

# **PUBLIC DISCLOSURE**

**May 19, 2003**

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**Arkansas State Bank  
18277**

**318 East Main Street  
P. O. Box 149  
Siloam Springs, Arkansas 72761**

**Federal Deposit Insurance Corporation  
Division of Supervision and Consumer Protection  
5100 Poplar Avenue, Suite 1900  
Memphis, Tennessee 38137**

**NOTE:** 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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## 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 **Arkansas State Bank** prepared by the **Federal Deposit Insurance Corporation**, the institution's supervisory agency, as of May 19, 2003. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 345.*

## INSTITUTION RATING

***INSTITUTION'S CRA RATING:*** This institution is rated Satisfactory.

CRA performance depicts a satisfactory practice of meeting the credit needs of the assessment area. The rating is supported by the following.

- An analysis of residential real estate, small business and farm loan originations reveals a reasonable penetration among borrowers of different income levels and businesses of different sizes. Residential real estate lending to low- and moderate-income borrowers is considered reasonable.
- The bank has achieved an effective dispersion of loans within its assessment areas.
- A majority of loans reviewed were originated within the assessment area. Overall, the bank originated 74 percent by number and 74 percent by dollar volume of loans in the assessment area.
- The bank has demonstrated an acceptable responsiveness to community credit needs based on loan demand, competition and the economic and demographic data for the community.

## DESCRIPTION OF INSTITUTION

Arkansas State Bank is located in Siloam Springs, Arkansas, and is owned by Arkansas State Bank Bancshares, Inc., a one-bank holding company also located in Siloam Springs. In addition to the main office, there are two full-service branches and two limited-service branches. The full-service branches are located in Gentry, Arkansas and Springdale, Arkansas. The limited-service branches are both located in Siloam Springs. The Springdale branch was opened in June 2002 and the Siloam Springs branch located in the Wal-Mart store was opened in January 2001. The two limit-service branches only offer services consisting of deposits, withdrawals, and payments. All offices have Automatic teller machines (ATMs), and with the exception of the Wal-Mart branch, all have drive-in facilities. In addition, the bank has four stand-alone ATMs, one located at Happy Bays Car Wash, one at Price Cutter Food Warehouse, one at the La Z boy plant and one at Franklin Electronics. All of these locations are within the City of Siloam Springs. The bank also maintains an Internet web-site and a 24-hour automatic telephone banking system, both of which allow customers the ability to check balances, make transfers between their signature accounts and perform various other account-related functions.

As of March 31, 2003 the bank had total assets of \$148 million, and total deposits of \$122 million. This is an increase of 12 percent in total assets and 11 percent in total deposits when compared to the total assets of \$132 million and total deposits of \$111 million at the last evaluation in May 1998. During the same period the loan portfolio has grown from \$51 million to \$97 million, which represents a 90 percent increase. The average net loan-to-deposit ratio, as of March 31, 2003 for 20 quarters, was 71 percent. This compares with the average net loan-to-deposit ratio of 41 percent at the last evaluation.

Arkansas State Bank is a full-service community bank, which offers a wide range of deposit and loan products. The primary lending focus is commercial and real estate lending, although agriculture and general consumer loans are also a significant part of the bank's business. Collectively, real estate loans represent approximately 72 percent of the total outstanding dollar volume of the loan portfolio, with commercial real estate representing 34 percent. A breakdown of the portfolio by loan type and corresponding dollar amount is provided in the following table. The information is provided from the most recent Statement of Condition dated March 31, 2003.

<b>LOAN DISTRIBUTION AS OF MARCH 31, 2003</b>		
<b>Loan Type</b>	<b>Dollar Amount (000s)</b>	<b>Percent of Total Loans (%)</b>
Construction and Loan Development	5,484	6
Farmland	9,933	10
1-4 Family Residential	26,923	28
Commercial	27,370	28
<b>Total Real Estate Loans</b>	<b>69,710</b>	<b>72</b>
Agriculture/Farm	2,066	2
Commercial and Industrial	15,006	16
Consumer	8,792	9
Other	1,151	1
<b>Total Gross Loans</b>	<b>\$96,725</b>	<b>100</b>

Source: Statement of Condition

There are no known legal or financial factors, which would deter the bank from serving the credit needs of their assessment area.

Arkansas State Bank received a CRA rating of “Satisfactory” during the May 26, 1998 FDIC Evaluation. “Small Bank” CRA procedures were utilized at the prior evaluation and will continue for the current evaluation period.

