



SMALL BANK

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

PUBLIC DISCLOSURE

June 07, 2004

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The First National Bank of Pontotoc
Charter Number 9040**

**19 South Main
Pontotoc, MS 38863**

**Comptroller of the Currency
Little Rock Field Office
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.

GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision; 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 Community Reinvestment Act (CRA) performance of First National Bank of Pontotoc, Pontotoc, MS as prepared by **The Comptroller of the Currency**, the institution's supervisory agency, as of June 7, 2004. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.*

INSTITUTION'S CRA RATING

This institution is rated "Satisfactory".

- ◆ The average loan-to-deposit ratio of 75.17% is reasonable given the bank's size, financial condition, and assessment area credit needs.
- ◆ A majority of the bank's loans are made to borrowers located within the bank's assessment area.
- ◆ The distribution of loans reflects reasonable penetration among individuals of different income levels and businesses of different sizes.

DESCRIPTION OF INSTITUTION

First National Bank of Pontotoc (FNB) is located in the city of Pontotoc (Pontotoc County), Mississippi. Pontotoc is located in the northeastern part of the state, approximately 90 miles southeast of Memphis, TN. The bank's main office is located in Pontotoc's downtown business district. The bank has two branch offices, also located in the town of Pontotoc. All locations have drive-up access and automated teller machines (ATMs). Loans are available at all locations. As of December 31, 2003, the bank had total assets of \$205 million, \$178 million in deposits, and \$137 million in loans.

The bank's primary lending focus is on residential real estate loans. The bank also loans to small

business that includes manufacturing, retail and agricultural. The loan portfolio composition as of March 31, 2004 is as follows:

Loan Category	\$ (000)	%
Residential Real Estate Loans	\$85,966	63%
Commercial Loans	\$21,833	16%
Consumer Loans & Other	\$26,224	19%
Agriculture Loans	\$3,109	2%
Total	\$137,132	100%

FNB offers convenient banking hours and has a variety of loan and deposit products and services. There are no financial impediments that would restrict the bank's ability to meet the credit needs of its assessment area. The bank is 100% owned by Pontotoc Bancshares Corporation, a one-bank holding company headquartered in Pontotoc, Mississippi. As of December 31, 2003, Pontotoc Bancshares Corporation had total assets of approximately \$220.2 million. The deposit share within the assessment area includes FNB with 55%, and two regional bank branches with 45%. The bank's last CRA performance evaluation was performed as of May 26, 1998, resulted in a "Satisfactory" rating.

DESCRIPTION OF ASSESSMENT AREA

The bank's assessment area (AA) is Pontotoc County, Mississippi containing five Block Numbering Areas (BNAs). The assessment area meets the requirements of the regulation and does not arbitrarily exclude low- and moderate-income geographies. Pontotoc County has a population of 22,237 according to the updated 2000 census. Based on the 2000 median family income (MFI) of \$36,000 for non-metropolitan statistical areas (MSA) in Mississippi, all BNAs in the assessment area are considered to be middle-income. The estimated MFI is updated annually and for purposes of this evaluation was used to determine income levels of borrowers.

The assessment area has a history of low unemployment when compared to state and national averages. The latest unemployment data for March 2004 indicates a national unemployment rate of 6%, the state of Mississippi at 4.9%, and Pontotoc County at 5%. The low unemployment rate for the county is attributed to a stable economic market. The average cost of housing in the assessment area is \$41,339, with owner occupied housing representing 75% of the population.

Primary industries in the assessment area include services, retail trade, and agricultural related. Ashley Furniture Industries, Inc., a furniture manufacturing facility, is the largest employer and employs over 1,700 people. There are several smaller businesses located in the area such as Lane Furniture Industries, and Barclay Furniture.

The 2003 Business Demographic Data reported 75 farms and 816 businesses in the Pontotoc County assessment area, of which 73 farms (97%) and 747 businesses (92) had gross annual

income of \$1 million or less and considered to be small businesses.

