



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks  
Washington, DC 20219

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## **PUBLIC DISCLOSURE**

**August 22, 2005**

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

**First National Bank of Stuttgart  
Charter Number 24360**

**620 East 22nd Street  
Stuttgart, AR 72160**

**Comptroller of the Currency  
Little Rock (Memphis)  
10201 West Markham, Suite 105 Ozark National Life Bld.  
Little Rock, AR 72205**

**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.**

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## INSTITUTION'S CRA RATING

### **This institution is rated Satisfactory.**

- The average loan-to-deposit ratio at 83% is reasonable given the bank's size, financial condition, and the Assessment Area's (AA's) credit needs.
- A substantial majority of loans are in the bank's 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 AA, including moderate-income geographies.

## DESCRIPTION OF INSTITUTION

First National Bank of Stuttgart (FNBS) is located in the city of Stuttgart, in Arkansas County, Arkansas. Stuttgart has a population of 10,400 and the bank's AA has a population of 17,400 according to the 2000 census.

First National Bank of Stuttgart (FNBS) has one main office and no branches. The bank has not opened or closed any branches since the bank opened and has not had any previous CRA evaluations. The main office has drive-up facilities and an automated teller machine (ATM). All lending, deposit, and other products and services are available at the main office. FNBS offers convenient banking hours and a variety of loan and deposit products to meet the credit needs of the AA including small consumer loans, no cost checking accounts, telephone and Internet banking services, and extended banking hours on Thursdays and Fridays. As of June 30, 2005, the bank reported total assets of \$46 million and total loans of \$26 million.

The bank's primary lending activity is in agriculture and farmland, followed by 1 – 4 family residential real estate, commercial and commercial real estate lending. The loan portfolio composition as of June 30, 2005, is as follows:

<b>Loan Category</b>	<b>\$ (000)</b>	<b>%</b>
1-4 Family Residential	\$7,586	29.42%
Commercial and Commercial Real Estate	\$5,684	22.05%
Agriculture & Farmland	\$9,524	36.94%
Consumer	\$2,008	7.79%
All Other	\$980	3.80%
<b>Total</b>	<b>\$25,782</b>	<b>100.00`%</b>

Source: 6-30-2005 Call Report

There are no significant financial impediments that would limit FNBS's ability to meet the credit

needs in its AA.

FNBS is mostly owned by the Black family, which owns over 80% of the bank's shares. This is the bank's first CRA examination since opening on October 1, 2002, so there are no previous CRA assessment ratings.

## **DESCRIPTION OF ASSESSMENT AREA**

FNBS's AA is comprised of eight block numbering areas or census tracts (BNA/CTs) located in Arkansas, Lonoke, and Prairie Counties. Five of these BNA/CTs are in northern Arkansas County, one BNA/CT is in southeast Lonoke County, and two BNA/CTs are in southern Prairie County. These BNA/CTs are contiguous, satisfy regulatory requirements regarding AAs, and do not arbitrarily exclude low- and moderate-income geographies. The Median Family Income (MFI) for the AA was \$35,782 in 2000. This income figure is used to determine the income level of individual BNA/CTs. According to the 2000 census, there are no low-income BNA/CTs, one moderate-income BNA/CT located in Lonoke County, six middle-income BNA/CTs located in Arkansas and Prairie County, and one upper-income BNA/CT in eastern Arkansas County. The 2004 Housing and Urban Development (HUD) estimated MFI for the AA is \$41,775. The HUD estimated MFI is updated annually and is used to determine the income level of individual applicants.

The economy of the AA is considered to be stable. Agriculture, food processing, manufacturing, retail, and government services are the primary employers in the AA. According to 2004 Business Demographic Data, there were 1468 businesses in the AA. This data source also states that 1,401 or 95% of these businesses had annual gross revenues of less than \$1 million. Unemployment as of June 2005 was approximately 6% for the AA. The local unemployment rate is slightly higher than the 5% unemployment rate for Arkansas and United States.

The following table shows the demographic and economic characteristics of the AA.

<b>DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA</b>	
<b><i>Population</i></b>	
Number of Families	6,008
Number of Households	8,459
<b><i>Geographies</i></b>	
Number of Census Tracts/BNA	8
% Low-Income Census Tracts/BNA	0.00%
% Moderate-Income Census Tracts/BNA	12.50%
% Middle-Income Census Tracts/BNA	75.00%
% Upper-Income Census Tracts/BNA	12.50%
<b><i>Median Family Income)</i></b>	
2000 MFI for AA	\$35,782
2004 HUD-Adjusted MFI	\$41,775
<b><i>Economic Indicators</i></b>	
Unemployment Rate June 2005	6.17%
Weighted Avg. Median Housing Value	\$52,455
% of Households Below Poverty Level	17%

Source: 2000 Census; HUD; and U.S. Labor Department

A community contact with the Secretary of Agriculture for the State of Arkansas was conducted in conjunction with this CRA examination. This contact revealed that local banks are meeting the primary credit needs in the area.

## **CONCLUSIONS ABOUT PERFORMANCE CRITERIA**

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

FNBS's loan-to-deposit ratio is reasonable given the bank's size, financial condition, and assessment area credit needs. The only other bank that is headquartered in Arkansas County is Farmers and Merchants Bank (F&MB), located in Stuttgart, AR. F&MB had total assets of \$312 million as of June 30, 2005. Bancorp South, headquartered in Tupelo, Mississippi also has a branch in Stuttgart.

