

# **PUBLIC DISCLOSURE**

**September 20, 2004**

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**Elk Horn Bank & Trust Company  
1528  
601 Main Street  
Arkadelphia, Arkansas 71923**

**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 **Elk Horn Bank & Trust Company** prepared by the **Federal Deposit Insurance Corporation**, the institution's supervisory agency, as of **September 20, 2004**. 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 and small business loan originations reveals an effective penetration among borrowers of different income levels and businesses of different sizes. Residential real estate lending to low-income borrowers is considered reasonable given the bank's business focus and the economic condition of the area. However, lending to moderate-income borrowers is limited due to the number and types of federally-assisted housing programs available.
- The geographic distribution of lending is reasonable and reflective of assessment area demographics.
- A majority of loans reviewed were originated within the assessment area. Overall, the bank originated 67 percent by number and 50 percent of the dollar volume of loans reviewed within the assessment area.
- The bank has demonstrated an adequate responsiveness to community credit needs based on loan demand, competition, and the economic and demographic data for the community.

## DESCRIPTION OF INSTITUTION

Elk Horn Bank & Trust Company, located in Arkadelphia, Arkansas is owned by Southern Development Bancorporation Inc., a three-bank holding company also located in Arkadelphia. In addition to the main office, the bank operates two full-service branch locations, one at 208 Ash Street, Malvern, Arkansas and the other at Highway 7 & 84, Bismarck, Arkansas. The bank also operates three limited-service branches in Arkadelphia, one at 124 Valley (Caddo Branch), 26th and Pine Street (Pine Branch) and 109 W. P. Malone Drive (Wal-Mart Branch). In addition the bank offers automatic teller machines (ATMs) at each branch location and has one stand-alone ATM located at the Brookshire's Food Store in Arkadelphia. On July 6, 2004 the bank opened a loan production office in Hot Springs, Arkansas.

As of June 30, 2004, the bank had total assets of \$166 million and total deposits of \$144 million. This represents a 48 percent increase when compared to the total assets of \$112 million at the last evaluation. During this same time period the loan portfolio has grown from \$82 million to \$84 million. Loans continue to constitute the largest segment of the bank's earning assets. At the last evaluation the average net loan-to-deposit ratio was 69 percent. The average net loan-to-deposit ratio for the 22 quarters since the prior evaluation is 66 percent.

Elk Horn Bank & Trust Company is a full-service community bank, which offers a wide range of deposit and loan products. The primary focus is business and residential real estate lending, although general consumer loans are also a part of the bank's business focus. Collectively, real estate loans represent approximately 73 percent of the total outstanding dollar volume of the loan portfolio, with residential real estate representing 31 percent, commercial real estate representing 39 percent and agriculture representing the remaining 3 percent. Commercial lending represents the largest portion of the portfolio at 55 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 June 30, 2004.

<b>LOAN DISTRIBUTION AS OF JUNE 30, 2004</b>		
<b>Loan Type</b>	<b>Dollar Amount (000s)</b>	<b>Percent of Total Loans (%)</b>
Construction and Loan Development	\$4,338	5
Farmland	2,393	3
1-4 Family Residential	26,411	31
Multi-Family	3,184	4
Commercial	25,494	30
<b>Total Real Estate Loans</b>	<b>\$61,820</b>	<b>73</b>
Farm	665	1
Commercial and Industrial	13,754	16
Consumer	7,571	9
Other	561	1
<b>Total Gross Loans</b>	<b>\$84,371</b>	<b>100</b>

Source: Statement of Condition as of June 30, 2004

There have been no branches closed since the prior evaluation; however, in December 2002 the bank purchased two branches from Superior Federal Bank, one in Malvern and one in Arkadelphia. The building housing the Arkadelphia branch was subsequently sold and only a stand-alone ATM machine remains at this site. As stated previously, the bank opened a loan production office at 3832-A Central Avenue, Hot Springs, Arkansas on July 6, 2004.

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

Elk Horn Bank & Trust Company received a CRA rating of "Outstanding" during the January 4, 1999 FDIC Evaluation. "Small Bank" CRA procedures were utilized at the prior evaluation and will continue for the current evaluation period.