***DESCRIPTION OF MSA PORTION OF ASSESSMENT AREA***

***PORTIONS OF BENTON AND WASHINGTON COUNTIES***

Arkansas State Bank operates from four locations in Benton County, two located in Siloam Springs, one located in Gentry and one located in Springdale. The bank's assessment area consists of five census tracts (CTs) in Benton County (210.02, 211, 212.01, 212.02 and 213.01) and two census tracts in Washington County (105.01 and 105.04). All seven of the CTs are middle-income geographies. Both Benton and Washington County are located in the Fayetteville-Springdale-Rogers Metropolitan Statistical Area (MSA). The following table illustrates general demographic information for this portion of the assessment area:

<b>Demographic Information</b>	<b>Assessment Area</b>
Population	24,450
Number of Families	6,789
Number of Housing Units	9,714
Percent of Housing Owner-Occupied	64%
Percent of Housing Rented	28%
Median Housing Age (Years)	20
Median Housing Value	\$46,999

Source: 1990 U.S. Census information

The tables below provide the percent of median family income (MFI) used to determine income ranges for each of the four income levels. These income levels are defined by the Community Reinvestment Act (CRA) and are calculated as a percent of the Fayetteville-Springdale-Rogers MSA MFI. The data is used in the analysis of two of the performance criteria: Lending to Borrowers of Different Incomes and Businesses of Different Sizes, and the Geographic Distribution of Loans.

The 1990 MFI of \$29,073 is derived from census data and is used to determine the income level of the geographies and to evaluate the geographic distribution of loans as geographies are categorized based on census data. The 2002 income figure of \$49,100 is provided by HUD estimates, and is used to analyze lending to borrowers of different income levels.

<b>RANGE OF INCOME CALCULATIONS</b>			
<b>Income Level</b>	<b>Percent of MFI</b>	<b>1990 Range (\$29,073)</b>	<b>2002 Range (\$49,100)</b>
Low	Less than 50%	Less than \$14,537	Less than \$24,550
Moderate	50% to less than 80%	\$14,537 - \$23,257	\$24,550 - \$39,279
Middle	80% to less than 120%	\$23,258 - \$34,887	\$39,280 - \$58,919
Upper	120% and over	\$34,888 and over	\$58,920 and over

Source: 1990 U.S. Census information and 2002 the Department of Housing and Urban Development information

Analysis of the 1990 Census data, using weighted measures, reveals the following distribution of families by income level in the assessment area. These levels vary slightly from the MFI definitions, as census data are provided in bands of \$2,500. This information indicates 20 percent of the assessment area is considered low-income.

<b>Income Level</b>	<b>Number</b>	<b>Percent</b>
Low	1,371	20
Moderate	1,502	22
Middle	1,702	25
Upper	2,214	33
<b>TOTAL</b>	<b>6,789</b>	<b>100</b>

Source: 1990 U.S. Census information

Census data also indicates 12 percent of the families live below the poverty level, 16 percent of the households live below the poverty level, 5 percent of the households receive public assistance and 30 percent of the households receive social security income. During the decade since 1990 data was developed, there has been a tremendous increase in the population throughout the Fayetteville-Springdale-Rogers MSA, which is located in the northwest portion of the State of Arkansas.

According to BEA Regional Facts, Benton County's three largest industries in 2000 were retail trade, (34 percent of earnings) services (15 percent of earnings), and durable goods manufacturing (12 percent). Of the industries that accounted for at least 5 percent of earnings in 2000, the slowest growing from 1999 to 2000 was non-durable goods manufacturing, which increased 5 percent; the fastest was construction (6 percent of earnings in 2000) which increased 19 percent. According to December 31, 2002 labor market statistics, the unemployment rate for Benton County was 2.1 percent, which is below both the State unemployment rate of 4.5 percent and the national unemployment rate of 5.5 percent for the same time period.

The largest employers include Wal-Mart Stores, Inc., Bentonville (6,000 employees), Vista Florists, Bentonville (3,000 employees), J. B. Hunt Transportation, Inc., Lowell (1,600 employees), Arvest Bank Group, Inc., Lowell (1,458 employees), Peterson Farms, Inc., Decatur (1,000 employees) and Glad Products Company, Rogers (1,000 employees).

