



## **PUBLIC DISCLOSURE**

July 21, 2014

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

The First National Bank of McGehee  
Charter Number 16256

500 North Second Street  
McGehee, AR 71654

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.**

Summary of the major factors supporting the institution's rating:

- The First National Bank of McGehee's (FNB of McGehee) net loans-to-deposits ratio is reasonable.
- A majority of consumer auto, small business, and small farm loans originated in the bank's assessment area (AA).
- Borrower distribution shows reasonable penetration for consumer auto, small business, and small farm loans.
- Geographic distribution shows excellent dispersion for consumer auto, small business, and small farm loans.
- Response to consumer complaints is appropriate.

**SCOPE OF EXAMINATION**

FNB of McGehee is evaluated as a Small Bank. The evaluation period for this Community Reinvestment Act (CRA) Performance Evaluation (PE) is April 7, 2009, through July 21, 2014. Loan products used to assess the bank's performance under the Lending Test include consumer auto loans, small business loans, and small farm loans. These loans were originated between January 1, 2012, and December 31, 2013, and represented the largest number and dollar amounts of loans originated during the period.

FNB of McGehee has one full-scope AA, Desha County, AR, which is a not part of a Metropolitan Statistical Area (MSA). Therefore, the bank is not a Home Mortgage Disclosure Act (HMDA) reporter.

**DESCRIPTION OF INSTITUTION**

FNB of McGehee is located in Southeast Arkansas, approximately 15 miles west of the Mississippi River and 40 miles north of the Arkansas-Louisiana state line. The bank's main office is located at 500 North Second Street, McGehee, AR. The bank also has a second location at 703 Highway 65 North, McGehee, AR. The bank also operated a third branch location in Tillar, AR, until its closure on May 3, 2013.

FNB of McGehee offers a full range of banking services and all branches have automated teller machines (ATM). The bank's primary lending focus is in small business, small farm, and consumer loans. FNB of McGehee has direct and indirect competitors in the Desha County AA. These competitors include a growing regional bank and three other community banks. Of the four competitor institutions, only two are considered similarly situated based on size, location, scope of operations, and market

share. There are no legal or financial impediments that limit the bank’s ability to help meet the credit needs of the AA. FNB of McGehee is 100% owned by First National Financial Corporation, McGehee, AR. As of December 31, 2013, First National Financial Corporation had total assets of \$53 million.

As of March 31, 2014, FNB of McGehee reported total assets of \$53 million and \$47 million in deposits. Gross loans totaled \$17 million or 32% of total assets and 36% of total deposits. The loan portfolio composition as of March 31, 2014 is as follows:

<b>Loan Category</b>	<b>\$ (000)</b>	<b>%</b>
Commercial Real Estate	3,809	22.74
Commercial and Industrial	3,785	22.60
Agriculture	3,442	20.55
Residential	3,145	18.77
Consumer	2,115	12.63
Municipal	455	2.71
<b>Total</b>	<b>16,751</b>	<b>100.00</b>

*Source: March 31, 2014 Call Report.*

The prior CRA PE for FNB of McGehee was dated April 6, 2009, and the bank received a rating of “Satisfactory.”

## **DESCRIPTION OF ASSESSMENT AREA(S)**

The FNB of McGehee AA includes all five census tracts (CTs) located in Desha County, AR, which is a Non-MSA county. The AA meets the requirements of the regulation and does not arbitrarily exclude low- and moderate-income geographies.

Desha County (population 13,008) is located in Southeastern Arkansas. The county covers approximately 820 square miles, borders the western bank of the Mississippi River, and is north of the Arkansas-Louisiana state line. The 2010 Median Family Income (MFI) for Desha County was \$37,655. This income figure is used to determine the income level of each of the individual CTs within Desha County. There are two moderate income level CTs and three middle income CTs within Desha County. Two of the three middle income CTs are designated as distressed by the United States Census Bureau based on population decline and poverty rates within those areas. The income level of families located in Desha County is as follows – 30% are low-income; 17% are moderate-income; 14% are middle-income; and 39% are upper-income. Approximately 27% of families in Desha County have incomes below poverty level, which is a high level. As of June 2014, the unemployment rate for Desha County was 10.0%, compared to 6.2% for the State of Arkansas and 6.1% for the United States. Major industries within Desha County include agricultural grain production and timber processing.