### **DESCRIPTION OF *CLARK AND HOT SPRING COUNTIES, ARKANSAS***

Elk Horn Bank & Trust Company operates from four locations within Clark County, and two locations in Hot Spring County. The bank's assessment area contains a total of eleven block numbering areas (BNAs) in Clark and Hot Spring Counties. Clark County consists of three middle-income areas, BNAs: 9537, 9538 and 9539 and one upper-income area, 9536. Hot Spring County contains seven BNAs, 201 through 207, all of which are middle-income areas. The following table illustrates general demographic information for the assessment area according to the 2000 Census data.

<b>DEMOGRAPHIC INFORMATION</b>	<b>ASSESSMENT AREA</b>
Population	53,899
Number of Families	14,781
Percent of Housing Owner-Occupied	65%
Percent of Housing Rented	24%
Percent of Housing Vacant	11%
Median Housing Age (Years)	27 years
Median Housing Value	\$59,736

Source: 2000 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 non-Metropolitan Statistical Area MFI for the State of Arkansas. These data are 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 2000 MFI of \$34,709 is taken from census data and is used to determine the income level of the geographies and to evaluate the geographic distribution of loans since geographies are categorized based on census data. The 2003 adjusted MFI of \$38,500 is provided by HUD estimates and is used to analyze lending to borrowers of different income levels since borrower income is generally reported on a current basis.

<b>RANGE OF INCOME CALCULATIONS</b>			
<b>INCOME LEVEL</b>	<b>PERCENT OF MFI</b>	<b>2000 RANGE</b>	<b>2003 RANGE</b>
Low	Less than 50%	Less than \$17,355	Less than \$19,250
Moderate	50% to less than 80%	\$17,355 to \$27,766	\$19,250 to \$30,800
Middle	80% to less than 120%	\$27,767 to \$41,650	\$30,801 to \$46,199
Upper	120% and over	\$41,651 and over	\$46,200 and over

Source: 2000 U.S. Census information and 2003 Department of Housing and Urban Development information

The number of families within the various ranges is provided in the following table using the 2000 Census data. These ranges vary slightly from the MFI definitions, as they are provided in bands of \$2,500. The analysis of the 2000 Census data reveals the distribution of families by income level in the assessment area using weighted measures. The information indicates 17 percent of the families residing in the assessment area are considered low-income. Census data also indicates 12 percent of the families and 18 percent of the households are below the poverty level, two percent of the households receive public assistance and 33 percent of the households receive social security income.

<b>INCOME LEVEL</b>	<b>NUMBER</b>	<b>PERCENTAGE</b>
Low	2,578	17
Moderate	2,307	16
Middle	3,456	23
Upper	6,440	44
<b>TOTAL</b>	<b>14,781</b>	<b>100</b>

Source: 2000 U.S. Census information

### ***CLARK COUNTY***

Information obtained from the U. S. Department of Commerce, Bureau of Economic Analysis reveals in 2002 Clark County had a per capita personal income (PCPI) of \$20,795, which ranked 34th in the state and was 88 percent of the state average of \$23,556. However, the 2002 PCPI reflected an increase of 2.8 percent from 2001. Additionally, earnings of persons employed in Clark increased 0.60 percent from 2001 to 2002. The state change for this same time period was 1.8 percent and the national change was 1.5 percent. The U.S. Bureau of Labor reported the unemployment rate for Clark County was 5.1 percent in June 2004. This is below both the State unemployment rate of 5.8 percent and the national rate of 5.5 percent reported for the same period. Clark County has six other financial institutions operating 14 offices.

A community contact conducted in March 2004 in this assessment area cited job opportunities as a major concern shared by all Clark County residents. The contact provides services to individuals wishing to purchase, sell or rent real estate properties in Clark County. The contact further described the economic conditions in the area as “under pressure’ due to plant closures and a decline in the timber industry.

