

# **PUBLIC DISCLOSURE**

**January 31, 2005**

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**Bank of Paragould  
14033**

**3005 W. Kingshighway  
Paragould, Arkansas 72450**

**Federal Deposit Insurance Corporation  
2345 Grand Boulevard, Suite 1200  
Kansas City, Missouri 64108**

**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 **Bank of Paragould** prepared by the **Federal Deposit Insurance Corporation**, the institution's supervisory agency, as of **January 31, 2005**. 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.

- A substantial majority (94%) of the total loans sampled were located within the bank's defined assessment area.
- An analysis of loan originations revealed a reasonable record of residential real estate lending to low- and moderate-income borrowers. A majority of the bank's business loans were to small businesses, which are defined as those businesses with gross annual revenues of \$1 million or less.
- Overall, the geographic distribution of the bank's residential real estate and small business lending reflects reasonable dispersion throughout the assessment area, based upon the demographics of the assessment area geographies, the absence of low-and moderate-income geographies, and the competition within the assessment area.
- The bank's lending levels represented by a 102 percent average net loan-to-deposit ratio reflects an excellent responsiveness to community credit needs.

## DESCRIPTION OF INSTITUTION

Bank of Paragould is a \$103 million dollar financial institution located in Paragould, Arkansas. Paragould is located approximately 85 miles northwest of Memphis, Tennessee and approximately 25 miles north of Jonesboro, Arkansas. The bank began operations in 1998 after acquiring their charter from another bank. The prior FDIC public evaluation of October 16, 2000 indicated that the bank had total assets of only \$32 million. As evidenced by current total assets, the bank has experienced tremendous growth in the last four years. Several factors have contributed to this enormous growth spurred by an industrial and residential boom in all of the northeast region of Arkansas.

Bank of Paragould is a subsidiary of Security State Bancshares, a multi bank holding company located in Charleston, Missouri. Security State Bancshares owns three institutions which include Bank of Paragould and two financial institutions located in Missouri.

Bank of Paragould operates one branch in Marmaduke, Arkansas and will begin construction on a new branch in the southern part of Paragould. The bank also operates three 24 hour automated teller machines (ATM's). They are located at the main office, the branch facility in Marmaduke, and a Quick Market store in Cardwell, Missouri. There are no legal or financial impediments existing which would prohibit the bank from meeting the credit needs of the community.

The level of lending is tied to the ability of the bank to fund loan volume and attract new customers from other area institutions. The later strategy was proven when one of the bank's loan officers was hired in 2002 from another area institution. That officer's customers subsequently followed him to Bank of Paragould; thereby, increasing the bank's assets tremendously. The following table provides a breakdown of the bank's major assets as of September 30, 2004 (000's omitted).

CATEGORY	AMOUNT	PERCENT
Net Loans	\$86,661	84
Securities	5,606	5
Fed Funds Sold	0	0
Cash	4,645	5
Premises	3,363	3
Other	2,917	3
<b>TOTAL ASSETS</b>	<b>\$103,192</b>	<b>100</b>

*Source: Call Report*

The percentage and dollar volume of major loan types originated by the bank are presented below. The rapid increase in bank assets, especially loans, indicates that the bank has made a conscientious effort to capture portions of the business, agriculture, and consumer markets. All types of traditional bank products are offered. The bank makes both fixed and adjustable rate residential real estate loans. Amortization periods extend from 15 to 30 years; however, the bank does not offer 30 year fixed rate mortgages. For those customers who prefer a 30 year fixed rate mortgage, the bank has opened a small mortgage office, located on bank premises, that sells those type loans in the secondary market.

The following table is provided to list a breakdown of the loan portfolio according to the bank's most recent Report of Condition.