The following table shows total assets as of June 30, 2005, and the quarterly average loan-to-deposit (LTD) ratio from December 31, 2002 through June 30, 2005, (11 quarters) for the two banks headquartered in Stuttgart.

<b>Institution</b>	<b>Assets (as of 6/30/2005)</b>	<b>Average LTD Ratio</b>
FNB of Stuttgart	\$46 million	83%
Farmers & Merchants Bank	\$312 million	84%

Sources: Call Reports

## Lending in Assessment Area

A substantial majority of the loans sampled, particularly by dollar volume, are in the bank's AA. A sample of 20 residential real estate loans, 20 consumer loans, and 20 commercial loans made during 2004 and 2005 were reviewed to determine lending performance within the AA. FNBS's lending activity within the AA is detailed in the following table.

TOTAL LOANS REVIEWED								
	IN ASSESSMENT AREA				OUT OF ASSESSMENT AREA			
LOAN TYPE	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Real Estate	20	100%	\$499	100%	0	0%	\$0	0%
Consumer	17	85%	\$933	69%	3	15%	\$43	31%
Commercial	18	90%	\$5,486	97%	2	10%	\$172	3%
Total Reviewed	55	92%	\$6,918	97%	5	8%	\$215	3%

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

The distribution of loans sampled reflects a reasonable penetration among individuals of different income levels (including low-and moderate-income) and businesses of different sizes, given the demographics of the AA. The same sample of 20 residential real estate, 20 consumer, and 20 business loans used to determine lending performance within the AA were also used to determine lending performance to borrowers of different income levels. The following tables show the distribution of residential real estate and consumer loans within the various income levels and to businesses of different sizes.

RESIDENTIAL REAL ESTATE								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Families	19%		16%		20%		45%	
LOANS BY YEAR	% of Number	% of Amount						
2004 & 2005	5%	7%	25%	20%	35%	30%	35%	43%

The table above shows that most of the residential real estate loans sampled were made to middle- and upper-income borrowers. The tables also show that residential real estate loans to low-income borrowers were below the percentage of low-income borrowers in the AA. However, 17% of the households were below the poverty level, which substantially limits the bank's lending opportunities to low income borrowers. However, the sample also indicates that the percentage of residential real estate loans made to moderate-income borrowers and the percentage of dollar volume of residential real estate loans made to moderate-income borrowers exceeded the percentage of moderate-income families residing in the AA.

CONSUMER								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households	23%		14%		18%		45%	
LOANS BY YEAR	% of Number	% of Amount						
2004 - 2005	25%	10%	20%	42%	40%	29%	15%	19%

The table above shows the percentage of the number of consumer loans made to low- and moderate-income borrowers is above the percentage of low- and moderate-income households in the AA. The percentage of the dollar volume of consumer loans made to low-income families is lower than the percentage of low-income households in the AA. However, the percentage of the dollar volume of consumer loans made to moderate-income borrowers exceeds the percentage of moderate-income households in the AA.

The distribution of business and agriculture loans reflects a reasonable penetration among businesses of different sizes. The percentage of the number of loans made to businesses with revenues less than \$1 million dollars is equal to the percentage of businesses with revenues less than \$1 million in the AA. The percentage of the dollar volume of loans made to businesses with revenues less than \$1 million dollars exceeds the percentage of businesses with revenues less than \$1 million dollars in the AA. The following table shows lending to small businesses.

BORROWER DISTRIBUTION OF SMALL LOANS TO BUSINESSES		
Business Revenues	≤\$1,000,000	>\$1,000,000
<b>% of AA Businesses</b>	<b>95%</b>	<b>5%</b>
% of Bank Loans in AA #	95%	5%
% of Bank Loans in AA \$	99%	1%

### Geographic Distribution of Loans

The geographic distribution of loans reflects a reasonable dispersion throughout the AA. The same sample of 20 residential, 20 consumer, and 20 business and farm loans was used to determine lending performance inside and outside of the AA and lending to low- and moderate-income geographies within the AA. Since there are no low-income BNA/CTs and only one moderate-income BNA/CT in the AA, more weight was put on lending activity within the AA than lending within moderate-income BNA/CTs.

RESIDENTIAL REAL ESTATE								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Owner Occupied	0%		6%		84%		10%	
	% of Number	% of Amount						
2004 - 2005	0%	0%	5%	5%	95%	95%	0%	0%

The above tables show that both the percentage of the number of loans and the dollar volume of residential real estate loans to borrowers in the moderate-income tract are similar to the percentage of owner occupied residences in the moderate-income BNA/CTs.

CONSUMER								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households	0%		6%		86%		8%	
	% of Number	% of Amount						
2004 - 2005	0%	0%	10%	21%	90%	79%	0%	0%

The table above shows that both the percentage of the number and dollar volume of consumer loans made to borrowers in the moderate-income tract exceeds the percentage of households residing in the moderate-income BNA/CTs.

BUSINESS LOANS								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Businesses	0%		4%		83%		13%	
	% of Number	% of Amount						
2004 - 2005	0%	0%	5%	5%	95%	95%	0%	0%

The above table shows that both the percentage of the number and dollar volume of business and farm loans made in the moderate-income BNA/CTs exceeds the percentage of businesses located in the moderate- income.

### **Responses to Complaints**

FNBS has not received any formal or written complaints regarding CRA performance since its opening.

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

We found no evidence of illegal discrimination or other illegal credit practices.