



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

March 31, 2003

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The First National Bank Of McGehee
Charter Number 16256**

**500 North Second Street
McGehee, AR 71654**

**Comptroller of the Currency
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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 53% is reasonable given the bank's size, financial condition, and assessment area credit needs.
- ◆ A substantial majority of loans are in the bank's assessment area.
- ◆ 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 assessment area.

DESCRIPTION OF INSTITUTION

First National Bank of McGehee (FNBM) is located in McGehee (Desha County), Arkansas. The bank has its main banking office and a full-service branch in McGehee, and a paying and receiving branch in Tillar, AR (seven miles northwest of McGehee). All of the offices have drive-in facilities and the McGehee offices have automated teller machines (ATM's). As of December 31, 2002, the bank reported total assets of \$45 million with \$38 million in deposits and \$18 million in loans (40% of total assets). However, a significant portion of the bank's loans is for crop production, which typically peak in October and decline substantially by the first quarter of the year.

The bank's primary business focus is agriculture (cotton, rice and soybeans), and commercial and commercial real estate loans. FNBM offers residential real estate, home improvement, consumer, agriculture, commercial and business loans. The loan portfolio composition as of December 31, 2002, is as follows:

Loan Category	\$ (000)	%
Commercial Loans	\$7,295	41%
Agriculture Loans	\$5,376	30%
Consumer Loans	\$2,762	16%
Residential Real Estate Loans	\$2,291	13%
Total	\$17,724	100%

FNBM offers convenient banking hours and a variety of loan and deposit products to meet the needs of the assessment area. There are no financial impediments that would limit the bank's ability to help meet the credit needs in its assessment area.

The bank is not owned by a holding company. The bank's last CRA examination was performed as of July 27, 1998, and was rated **Satisfactory**.

DESCRIPTION OF DESHA, CHICOT, AND DREW COUNTIES

FNBM's assessment area (AA) is all of Desha County, and northern and western parts, respectively, of adjacent Chicot and Drew Counties. Desha County has five Block Numbering Areas (BNA): 9501.98, 9502, 9503, 9504 and 9505; BNA 9802 is in Chicot County; and BNA 9901 is in Drew County. The assessment area meets the requirements of the regulation and does not arbitrarily exclude low- and moderate-income geographies. The Median Family Income (MFI) for non Metropolitan Statistical Areas (MSA) in Arkansas was \$22,208 in 1990. This income figure is used to determine the income level of individual BNA's. BNA's 9503, 9504, and 9802 are moderate-income; BNA's 9501.98, 9502, and 9901 are middle-income, and BNA 9505 is upper-income. The 2002 Housing and Urban Development (HUD) estimated MFI for non-MSA in Arkansas was \$34,200. HUD estimated MFI is updated annually and is used to determine the income level of individual applicants.

McGehee is located in the Mississippi Delta, in the southeastern part of the state. McGehee has a population of 4,570 people according to the 2000 census, a decrease from 5,671 at the 1990 census. Desha County has a population of 14,341 people according to the 2000 census, a decrease from 16,978 at the 1990 census. The two largest cities in Desha County are McGehee and Dumas (18 miles north of McGehee and with a population of 5,238 people according to the 2000 census). BNA 9802 has a population of 4,848 and BNA 9901 has a population of 2,650 based on 1990 census data. The City of Dermott, located 10 miles south of McGehee and with a population of 3,292 people according to the 2000 census, is in BNA 9802. The economy of Desha and Chicot Counties is considered to be stagnant and is predicated primarily in row crop farming, and the economy of Drew County is considered to be in a slow growth mode. The Mississippi Delta is considered one of the poorest areas in Arkansas in terms of personal income.

There are limited employment opportunities in Desha County with the largest employer being the Potlatch Corporation that manufactures paper products. The number of employees is about 350. Unemployment as of December 2002 was 9.3% for Desha County, 10.6% in Chicot County and 8.2% in Drew County. The unemployment rates for Desha, Chicot and Drew Counties are significantly above the Arkansas average of 5.4% and the U.S. average of 6.0% as of December 2002.