A community contact was conducted in this assessment area in order to determine the current economic conditions and credit needs in the area. The contact provides services to individuals wishing to purchase, sell or rent real estate properties in Benton County. The contact stated the

local economy is good and has been gradually improving over the last ten years due to the increase in vendor migration associated with Wal-Mart Stores, Inc., the largest employer in the area. The contact stated Wal-Mart has a policy to do business only with local vendors, which has caused vendors to come from all over the country and open offices throughout the area. They have also moved their families along with them. Siloam Springs is located approximately twenty-five miles southwest of Bentonville, where the home office of Wal-Mart is located. Additionally the contact stated another growth trend in this Northwest portion of the state is attributed to the large influx of Hispanics, who have come to the area seeking jobs with the large poultry farms located here. According to 2000 census data, the Hispanic population in Washington and Benton counties ballooned from 2,885 to 26,401, with more than sixty percent living in Springdale and Rogers. The contact further stated there is an adequate supply of affordable housing units, both subsidized apartment units and individual rental units, with the average home price in Benton County being \$90,000. In addition, there are new subdivisions being developed in and around the City of Siloam Springs with homes ranging from 1200 to 1500 square foot in size and \$79,000 to \$105,000 in price. The contact further stated the majority of the working population of Siloam Springs and the southwest portion of the county commute into nearby Bentonville, Springdale, Rogers and Fayetteville for employment.

Arkansas State Bank has intense competition from other financial institutions in this portion of their assessment area. There are 60 other financial institutions with a total of 61 offices located in this area.

According to BEA Regional Facts, Washington County's three largest industries in 2000 were services (122 percent of earnings), state and local government (14 percent) and non-durable goods manufacturing (13 percent). Of the industries that accounted for at least 5 percent of earnings in 2000, the slowest growing from 1999 to 2000 was transportation and public utilities (8 percent of earnings in 2000) which decreased 3 percent; the fastest was construction (6 percent of earnings in 2000), which increased 17 percent. According to December 31, 2002 labor market statistics, the unemployment rate for Washington County was 2.1 percent, which is below both the State unemployment rate of 4.5 percent and the national unemployment rate of 5.5 percent for the same time period.

The largest employers in the county include Allen Freight Service - PAM Transportation, Tontitown (2,500 employees), University of Arkansas Systems - Business School Administration, Fayetteville (1,500 employees), Northwest Health Systems, Inc., Springdale (1,400 employees), Washington Regional Medical Services (1,330 employees), Tyson Foods, Inc., Springdale (1,310 employees) and Superior Industries, Fayetteville (1,200 employees).

Arkansas State Bank also has intense competition from other financial institutions in this portion of their assessment area. There are 63 other financial institutions with a total of 73 offices located in this area.

The bank's assessment area is representative of the area it seeks to serve and does not arbitrarily exclude any low- or moderate-income areas.

## ***DESCRIPTION OF THE NON-MSA PORTION OF THE ASSESSMENT AREA***

### ***Portions of Adair and Delaware County, Oklahoma***

Due to the close proximity of the Oklahoma border to their main office, the bank has designated Block Numbering Area (BNA) 9766 in Adair County, Oklahoma and BNA 9762 in Delaware County, Oklahoma as part of their assessment area. The Delaware BNA (9762) is a middle-income geography and the Adair BNA (9766) is a moderate-income geography. The following table illustrates general demographic information for the assessment area:

<b>Demographic Information</b>	<b>Assessment Area</b>
Population	6,416
Number of Families	1,873
Number of Housing Units	1,735
Percent of Housing Owner-Occupied	68
Percent of Housing Rented	20
Median Housing Age (Years)	19
Median Housing Value	\$29,217

Source: 1990 U.S. Census information

The table below provides the four income levels used in the analysis for the Non-MSA portion of the State of Oklahoma. As stated previously, these income levels are defined by the Community Reinvestment Act (CRA) and are calculated as a percent of the Non MSA MFI, which was \$34,200 for 2002. These income levels are used to analyze the bank's Lending to Borrowers of Different Incomes and Businesses of Different Sizes, as well as, the Geographic Distribution of Loans. The 1990 MFI of \$24,139 is taken from census data and is used to determine the income level of the geographies and also to evaluate the geographic distribution of loans.