A community contact was conducted with the McGehee Housing Authority during this CRA evaluation. The contact stated that the city has a cycle of poverty that is hard to

overcome. The contact identified immediate credit needs as agriculture production finance, agriculture and timber processing finance, and housing that is decent, safe, and sanitary. The contact stated that local banks do a good job of meeting the credit needs within the AA and provided specific examples of projects in which the banks in the area have participated. The ability for banks to finance affordable housing construction projects is limited to the lack of investor appetite to develop affordable homes within the AA.

<b>DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA (DESHA COUNTY) 2010 CENSUS</b>	
<i>Population</i>	
Number of Families	3,575
Number of Households	5,302
<i>Geographies</i>	
Number of Census Tracts	5
% Low-Income Census Tracts	0.00%
% Moderate-Income Census Tracts	40.00%
% Middle-Income Census Tracts	60.00%
% Upper-Income Census Tracts	0.00%
<i>Median Family Income (MFI)</i>	
2010 MFI for Assessment Area	\$37,655
2013 HUD-Adjusted MFI	\$44,000
<i>Economic Indicators</i>	
Unemployment Rate, June 2014, (Non-seasonally Adjusted)	
Desha County	10.00%
State of Arkansas	6.20%
United States	6.10%
Median Housing Value as of 2013	\$56,044
Median Housing Year Built as of 2010	1974
% of Households Below Poverty Level	26.91%

*Source: 2010 U.S. Census Data and 2013 Bureau of Labor Statistics*

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

### **LENDING TEST**

The lending test is rated is satisfactory. The loan-to-deposit ratio is reasonable. A majority of loans originated inside FNB of McGehee's AA. Borrower distribution shows reasonable penetration. Geographic distribution shows excellent dispersion. Bank management has shown an appropriate response to consumer complaints.

## Loan-to-Deposit Ratio

The FNB of McGehee average loan-to-deposit ratio is reasonable.

The bank's quarterly average ratio was calculated at 47.25% over 21 quarters ranging from March 2009 to March 2014. There are two other similarly situated banks that are headquartered in Desha County, AR. These banks are McGehee Bank, McGehee, AR, and Merchants and Farmers Bank, Dumas, AR. Each of these institutions had average loan-to-deposit ratios of 70.54% and 57.50%, respectively. FNB of McGehee has the lowest average ratio relative to the other similarly situated institutions within the AA. However, FNB of McGehee is limited in its ability to meet the primary credit needs of the community (agriculture production and farm real estate) based on its size and the applicable lending limits outlined in 12 U.S.C. § 84 and 12 C.F.R. § 32, "Lending Limits." Agriculture production and farm real estate loans typically exceed the legal lending limit capacity of FNB of McGehee. McGehee Bank is over twice the size of FNB of McGehee and has a higher legal lending limit. Merchants and Farmers Bank is also over twice the size of FNB of McGehee and has a loan production office located in Bryant, AR, which is located in Central Arkansas.

There are five banks with branches in Desha County; however, two of the banks are not considered direct competitors for this analysis. According to the June 30, 2013 FDIC Deposit Market Share Report, FNB of McGehee has 16.65% of the deposit market share, while McGehee Bank and Merchants and Farmers Bank have 36.35% and 33.60% deposit market share, respectively.

The following table shows the total assets as of March 31, 2014, and the quarterly average loan-to-deposit ratio from March 31, 2009 through March 31, 2014 (21 quarters), for these three similarly situated banks:

Institution	Total Assets (000s) 03/31/2014	Average Net Loan-to- Deposit Ratio
McGehee Bank	\$116,881	70.54%
Merchants and Farmers Bank	\$113,380	57.50%
<b>The First National Bank of McGehee</b>	<b>\$52,656</b>	<b>47.25%</b>

*Source: March 31, 2014 Call Report*

## Lending in Assessment Area

A majority of FNB of McGehee loans originated inside the Desha County AA.

Overall, 75% of the number of loans and 86% of the dollar volume of loans originated within the bank's AA. For consumer auto loans, 70% of the number and 64% of the dollar volume of loans originated in the AA. For small business loans, 85% of the

number and 99% of the dollar volume originated in the AA. For small farm loans, 70% of the number and 67% of the dollar volume originated in the AA.

<b>Table 1 - Lending in Desha County AA</b>										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
						(000's)		(000's)		(000's)
Consumer Auto	14	70.00	6	30.00	20	\$131	64.53	\$72	35.47	\$203
Small Business	17	85.00	3	15.00	20	\$3,587	98.63	\$50	1.37	\$3,637
Small Farm	14	70.00	6	30.00	20	\$1,422	66.76	\$708	33.24	\$2,130
<b>Totals</b>	<b>45</b>	<b>75.00</b>	<b>15</b>	<b>25.00</b>	<b>60</b>	<b>\$5,140</b>	<b>86.10</b>	<b>\$830</b>	<b>13.90</b>	<b>\$5,970</b>

Source: 2012-2013 sample of loans for consumer auto, small business, and small farm.