## ***HOT SPRING COUNTY***

Information obtained from the U. S. Department of Commerce, Bureau of Economic Analysis reveals in 2002 Hot Spring County had a per capita personal income (PCPI) of \$19,776, which ranked 45th in the state and was 84 percent of the state average of \$23,556. However, the 2002 PCPI reflected an increase of 2.9 percent from 2001. Additionally, earnings of persons employed in Hot Spring County increased 2.7 percent from 2000 to 2001. The state change for this same time period was 1.8 percent and the national change was 1.5 percent. The U.S. Bureau of Labor reported the unemployment rate of Hot Spring County was 6.5 percent in June 2004. This is above the State unemployment rate of 5.8 percent and the national rate of 5.5 percent reported for the same period. Hot Spring County has five other financial institutions operating 15 offices.

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 obtained from the bank's loan portfolio. A sample was reviewed of mortgage and business loans originated during the prior six months. The sampling consisted of 69 (\$4,625,078) real estate loans from 498 (\$40,013,027) total real estate loans and 60 (\$13,299,050) business loans from 169 (\$38,235,705) total business loans. Primary weight was given to these two loan categories due to management's lending focus and the significant portion of the portfolio consisting of these types of loans. Agriculture lending was not included in the sample process as these loans represent only four percent of the total loan portfolio

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

The following table reflects the real estate loans reviewed for Elk Horn Bank & Trust Company. Each of the loans detailed below were originated within the bank's assessment area. In addition, the table includes the percentage of families within each income level according to the 2000 Census data.

<b>REAL ESTATE LOANS</b>					
<b>INCOME LEVEL</b>	<b>PERCENT OF FAMILIES</b>	<b>NUMBER</b>	<b>PERCENT</b>	<b>VOLUME</b>	<b>PERCENT</b>
Low	17	5	10	\$89,300	3
Moderate	16	2	4	23,129	1
Middle	23	13	25	626,531	22
Upper	44	31	61	2,126,734	74
<b>TOTAL</b>	<b>100</b>	<b>51</b>	<b>100</b>	<b>\$2,865,694</b>	<b>100</b>

Source: 2000 U.S. Census information and Bank Records

The bank's lending to low-income borrowers (10 percent by number and 3 percent by dollar volume) is low compared to the 17 percent of low-income families living in the assessment area; however, lending to moderate-income borrowers reflects only a limited penetration with 4 percent by number and one percent by dollar volume when compared to the 16 percent of moderate-income families living in the assessment area. Management stated there are a number of organizations located in the assessment area that are qualified to offer numerous federally-assisted housing programs for these families. Management also indicated the bank regularly refers qualified applicants to these organizations in an effort to assist local residents, which has resulted in the low number of loans originated to low- and moderate-income borrowers.

The following table depicts the distribution of the sampled business loans made within the assessment area by annual gross revenue.

<b>BUSINESS LOANS</b>				
<b>GROSS REVENUE</b>	<b>NUMBER</b>	<b>PERCENT</b>	<b>VOLUME</b>	<b>PERCENT</b>
Less than \$100,000	25	71	\$2,455,042	41
\$100,000 to \$250,000	7	20	1,764,627	29
\$250,000 to \$500,000	1	3	16,115	1
Over \$1 million	2	6	1,779,002	29
<b>TOTAL</b>	<b>35</b>	<b>100</b>	<b>\$6,014,786</b>	<b>100</b>

Source: Bank Records

The distribution of lending to small businesses indicates a positive disbursement among the various revenue levels. A majority of business loans by number and a substantial portion by dollar volume were originated to businesses with less than \$100,000 in annual gross revenues, specifically 71 percent by number and 41 percent by dollar volume. This sampling reflects the bank's commitment to small businesses within the assessment area.

Small business loan originations were also analyzed by loan size, as a proxy for the size of the businesses being financed. The distribution among different loan sizes reflected in the following table further demonstrates the bank's willingness to make small business loans. A majority of the small business loans by number (54 percent) originated within the assessment area had original balances of less than \$100,000. Ten percent by dollar volume of the loans sampled had original balances of less than \$100,000. Overall, sampling of small business loans reflects the bank's commitment to the small businesses located within their assessment area.