The following table reflects the demographic and economic characteristics of the assessment area.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA	
Population	
Number of Families	6,366
Number of Households	8,311
Geographies	
Number of Census Tracts/BNA	5
% Low-Income Census Tracts/BNA	0%
% Moderate-Income Census Tracts/BNA	0%
% Middle-Income Census Tracts/BNA	80%
% Upper-Income Census Tracts/BNA	20%
Median Family Income (MFI)	
1990 MFI for AA	\$24,924
2002 HUD-Adjusted MFI	\$36,000
Economic Indicators	
Unemployment Rate (March 2004)	5%
2002 Median Housing Value	\$41,339
% of Households Below Poverty Level	20%

A community contact with a member of the local chamber of commerce was conducted in conjunction with this CRA performance evaluation. According to the contact person, there were no credit needs identified that have not been adequately satisfied by financial institutions within the assessment area.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

FNB's loan-to-deposit ratio (LTD) is reasonable given its size, financial condition, and assessment area credit needs. The following table reflects total assets as of March 31, 2004, and the average loan-to-deposit ratio from May 26, 1998 through June 31, 2004. There is no similarly situated institution to compare.

Financial Institution	Assets (as of 3/31/2003)	Average LTD Ratio
First National Bank of Pontotoc	205 million	75%
Similarly situated institutions N/A	N/A	N/A%

Lending in Assessment Area

A majority of FNB loans were made to borrowers located within its assessment area. As of June 2004 the loan portfolio consisted of 9,596 loans for a dollar amount of \$151.5 million, with 7,625 loans for \$122 being inside the assessment area of Pontotoc County and 1,971 loans for \$29.5 being outside the assessment area. Lending within the assessment area is detailed in the following table.

TOTAL LOAN PORTFOLIO								
	LOANS IN ASSESSMENT AREA				LOANS OUT OF ASSESSMENT AREA			
	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Total Loans	7,625	79%	\$151,520	81%	1,971	21%	\$29,525	19%

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

Based on the demographics of the assessment area, the bank's distribution of loans reflects reasonable penetration among individuals of different income levels (including low- and moderate-income) and businesses of different sizes.

The following table reflects the income distribution for borrowers of consumer and residential real estate loans from a loan sample of 40 loans as compared to the income distribution from the updated census information. As the data indicates, consumer and residential real estate loans made by the bank to both low- and moderate-income borrowers exceed the low- and moderate-income population levels of the assessment area.

CONSUMER AND RESIDENTIAL REAL ESTATE LOANS				
Borrower Income Level	LOW INCOME	MODERATE INCOME	MIDDLE INCOME	UPPER INCOME
% of AA Households From updated Census	17%	17%	21%	45%
Bank Loans By Income Levels	30%	30%	18%	22%

The following table reflects the distribution of loans made by the bank to businesses of different sizes from a loan sample of 40 loans as compared to the updated census business information. For purposes of the CRA, a small business loan is defined as a business having gross annual income of less than \$1 million. As the following data indicates 100% of the loans by number and dollar volume were to small businesses.

BORROWER DISTRIBUTION OF SMALL LOANS TO BUSINESSES		
Business Revenues	≤\$1,000,000	>\$1,000,000
% of AA Businesses ³	92%	8%
% of Bank Loans in AA #	100%	0%
% of Bank Loans in AA \$	100%	0%

Geographic Distribution of Loans

An analysis of the geographic distribution of the bank's lending was not performed as part of this evaluation. The analysis would not be meaningful since none of five BNAs in the assessment area are designated as low or moderate-income.

Responses to Complaints

FNB has not received any formal CRA complaints since the previous examination.

Fair Lending or Other Illegal Credit Practices Review

An analysis of public comments and consumer complaint information was performed according to the OCC's risk based fair lending approach. Based on its analysis of the information, the OCC decided that a comprehensive fair lending examination would not need to be conducted in connection with the CRA evaluation this year. The latest comprehensive fair lending examination was performed in 1998.