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

FNB of McGehee’s borrower distribution shows reasonable penetration to borrowers of different income and to businesses of difference sizes within the AA.

#### Consumer Auto Loans

Borrower distribution for consumer auto loans shows reasonable penetration. The percentage of bank loans to low-income borrowers is near to the percentage of low-income families within the AA. The percentage of bank loans to moderate-income borrowers exceeds the percentage of moderate-income families within the AA.

<b>Table 2A - Borrower Distribution of Consumer Loans in Desha County AA</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Auto Loans	30.95	28.57	17.37	50.00	14.24	14.29	37.44	7.14

Source: 2012-2013 sample of loans; 2010 U.S. Census data.

#### Small Business Loans

Borrower distribution for small business loans shows reasonable penetration to businesses with revenues of \$1 million or less. The percentage of bank loans (by number) with revenues of \$1 million or less exceeds the percentage of businesses in the AA with revenues of \$1 million or less. By dollar volume, the percentage of bank loans with revenues of \$1 million or less is near to the percentage of businesses in the AA with revenues of \$1 million or less.

<b>Table 2B - Borrower Distribution of Loans to Businesses in Desha County AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	65.99	4.24	29.77	100%
% of Bank Loans in AA by #	82.35	11.76	5.89	100%
% of Bank Loans in AA by \$	58.47	41.22	0.31	100%

*Source: 2012-2013 sample of loans; Dun and Bradstreet data.*

### Small Farm Loans

Borrower distribution for small farm loans shows reasonable penetration to farms with revenues of \$1 million or less. The percentage of bank loans (by number) with revenues of \$1 million or less is near to the percentage of farms in the AA with revenues of \$1 million or less. By dollar volume, the percentage of bank loans with revenues of \$1 million or less is also near to the percentage of farms in the AA with revenues of \$1 million or less.

<b>Table 2C - Borrower Distribution of Loans to Farms in Desha County AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Farms	99.10	0.45	0.45	100%
% of Bank Loans in AA by #	85.71	0.00	14.29	100%
% of Bank Loans in AA by \$	98.03	0.00	1.97	100%

*Source: 2012-2013 sample of loans; Dun and Bradstreet data.*

### **Geographic Distribution of Loans**

FNB of McGehee's geographic distribution shows excellent dispersion throughout the AA. The analysis reflects lending in all CTs and no significant gaps in lending coverage.

### Consumer Auto Loans

Geographic distribution of consumer auto loans is excellent. There are no low-income CTs in the bank's AA. The percentage of bank loans to moderate-income CTs exceeds the percentage of moderate-income households in the AA.

<b>Table 3A - Geographic Distribution of Consumer Auto Loans in Desha County AA</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Auto Loans	0.00	0.00	35.10	57.14	64.90	42.86	0.00	0.00

Source: 2012-2013 sample of loans; 2010 U.S. Census data.

**Small Business Loans**

Geographic distribution of small business loans shows excellent dispersion. There are no low-income CTs in the bank’s AA. The percentage of bank loans in moderate-income CTs exceeds the percentage of businesses located in moderate-income CTs.

<b>Table 3B - Geographic Distribution of Loans to Small Businesses in Desha County AA</b>								
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
Small Business	0.00	0.00	29.77	64.71	70.23	35.29	0.00	0.00

Source: 2012-2013 sample of loans; Dun and Bradstreet data.

**Small Farm Loans**

Geographic distribution of small farm loans shows excellent dispersion. There are no low-income CTs in the bank’s AA. The percentage of bank loans in moderate-income CTs exceeds the percentage of farms located in moderate-income CTs.

<b>Table 3C - Geographic Distribution of Loans to Small Farms in Desha County AA</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Farms	% of Number of Loans	% of AA Farms	% of Number of Loans	% of AA Farms	% of Number of Loans	% of AA Farms	% of Number of Loans
Small Farm	0.00	0.00	24.43	35.71	75.57	64.29	0.00	0.00

Source: 2012-2013 sample of loans; Dun and Bradstreet data.

**Responses to Complaints**

FNB of McGehee has not received any CRA related complaints since the previous CRA evaluation dated April 6, 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 assessment area 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 the community credit needs.