<b>RANGE OF INCOME CALCULATIONS</b>			
<b>Income Level</b>	<b>Percent of MFI</b>	<b>1990 Range (\$24,139)</b>	<b>2002 Range (\$34,200)</b>
Low	Less than 50%	Less than \$12,068	Less than \$17,099
Moderate	50% to less than 80%	\$12,069 to \$19,310	\$17,100 to \$27,359
Middle	80% to less than 120%	\$19,311 to \$28,965	\$27,360 to \$41,039
Upper	120% and over	\$28,966 and over	\$41,040 and over

Source: 1990 U.S. Census information and 2002 the Department of Housing and Urban Development information

Analysis of the 1990 Census data reveals the following distribution of families by income level in the assessment area. This information indicates 24 percent of the assessment area is considered low-income. Census data also indicates 16 percent of the families are below the poverty level, 19 percent of the households are below the poverty level, 9 percent of the households receive public assistance and 19 percent of the households receive social security income.

<b>Income Level</b>	<b>Number</b>	<b>Percent</b>
Low	445	24
Moderate	450	24
Middle	355	19
Upper	623	33
<b>TOTAL</b>	<b>1,873</b>	<b>100</b>

Source: 1990 U.S. Census information

### *Adair County*

According to BEA Regional Facts, Adair County's three largest industries in 2000 were state and local government (19 percent of earnings), farm (16 percent of earnings) and non-durable goods manufacturing. Of the industries that accounted for at least 5 percent of earnings in 2000, the slowest growing from 1999 to 2000 was farm, which increased 2 percent; the fastest was non-durable goods manufacturing, which increased 15 percent. The U. S. Bureau of Labor reported that as of December 31, 2002 the unemployment rate for Adair County was 5 percent, which is above the State unemployment rate of 4.3 percent and below the national unemployment rate of 5.5 percent for the same time period.

Major employers in the county include Tyson Foods, Inc., Stillwell (575 employees), Baldor Electric Company, Westville (410 employees), Mrs. Smith's Bakery of Stillwell, Stillwell (300 employees), Cherokee Nation Industries, Stillwell (170 employees) and Adair County Health Center Memorial Hospital, Stillwell (120 employees).

The bank's competition in Adair County consists of four financial institutions with a total of six offices.

### *Delaware County*

According to BEA Regional Facts, Delaware County's three largest industries in 2000 were services (24 percent of earnings) farm (16 percent) and state and local government (16 percent). Of the industries that accounted for at least 5 percent of earnings in 2000, the slowest growing from 1999 to 2000 was construction (10 percent of earnings), which increased 2 percent, the fastest was non-durable goods manufacturing. The U. S. Bureau of Labor reported that as of December 31, 2002 the unemployment rate for Delaware County was 4.2 percent, which is below both the State unemployment rate of 4.3 percent and the national unemployment rate of 5.5 percent for the same time period.

Major employers in the entire county include Simmons Foods, Inc., Jay (375 employees), Wal-Mart Stores, Inc., Grove (310 employees), Wholesale Club, Inc., Grove (300 employees), Grove Independent School District, Grove (260 employees) and Jay School District, Jay (200 employees).

The bank's competition in Delaware County consists of seven financial institutions with a total of twelve offices.

This portion of the bank's assessment area is representative of the area it seeks to serve and does not arbitrarily exclude any low- or moderate-income areas.

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

Conclusions as to lending to borrowers of different incomes and businesses of different sizes, as well as conclusions drawn regarding the geographic distribution of the bank's loans, are based upon analysis of data from Home Mortgage Disclosure Act (HMDA) reports and bank records. As geographic information and income levels are included in the bank's reportable HMDA data, the entire universe was used for the assessment area lending, income distribution and geographic distribution analyses for HMDA loans. Separate analyses were conducted on the bank's performance in the Fayetteville-Springdale-Rogers MSA Assessment Area (Benton and Washington Counties) and the Non-MSA Assessment Area (portions of Adair and Delaware Counties, Oklahoma).

HMDA data was available for the year of 2001; however, as data for the year of 2002 has not been released as yet, real estate loans recorded on the bank's 2002 Loan Application Register (LAR) were used for sampling purposes. The review analysis included two years and consisted of 148 loans totaling \$10.1 million.

The evaluation of the bank's lending performance was also based upon review of the bank's business loan portfolio. As data for this type of loan is not collected under HMDA, bank records were used in their sampling process. The sampling consisted of 40 (\$4.1 million) business loans from 267 (\$25.1 million) total business loans and the sampling period included two years. These two loan categories were chosen for review because collectively they account for 62 percent of the dollar volume of the loan portfolio. Therefore, a review of these categories should be reflective of the overall lending performance of the bank. Farm loans represent only 12 percent of the loan portfolio; therefore, they were not included in the sampling process.