<b>BUSINESS LOANS</b>				
<b>LOAN SIZE</b>	<b>NUMBER</b>	<b>PERCENT</b>	<b>VOLUME</b>	<b>PERCENT</b>
Less than \$100,000	19	54	\$579,758	10
\$100,000 to \$250,000	9	25	1,487,622	25
\$250,000 to \$500,000	3	9	893,621	15
\$501,000 to \$1 million	3	9	1,874,783	31
Over \$1million	1	3	1,179,002	19
<b>TOTAL</b>	<b>35</b>	<b>100</b>	<b>\$6,014,786</b>	<b>100</b>

Source: Bank Records

## Geographic Distribution of Loans

The geographic distribution of loans is reasonable and reflective of the assessment area. 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 in the geographies. The sample presented for these types of loans include loans originated in the bank's assessment area.

The following table depicts the distribution of sampled real estate loans made within the assessment area. As stated previously, the bank's assessment area includes ten middle-income geographies and one upper-income geography. The upper-income geography is 9536 in Clark County.

<b>REAL ESTATE LOANS</b>					
<b>TRACT</b>	<b>PERCENT OF FAMILIES</b>	<b>NUMBER</b>	<b>PERCENT</b>	<b>VOLUME</b>	<b>PERCENT</b>
<b>Hot Spring County</b>					
201	14	4	8	\$108,130	4
202	6	2	4	95,950	3
203	4	2	4	113,600	4
204	10	1	1	42,300	1
205	8	6	12	276,366	10
206	7	4	8	166,760	6
207	11	6	12	410,714	14
<b>Clark County</b>					
9536	12	6	12	275,620	10
9537	9	1	1	85,500	3
9538	8	9	18	719,390	25
9539	11	10	20	571,364	20
<b>Total</b>	<b>100</b>	<b>51</b>	<b>100</b>	<b>\$2,865,694</b>	<b>100</b>

Source: 2000 U.S. Census information and Bank Records

The largest number of real estate lending was identified in BNA 9539 (20 percent), which management attributes to a new subdivisions being developed in the area. The largest dollar volume of real estate lending was in BNA 9538 (25 percent), which is a residential area located within the city limits of Arkadelphia.

The following table details the small business loans sampled and the largest portion is shown as being originated in BNA 9538, which is the business district of Arkadelphia. Small business lending was evidenced in each BNA, with the exception of 203, 205, 206 and 207. While lending was not reflected in the sampling process, review of the bank's loan portfolio evidenced lending within each of these areas.

BUSINESS LOANS						
TRACT	SMALL BUSINESS		NUMBER	PERCENT	VOLUME	PERCENT
	#	%				
<b>Hot Spring County</b>						
201	91	5	1	3	\$145,322	2
202	120	7	1	3	166,500	3
203	230	14	0	0	0	0
204	176	11	2	6	936,778	16
205	59	4	0	0	0	0
206	26	2	0	0	0	0
207	139	8	0	0	0	0
<b>Clark County</b>						
9536	255	15	11	31	1,624,404	27
9537	137	8	1	3	100,000	2
9538	273	17	12	34	2,906,703	48
9539	142	9	7	20	135,079	2
Total	1,648	100	35	100	\$6,014,786	100

Source: 2002 Dun and Bradstreet data and Bank Records

### Lending in Assessment Area

As detailed in the following table, the majority of the bank's loans by both number and dollar volume were originated within the assessment area, specifically 67 percent by number and 50 percent by dollar volume.

Distribution of Loans Inside and Outside of the Assessment Area										
Loan Type	Number of Loans					Dollars of Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Real Estate	51	74	18	26	69	\$2,865,694	62	\$1,759,384	38	\$4,625,078
Business	35	58	25	42	60	6,014,786	45	7,284,264	55	13,299,050
Total	86	67	43	33	129	\$8,880,480	50	\$9,043,648	50	\$17,924,128

Source: Bank Records

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

The bank's average net loan-to-deposit ratio indicates an adequate responsiveness to area credit needs, which is primarily real estate and commercial based. For the 22 quarters since the last evaluation, the average ratio is approximately 69 percent. The loan-to-deposit ratio reached its peak at 82 percent, which was reported for the December 30, 2000 period.

According to the June 30, 2004 Arkansas State Bank Department Self-Examination Report, the bank's ratio (57 percent) is lower than both the similar size peer group (72 percent) and its geographic peer group (69 percent).

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

### **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.