<b>LOAN TYPE</b>	<b>AMOUNT</b>	<b>PERCENT</b>
Construction and Land Development	\$5,967	7
Secured by Farmland	3,615	4
Revolving open end loans	1,354	2
Closed end secured by 1-4 Family	42,976	49
Secured by Non Farm Non Residential	17,467	20
Finance Agricultural	1,291	1
Commercial and Industrial	6,192	7
Individuals	7,213	8
Lease Financing Receivables	1,312	1
Other	155	1
<b>Total Loans</b>	<b>87,542</b>	<b>100</b>
(Less Allowance for loan and lease losses)	881	N/A
<b>Net Loans</b>	<b>\$86,661</b>	<b>N/A</b>

*Source: Statement of Condition and Income*

Bank of Paragould received a CRA rating of "Satisfactory" during the last FDIC public evaluation on October 16, 2000. Small bank CRA procedures were utilized at the prior evaluation and will continue during this current rating period.

## **DESCRIPTION OF GREENE COUNTY, ARKANSAS**

The bank has defined all of Greene County, Arkansas, with the exception of BNA 9803, as its assessment area. Greene County consists of eight BNA's.

For purposes of this evaluation, when Greene County is mentioned, it will refer to the seven BNA's included in the bank's assessment area. The majority of Greene County is considered rural in nature with the City of Paragould being the largest city in the county. Greene County is located in the northeast part of Arkansas with the Missouri boot heel bordering on the east. Craighead County, the county where Jonesboro, Arkansas is located, borders Paragould to the south. Upon completion of the 2000 census, Greene County changed from one moderate, four middle and two upper income tracts, to two upper and five middle-income tracts.

There are few financial institutions in the assessment area with the exception of the city limits of Paragould, whereby several competing financial institutions are located. Bank of Paragould has now grown to be one of the financial leaders in total assets with only one other bank matching its size. There are branch banks and credit unions that compete for business within the assessment area.

Several new distribution companies have moved into Paragould since the last examination. Along with these new distribution centers, several companies have remained vibrant throughout this time. L. A. Darling employs over 1,400 persons and has annual sales of over \$300 million. Also, Tenneco Automotive Operations (1,000) and Arkansas Methodist Hospital (550) respectively are located in Paragould. The unemployment rate of Greene County was 5.4 percent in the third quarter of 2004. The state unemployment rate for the same period was also 5.4 percent. The increase in employment has also given rise to an increase in housing starts within Greene County totaling 166 through the third quarter 2004. In comparison, a total of 195 housing starts were listed in 2003. Selected demographic data taken from the 2000 Census Bureau is presented below.

<b>Population</b>	<b>Housing Units</b>	<b>Housing Median Age</b>	<b>Persons 16 &amp; Older</b>	<b>Unemployed</b>	<b>Labor Force</b>
34,141	14,845	23	26,585	856	16,442

<b>Median Family Income</b>	<b>Number of Families</b>	<b>Families Below Poverty Level</b>	<b>Number of Households</b>	<b>Households Below Poverty</b>	<b>Median Housing Value</b>
\$37,082	9,677	979	13,533	2,029	\$65,878

*Source: 2000 Census Bureau*

The 2004 HUD estimated statewide non-metropolitan median family income (MFI) of \$42,900 was used for calculations concerning the income level of the borrower distribution. The 2000 Census Bureau data of \$34,709 was used for calculations concerning geographic distribution of residential loans. The following table provides an overview of the calculations and ranges of the different income levels used in analyzing the bank's performance under CRA.

<b>INCOME LEVEL</b>	<b>DEFINITION</b>	<b>2000 RANGE</b>	<b>2004 RANGE</b>
Low	Less than 50%	Less than \$17,355	Less than \$21,450
Moderate	50% to 80%	\$17,355 to \$27,767	\$21,450 to \$34,320
Middle	80% to 120%	\$27,768 to \$41,650	\$34,320 to \$51,480
Upper	More than 120%	Over \$41,650	Over \$51,480

*Source: 2000 Census Data and 2004 HUD*

Based on the above data, five of the seven geographies in the assessment area are classified as middle-income, while the remaining two are upper-income. The assessment area contains one branch facility (Marmaduke) located in a middle-income geography (BNA 9801) and the bank's main office located in an upper-income geography (BNA 9804).