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

An analysis was performed for business loans using sampling procedures. As the bank is not required to collect and report this data, the sampling presented will include all of the bank's assessment areas. The following table depicts the distribution of the sampled business loans made within the assessment area by gross revenue:

<b>SMALL BUSINESS LOANS</b>						
<b>Gross Revenues</b>	<b>Small Businesses</b>		<b>#</b>	<b>%</b>	<b>\$</b>	<b>%</b>
	<b>#</b>	<b>%</b>				
Less than \$100,000	765	46	12	35	498,675	15
\$100,000 to \$250,000	395	24	10	29	1,218,497	36
\$250,000 to 1,000,000	251	15	8	24	950,954	27
Over \$1,000,000	257	15	4	12	808,825	22
<b>TOTAL</b>	<b>1,668</b>	<b>100</b>	<b>34</b>	<b>100</b>	<b>\$3,476,951</b>	<b>100</b>

Source: Bank Records

The distribution of lending to small businesses is adequately disbursed among the various revenue levels. A substantial portion of business loans by number was originated to businesses with less than \$100,000 in annual gross revenues; specifically 35 percent by number and 15 percent by dollar volume. Twenty-nine percent by number and 36 percent by dollar volume were originated to businesses with annual gross revenues of more than \$100,000 but less than \$250,000. Overall, 64 percent by number and 51 percent by dollar volume were originated to businesses with annual gross revenues of less than \$250,000. This sampling reflects the bank's commitment to small businesses within their assessment area.

Small business loans originated were also analyzed by loan size, as a proxy for the size of the businesses being financed. As illustrated in the following table, the distribution among different loan sizes demonstrates the bank's willingness to make small business loans. Seventy-one percent by number and 24 percent by dollar volume had original balances less than \$100,000.

<b>BUSINESS LOANS</b>				
<b>Loan Size (000s)</b>	<b>Number</b>	<b>Percent</b>	<b>Volume</b>	<b>Percent</b>
Less than \$100,000	24	71	833,151	24
\$100,000 to \$250,000	7	21	1,066,800	31
\$250,000 to \$1,000,000	2	6	925,000	27
Over \$1,000,000	1	2	652,000	18
<b>TOTAL</b>	<b>34</b>	<b>100</b>	<b>\$3,476,951</b>	<b>100</b>

Source: Bank Records

### ***Portions of the Fayetteville-Springdale-Rogers MSA Assessment Area***

The lending distribution of the bank's HMDA loans originated inside the Fayetteville MSA assessment area indicates the bank has achieved a reasonable penetration among borrowers of different income levels and has made a reasonable penetration in loans to low-income borrowers. When compared to the aggregate HMDA data for 2001, the bank's lending to low- and moderate-income borrowers was consistently higher. Additionally, data for 2002 reflects a positive penetration to low- and moderate-income borrowers. Even though there is intense competition from other financial institutions in the assessment area, the bank has an effective penetration of lending to low- and moderate-income borrowers.

The following tables reflect the lending distribution of the bank's 2001 HMDA loans originated within the MSA portion of the assessment area. In addition, data for 2002 taken from the bank's HMDA LAR is included in the analysis.

<b>HMDA LOANS</b>					
<b>Median Family Income</b>	<b>% Total Families</b>	<b>2001 Aggregate</b>		<b>2001 Bank</b>	
		<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>
Low	20	165	9	7	14
Moderate	22	328	18	15	30
Middle	25	440	24	11	22
Upper	33	592	32	17	34
NA	0	324	17	0	0
<b>TOTAL</b>	<b>100</b>	<b>1,849</b>	<b>100</b>	<b>50</b>	

Source: 1990 U.S. Census information, 2001 HMDA Disclosure Statements, 2002 HMDA Loan Application Register

<b>HMDA LOANS</b>					
<b>Median Family Income</b>	<b>% Total Families</b>	<b>2001 Aggregate</b>		<b>2001 Bank</b>	
		<b>\$ (000s)</b>	<b>%</b>	<b>\$ (000s)</b>	<b>%</b>
Low	20	6,968	4	226	6
Moderate	22	19,447	13	579	16
Middle	25	33,839	23	853	24
Upper	33	62,979	42	1,959	54
NA	0	27,191	18	0	0
<b>TOTAL</b>	<b>100</b>	<b>\$150,424</b>	<b>100</b>	<b>\$3,617</b>	<b>100</b>