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

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA	
<i>Population</i>	
Number of Families	6,404
Number of Households	8,660
<i>Geographies</i>	
Number of Census Tracts/BNA	7
% Low-Income Census Tracts/BNA	0%
% Moderate-Income Census Tracts/BNA	43%
% Middle-Income Census Tracts/BNA	43%
% Upper-Income Census Tracts/BNA	14%
<i>Median Family Income (MFI)</i>	
1990 MFI for AA	\$22,208
2002 HUD-Adjusted MFI	\$34,200
<i>Economic Indicators</i>	
Unemployment Rate	9.3%
1968 Median Housing Value	\$30,917
% of Households Below Poverty Level	35.00%

A community contact with the President of the McGehee Chamber of Commerce 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

FNBM's loan-to-deposit ratio is reasonable given the bank's size, financial condition, and assessment area credit needs. The bank's primary competitors are McGehee Bank, and Merchants and Farmers Bank. Merchants and Farmers Bank is headquartered in Dumas, Arkansas. The following table shows total assets as of December 31, 2002 and the quarterly average loan-to-deposit ratio from December 31, 1998 through December 31, 2002 (17 quarters) for these three banks.

Institution	Assets (as of 12/31/2002)	Average LTD Ratio
First National Bank, McGehee, AR	\$45 million	53%
McGehee Bank, McGehee, AR	\$95 million	63%
Merchants and Farmers Bank, Dumas, AR	\$72 million	64%

Lending in Assessment Area

A substantial majority of FNBM loans are in the bank's assessment area. A sample of 30 consumer loans, 24 residential real estate loans (all of the residential real estate loans made during 2002/2003), and 30 agricultural and commercial loans made during 2002/2003 was reviewed to determine lending within the assessment area. Lending within the assessment area is detailed in the following table.

TOTAL LOANS REVIEWED								
	IN ASSESSMENT AREA				OUT OF ASSESSMENT AREA			
LOAN TYPE	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Consumer	27	90%	\$141	82%	3	10%	\$32	18%
Residential	23	96%	\$494	96%	1	4%	\$23	4%
Agri & Com'l	25	82%	\$762	82%	5	17%	\$186	18%
Total Reviewed	75	89%	\$1,397	85%	9	11%	\$241	15%

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

The distribution of borrowers reflects, given the demographics of the assessment area, reasonable penetration among individuals of different income levels (including low-and moderate-income) and businesses of different sizes. The same samples for lending within the assessment area were used to determine lending to borrowers of different incomes. The following tables show the distribution of residential real estate and consumer loans within the various income levels.

RESIDENTIAL REAL ESTATE								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Families ¹	32%		16%		17%		35%	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
15 months	13%	4%	35%	29%	35%	34%	17%	33%

CONSUMER								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households ²	35%		16%		14%		35%	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
6 months	19%	17%	22%	16%	26%	19%	33%	48%

The above tables show that residential real estate loans made to low-income borrowers were below the percentage of low-income people in the assessment area. However, residential real estate loans to moderate-income borrowers were above percentage of moderate-income people in the assessment area. Residential real estate loans made to low-income and moderate-income borrowers approximate the percentage of low-income and moderate-income people in the assessment area.

Consumer loans made to low-income borrowers were below the percentage of low-income people in the assessment area. Consumer loans made moderate-income borrowers were slightly above the percentage of moderate-income people in the assessment area.

A sample of 30 business and farm loans made in the past 12 months was reviewed. The following table shows lending to small businesses and small farms.

BORROWER DISTRIBUTION OF SMALL LOANS TO BUSINESSES AND FARMS		
Business Revenues	≤\$1,000,000	>\$1,000,000
% of AA Businesses ³	94%	6%
% of Bank Loans in AA #	83%	17%
% of Bank Loans in AA \$	91%	9%

Geographic Distribution of Loans

The geographic distribution of loans reflects reasonable dispersion throughout the assessment area. The same samples for lending within the assessment area were used to determine lending to borrowers of various income areas. The following tables show the distribution of residential real estate, consumer, and agriculture and business loans within the various BNA income levels.

RESIDENTIAL REAL ESTATE								
BNA Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Owner Occupied ⁴	0%		45%		43%		12%	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
15 months	0%	0%	43%	28%	9%	36%	48%	36%

CONSUMER								
BNA Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households ⁵	0%		48%		41%		11%	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
6 months	0%	0%	44%	26%	22%	26%	34%	48%

AGRICULTURE AND BUSINESS								
BNA Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Businesses ⁶	0%		45%		39%		16%	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
12 months	0%	0%	42%	46%	8%	8%	50%	46%

The above tables show that the bank is making residential real estate, consumer, and agricultural and business loans to borrowers located in the moderate-income BNA's. In addition, the percentages of loans, by number, to moderate-income BNA's are only slightly below the percentage of the residents in these moderate-income areas. The percentages, by amount, are below for residential real estate and consumer loans, but slightly above for agriculture and business loans.

Responses to Complaints

First National Bank of McGehee has not received a formal CRA complaint since the previous examination.

Fair Lending 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 exam was performed in 1998.