate loans and loans to small businesses. Based on low lending volume relative to the bank’s overall lending volume, this AA is considered part of a limited review and does not have a significant impact on the overall conclusion.

**Geographic Distribution of Loans**

Based on the full-scope AA geographies, OHB’s geographic distribution of loans meets the standard for satisfactory performance. Geographic distribution reflects reasonable dispersion among moderate and distressed middle-income CTs based on lending opportunities within these geographies.

**Residential Real Estate Loans**

Stone County AA:

Geographic distribution for residential real estate loans has reasonable dispersion within the AA. Table 11 displays the geographic dispersion of residential real estate loans within the Stone County AA. The level of lending within moderate-income CTs is lower than the level of owner-occupied housing within moderate-income CTs for residential real estate loans. The dispersion in the moderate-income geography is reasonable when considering the context of the AA. All loans are made in moderate-income or distressed middle-income CTs and the small number of CTs in the AA reduces the meaningfulness of using a penetration analysis. Of the three (3) CTs in the Stone County AA, only one (1) CT is located in a moderate-income area and there are no low-

income CTs. The population of the moderate-income census tract is 1,657 people or 13.37 percent of the total population within the Stone County AA. This greatly reduces the number of lending opportunities within these geographies. OHB has substantial lending activity in middle-income CTs designated as distressed.

<b>Table 11 - Geographic Distribution of Residential Real Estate Loans in Stone County 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
Residential R/E	0.00	0.00	15.84	7.14	84.16	92.86	0.00	0.00

Source: Loan Sample and 2010 US Census Data

### Small Business Loans

#### Stone County AA:

OHB’s geographic distribution of business loans reflects reasonable dispersion within the Stone County AA. Table 12 below reflects the geographical dispersion of small business loans within the Stone County AA. There were no loans made in the moderate-income CT. This is reasonable given the small percentage and very small number of businesses located in the moderate-income CT. There are no low-income CTs within the bank’s Stone County AA.

The dispersion of credits within LMI CTs is due to the lack of businesses in the CT and highly competitive lending environment. Per the 2010 Census data, there are only 37 businesses (3.97 percent of total businesses) located in the moderate-income CT. Banking competition within the local lending market limits the number of customers available to bank within the moderate-income CT. However, OHB has substantial lending activity in middle-income CTs designated as distressed.

<b>Table 12 - Geographic Distribution of Loans to Businesses in Stone County 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
Business Loans	0.00	0.00	3.97	0.00	96.03	100.00	0.00	0.00

Source: Loan Sample and 2010 US Census Data

**Small Farm Loans**

Stone County AA:

OHB’s geographic distribution of farm loans reflects reasonable dispersion within the Stone County AA. Table 13 below reflects the geographical dispersion of small farm loans within the Stone County AA. The percentage of loans to farms located within a moderate-income CT is lower than the percentage of farms located within a moderate-income CT. Given the small number of CTs in the Stone County AA, the percentage is not very meaningful. There are a small number of farms located in the moderate-income CT providing limited lending opportunities. There are no low-income CTs within the Stone County AA. All farm loans in the AA benefited either the moderate-income CT or distressed middle-income CTs.

The dispersion of credits within the moderate-income CTs is due to the lack of farms in the CT and highly competitive lending environment. Per the 2010 Census data, there are only 14 farms (20.00 percent of total farms) located in the moderate-income CT. Banking competition within the local lending market limits the number of customers available to bank within the moderate-income CT. However, OHB has substantial lending activity in middle-income CTs designated as distressed.

<b>Table 13 - Geographic Distribution of Loans to Farms in Stone County 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
Farm Loans	0.00	0.00	20.00	5.00	80.00	95.00	0.00	0.00

*Source: Loan Sample and 2010 US Census Data*

LIMITED Scope: Jefferson County AA

Based on a limited-scope review the bank’s performance under the Lending Test in the Jefferson County AA is consistent with the bank’s overall performance under the lending test. This is due to an overall reasonable dispersion for residential real estate and business loans within the AA. Based on low lending volume relative to the bank’s overall lending volume, this AA is considered part of a limited review and does not have a significant impact on the overall conclusion.

### **Responses to Complaints**

OHB has not had any complaints made relating to the Community Reinvestment Act since the prior examination dated July 23, 2009.

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

Pursuant to 12 C.F.R. 25.28(c), or 12 C.F.R. 195.28(c), in determining a national bank's (bank) or Federal savings association's (FSA) CRA rating, respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or FSA, or in any AA by an affiliate whose loans have been considered as part of the bank's or FSA's lending performance.

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.