Source: 1990 U.S. Census information, 2001 HMDA Disclosure Statements, 2002 HMDA Loan Application Registers

In 2001 the bank's lending by number and dollar volume to low-income borrowers (14 percent by number and 6 percent by dollar volume) was higher than the aggregate data of 9 percent by number and 4 percent by dollar volume. For moderate-income borrowers, the bank's lending by number and dollar volume (30 percent by number and 16 percent by dollar volume) was again higher than the aggregate data of 18 percent by number and 13 percent by dollar volume.

<b>2002 REAL ESTATE LENDING</b>					
<b>Income Level</b>	<b>Percent of Families</b>	<b>Number</b>	<b>Percent</b>	<b>Volume (000s)</b>	<b>Percent</b>
Low	20	9	21	248	9
Moderate	22	9	21	504	17
Middle	25	11	27	633	21
Upper	33	13	31	1,593	53
<b>TOTAL</b>	<b>100</b>	<b>42</b>	<b>100</b>	<b>\$2,978</b>	<b>100</b>

Source: 1990 U.S. Census information and Bank's 2002 HMDA LAR

In 2002, the bank's lending to low-income borrowers (21 percent by number and 9 percent by dollar volume) compares favorably to the 20 percent of low-income families living in the assessment area. Lending to moderate-income borrowers also reflects a reasonable penetration with 21 percent by number and 17 percent by dollar volume. Twenty-two percent of the families in the assessment area are considered moderate-income families. Further review of the bank's loan portfolio, specifically loans originated for the secondary market through special programs, revealed a limited number of real estate loans are originated to low-income borrowers. Bank management stated these programs allow first time homebuyers, usually low-income borrowers, a means of home ownership not otherwise available. In 2001 the bank originated thirty real estate loans totaling \$2,419, 296 and in 2002 originated twenty-nine real estate loans totaling \$2,587,128, all of which were originated for a secondary market lender that offered the various programs directed to low- and moderate-income borrowers.

***Non-MSA Assessment Area (Portions of Adair and Delaware County, Oklahoma)***

The lending distribution of the bank's HMDA loans originated inside the Non-MSA portions of the assessment area indicates the bank has achieved a reasonable penetration among borrowers of different income levels and has made a reasonable penetration in loans to low-income borrowers. The following tables reflect the lending distribution of the bank's 2001 HMDA loans originated within the non-MSA portion of the bank's assessment area.

<b>HMDA LOANS</b>					
<b>Median Family Income</b>	<b>% Total Families</b>	<b>2001 Aggregate</b>		<b>2001 Bank</b>	
		<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>
Low	20	16	7	0	0
Moderate	22	49	21	1	14
Middle	25	43	18	2	29
Upper	33	86	37	4	57
0	0	39	17	0	0
<b>TOTAL</b>	<b>100</b>	<b>233</b>	<b>100</b>	<b>7</b>	<b>100</b>

Source: 1990 U.S. Census information, 2000 and 2001 HMDA Disclosure Statements.

<b>HMDA LOANS</b>					
<b>Median Family Income</b>	<b>% Total Families</b>	<b>2001 Aggregate</b>		<b>2001 Bank</b>	
		<b>\$ (000s)</b>	<b>%</b>	<b>\$ (000s)</b>	<b>%</b>
Low	20	191	2	0	0
Moderate	22	1,724	15	17	6
Middle	25	2,035	18	78	24
Upper	33	5,169	46	22	70
NA	0	2,132	19	0	0
<b>TOTAL</b>	<b>100</b>	<b>\$11,251</b>	<b>100</b>	<b>\$117</b>	<b>100</b>

Source: 1990 U.S. Census information, 2000 and 2001 HMDA Disclosure Statements.

As indicated in the above table, HMDA data reveals the bank did not make any loans to low-income families in 2001. The data also reveals a low penetration by aggregate lenders, specifically 7 percent by number and 2 percent by dollar volume. Management stated local financial institutions in this portion of their assessment area are closer to many of these families and attracting loans has been difficult. They further stated many of the low-income families consist of senior citizens that already own their homes and when repairs are necessary they obtain a consumer loan. For moderate-income borrowers the bank's lending (14 percent by number and 6 percent by dollar volume) is also lower than the aggregate data of 21 percent by number and 15 percent by dollar volume.