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

The bank has demonstrated a willingness to concur with all sections of the Community Reinvestment Act as defined by statutory regulation. Lending in the assessment area is reasonable as is lending to borrowers and businesses of different income levels, lending in geographic locations and the bank's loan to deposit ratio during the last 16 quarters. The bank's lending performance evaluation is based upon a review of the bank's loans secured by residential real estate and small business loans (two of the bank's largest loan categories) originated between January 1, 2004 and January 1, 2005. The residential real estate loan sample consisted of 38 loans totaling \$2,460,560 from a potential universe of 244 loans totaling \$14,137,102. The commercial loan sample consisted of 32 loans totaling \$863,158 from a potential universe of 108 loans totaling \$3,348,075. A recent community contact was used for current information concerning the assessment area.

### **Lending In Assessment Area**

As illustrated in the following tables, the bank originates a substantial majority of its loans within the assessment area. Specifically, 95 percent by number and 95 percent by dollar amount of the bank's residential loans were within the assessment area. In addition, 94 percent by number and 95 percent by dollar amount of the bank's small business loans originated January 1, 2004 through January 1, 2005 were in the assessment area.

<b>RESIDENTIAL REAL ESTATE LOANS</b>				
	<b>NUMBER</b>	<b>PERCENT</b>	<b>AMOUNT</b>	<b>PERCENT</b>
Inside Assessment Area	36	95	\$2,348,560	95
Outside Assessment Area	2	5	112,000	5
<b>TOTALS</b>	<b>38</b>	<b>100</b>	<b>\$2,460,560</b>	<b>100</b>

Source: Bank Files

<b>SMALL BUSINESS LOANS</b>				
	<b>NUMBER</b>	<b>PERCENT</b>	<b>AMOUNT</b>	<b>PERCENT</b>
Inside Assessment Area	30	94	\$818,588	95
Outside Assessment Area	2	6	44,570	5
<b>TOTALS</b>	<b>32</b>	<b>100</b>	<b>\$863,158</b>	<b>100</b>

Source: Bank Files

Based on the fact that an overall total of 94 percent by number and 95 percent by dollar amount of the bank's loans reviewed were inside the assessment area, the bank's lending in the assessment area is considered excellent.

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

Overall, the bank exhibits a reasonable record of lending to borrowers of different incomes and businesses of different sizes. The following table reflects the lending distribution of loans reviewed which were originated within the assessment area. For comparative purposes, the table includes the percentage of families within each income level.

<b>RESIDENTIAL REAL ESTATE LOANS</b>					
<b>INCOME LEVEL</b>	<b>PERCENT OF FAMILIES</b>	<b>NUMBER</b>	<b>PERCENT OF SAMPLE</b>	<b>DOLLAR VOLUME</b>	<b>PERCENT OF VOLUME</b>
Low	16	8	22	\$277,315	12
Moderate	18	8	22	412,158	18
Middle	23	8	22	476,588	20
Upper	43	12	34	1,182,499	50
<b>TOTALS</b>	<b>100</b>	<b>36</b>	<b>100</b>	<b>\$2,348,560</b>	<b>100</b>

Source: Bank Files

As the above data reveals, lending to low and moderate income borrowers at 44 percent by number exceeds the percent of families (34%) within the assessment area. This clearly demonstrates that the bank is lending to low-and moderate-income borrowers within the assessment area.

The following table reflects the bank’s small business lending to businesses of different sizes. For comparative purposes, the table includes the percentage of businesses within each gross revenue level according to Dun & Bradstreet data. The analysis only includes loans which were originated within the assessment area.