<b>2002 REAL ESTATE LENDING</b>					
<b>Income Level</b>	<b>Percent of Families</b>	<b>Number</b>	<b>Percent</b>	<b>Volume (000s)</b>	<b>Percent</b>
Low	20	9	19	248	8
Moderate	22	9	19	518	17
Middle	25	13	27	714	23
Upper	33	17	35	1,593	52
<b>TOTAL</b>	<b>100</b>	<b>48</b>	<b>100</b>	<b>\$3,073</b>	<b>100</b>

Source: 1990 U.S. Census information and Bank's 2002 HMDA LAR

As indicated in the table above, in 2002 the bank's lending to low-income borrowers reflects 19 percent by number and 8 percent by dollar volume. As 20 percent of the families in the assessment area are considered low-income, the sampling analysis indicates the bank is making a reasonable effort to assist these families with real estate loans. Lending to moderate-income borrowers reflects 19 percent by number and 17 percent by dollar volume.

### **Geographic Distribution of Loans**

The geographic distribution of loans is reasonable and reflective of the assessment area. As stated previously, all of the assessment area tracts, with the exception of BNA 9766 located in Adair County, Oklahoma, are middle-income geographies. BNA 9766 is moderate-income. The dispersion is presented in the following tables, which include the percent of families living in the geographies, as well as, the number of businesses. The sampling presented for these types of loans will include all of the bank's assessment areas.

The following table depicts the distribution of sampled business loans made within the assessment area. The bank originated the majority of their lending in the middle-income geographies where the majority of the businesses are located, specifically 97 percent by number and 98 percent by dollar volume. Three percent by number and 2 percent by dollar volume were originated in the moderate-income tract. According to management this tract is the greatest distance from the bank and competition from local financial institution in that area has made it difficult for the bank to attract these types of loans.

<b>SMALL BUSINESS LOANS</b>						
<b>Tract Income Level</b>	<b>Small Businesses</b>		<b>#</b>	<b>%</b>	<b>\$</b>	<b>%</b>
	<b>#</b>	<b>%</b>				
Moderate	83	4	1	3	56,520	2
Middle	1,820	96	33	97	3,420,431	98
<b>TOTAL</b>	<b>1,903</b>	<b>100</b>	<b>34</b>	<b>100</b>	<b>\$3,476,951</b>	<b>100</b>

Source: Bank Records

***Fayetteville-Springdale-Rogers MSA***

The following tables reflect the lending distribution of the bank's 2001 HMDA loans, which were originated within this portion of the assessment area. Data obtained from the bank's 2002 HMDA LAR was used for distribution purposes for loans originated in 2002. For comparative purposes, the tables include the percentage of families within each income level, and as stated previously all of the tracts in this portion of the assessment area are middle-income geographies.

<b>HMDA LOANS</b>					
<b>Tract Income Level</b>	<b>% Total Families</b>	<b>2001 Aggregate</b>		<b>2001 Bank</b>	
		<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>
Middle	100	1,849	100	50	100
<b>TOTAL</b>	<b>100</b>	<b>1,849</b>	<b>100</b>	<b>50</b>	<b>100</b>

Source: 1990 U.S. Census information, 2000 and 2001 HMDA Disclosure Statements.

<b>HMDA LOANS</b>					
<b>Tract Income Level</b>	<b>% Total Families</b>	<b>2001 Aggregate</b>		<b>2001 Bank</b>	
		<b>\$(000s)</b>	<b>%</b>	<b>\$(000s)</b>	<b>%</b>
Middle	100	150,424	100	3,608	100
<b>TOTAL</b>	<b>100</b>	<b>\$150,424</b>	<b>100</b>	<b>\$3,608</b>	<b>100</b>

Source: 1990 U.S. Census information, 2000 and 2001 HMDA Disclosure Statements.

<b>2002 REAL ESTATE LENDING</b>					
<b>Tract Income Level</b>	<b>% of Total Families</b>	<b>Number</b>	<b>Percent</b>	<b>Volume</b>	<b>Percent</b>
Middle	100	42	100	2,978	100
<b>TOTAL</b>	<b>100</b>	<b>42</b>	<b>100</b>	<b>\$2,978</b>	<b>100</b>

Source: 1990 U.S. Census information and Bank's 2002 HMDA LAR

***Non-MSA Assessment Area (Portions of Adair and Delaware County, Oklahoma)***

Block Numbering Area 9766 in Adair County, Oklahoma is a moderate-income geography and BNA 9762 in Delaware County is middle-income.

<b>HMDA LOANS</b>					
<b>Tract Income Level</b>	<b>% Total Families</b>	<b>2001 Aggregate</b>		<b>2001 Bank</b>	
		<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>
Moderate	56	79	34	2	29
Middle	44	154	66	5	71
<b>TOTAL</b>	<b>100</b>	<b>233</b>	<b>100</b>	<b>7</b>	<b>100</b>

Source: 1990 U.S. Census information and 2001 HMDA Disclosure Statements.

<b>HMDA LOANS</b>					
<b>Tract Income Level</b>	<b>% Total Families</b>	<b>2001 Aggregate</b>		<b>2001 Bank</b>	
		<b>\$(000s)</b>	<b>%</b>	<b>\$(000s)</b>	<b>%</b>
Moderate	56	3,146	28	78	24
Middle	44	8,105	72	242	76
<b>TOTAL</b>	<b>100</b>	<b>\$11,251</b>	<b>100</b>	<b>\$320</b>	<b>100</b>

Source: 1990 U.S. Census information, 2000 and 2001 HMDA Disclosure Statements.

In 2001 the bank's lending of 29 percent by number and 24 percent by dollar volume in the moderate-income tract was slightly lower than both the aggregate data of 34 percent by number and 28 percent by dollar volume.

<b>2002 REAL ESTATE LENDING</b>					
<b>Tract Income Level</b>	<b>Percent of Families</b>	<b>Number</b>	<b>Percent</b>	<b>Volume</b>	<b>Percent</b>
Moderate	56	5	83	76,000	80
Middle	44	1	17	19,000	20
<b>TOTAL</b>	<b>100</b>	<b>6</b>	<b>100</b>	<b>\$95,000</b>	<b>100</b>

Source: 1990 U.S. Census information and Bank's 2002 HMDA LAR

As indicated in the above table, the majority of the bank's lending in 2002 was evidenced in the moderate-income geography, specifically 83 percent by number and 80 percent by dollar volume.

Overall, all data indicates the bank is willing to lend in all areas and the distribution of loans is reasonable and reflective of the assessment area demographics.

### Lending in the Assessment Area

As detailed in the following table, the majority of the bank's loans were originated within the assessment area, specifically 74 percent by number and 74 percent by dollar volume.

<b>Distribution of Loans Inside and Outside of the Assessment Areas</b>										
<b>Loan Type</b>	<b>Number of Loans</b>					<b>Dollars of Loans (000s)</b>				
	<b>Inside</b>		<b>Outside</b>		<b>Total</b>	<b>Inside</b>		<b>Outside</b>		<b>Total</b>
	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>		<b>\$</b>	<b>%</b>	<b>\$</b>	<b>%</b>	
HMDA (2001)	57	74	20	26	77	3,928	75	1,338	25	5,266
2002 LAR	48	68	23	22	71	3,073	63	1,767	37	4,840
Business	34	85	6	15	40	3,477	84	657	16	4,134
<b>Total</b>	<b>139</b>	<b>74</b>	<b>49</b>	<b>26</b>	<b>188</b>	<b>\$10,478</b>	<b>74</b>	<b>\$3,762</b>	<b>26</b>	<b>\$14,240</b>

Source: 2001 HMDA Data, Bank's 2002 HMDA LAR and Bank Records

### Loan-to-Deposit Ratio

The bank's average net loan to deposit ratio indicates an acceptable responsiveness to area credit needs, which is primarily real estate and commercial based. Based on 20 quarters since the last evaluation, the average ratio is approximately 71 percent. Arkansas State Bank reached its loan-to-deposit peak during September 2001, at which time it reached 92 percent.

According to the March 31, 2003 Arkansas State Bank Department Self-Examination Report, the bank's ratio (79 percent) is higher than that of its similar size peer group (73 percent) and the same as that of its geographic peer group (79 percent).

Based upon loan demand, competition, and economic and demographic data for the assessment area, the bank has demonstrated an acceptable responsiveness to the credit needs of its community.

### Response to Complaints

The bank has not received any CRA-related complaints since the last evaluation.

### COMPLIANCE WITH ANTIDISCRIMINATORY LAWS AND REGULATIONS

No violations of the substantive provisions of antidiscriminatory laws and regulations were identified during the examination.