<b>SMALL BUSINESS LOANS</b>					
<b>GROSS REVENUES</b>	<b>PERCENT OF BUSINESS</b>	<b>NUMBER</b>	<b>PERCENT OF SAMPLE</b>	<b>DOLLAR VOLUME</b>	<b>PERCENT OF VOLUME</b>
Less than \$100,000	39	6	20	\$70,897	9
\$100,00 to \$250,000	22	5	17	105,856	13
\$250,000 to \$1,000,000	20	9	30	164,690	20
Over \$1,000,000	19	10	33	477,145	58
<b>TOTAL</b>	<b>100</b>	<b>30</b>	<b>100</b>	<b>\$818,588</b>	<b>100</b>

*Source: Bank Files*

The above table indicates that the bank has originated 67 percent by number and 42 percent by dollar amount of its small businesses loans to those businesses with gross annual revenues below one million dollars. These percentages are below the economic demographics indicating 81 percent of businesses have revenues below one million dollars. Furthermore, 33 percent by number and 58 percent by dollar volume were to businesses with gross annual revenues over one million dollars. These percentages are attributed to the recent influx of some small businesses within the Paragould area whereby the bank has been able to secure financing for some of these businesses. The dollar volume is indicative of the amount of funds needed by businesses whose gross annual revenues exceed one million dollars. In addition, based on information obtained recently from a community contact, small business financing is needed in the assessment area. By making a large percentage of its loans to small businesses, Bank of Paragould is helping to address these financing needs. It is important to note that the addition of new businesses to the area helps invigorate the economy and provide jobs, thus sparking the need for additional housing.

### **Geographic Distribution of Loans**

The bank has a reasonable geographic distribution of loans, considering the location of its banking offices, banking competition, and the demographics of the assessment area. Both residential and small business lending is similar to the percentage of housing and percentage of businesses in the respective geographies.

Five of the geographies in the assessment area are designated middle-income and two are designated as upper-income geographies. The middle-income geographies are 9801, 9802, 9805, 9806 and 9807. Upper-income geographies consist of 9804 and 9808 which comprise the city of Paragould. The remaining portion of Greene County encompasses BNA 9803, which is not a part of the bank's assessment area. BNA 9803 lies northwest of the city of Paragould and is predominantly farm land with very few inhabitants.

The following tables depict the distribution of the bank's residential and small business loans. For comparative purposes, the table includes the percentage of businesses within each gross annual revenue level according to 2004 Dun & Bradstreet data. The analysis only includes loans that were originated within the assessment area.

<b>RESIDENTIAL REAL ESTATE LOANS</b>					
<b>BNA</b>	<b>PERCENT OF HOUSING</b>	<b>NUMBER</b>	<b>PERCENT</b>	<b>DOLLAR AMOUNT</b>	<b>PERCENT</b>
9801	9	2	6	\$108,046	5
9802	12	4	11	272,804	12
9804	17	10	28	659,791	28
9805	16	6	17	342,961	14
9806	16	7	19	320,679	14
9807	7	1	3	55,000	2
9808	23	6	16	589,279	25
<b>TOTALS</b>	<b>100</b>	<b>36</b>	<b>100</b>	<b>\$2,348,560</b>	<b>100</b>

*Source: Bank Files*

SMALL BUSINESS LOANS					
BNA	PERCENT OF BUSINESS	NUMBER	PERCENT	DOLLAR AMOUNT	PERCENT
9801	6	1	3	\$22,551	3
9802	7	2	7	55,975	7
9804	28	4	13	85,669	10
9805	20	8	27	162,814	20
9806	9	5	17	351,444	43
9807	7	3	10	38,130	5
9808	23	7	23	102,005	12
TOTALS	100	30	100	\$818,588	100

Source: Bank Files

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

Based on the bank's capacity to lend and the demographic factors within the area, the bank's overall lending level is excellent. The average loan-to-deposit ratio over the last 16 quarters is 102 percent. The bank's loan to deposit ratio for September 30, 2004 was 113 percent.

Based on local competition, there are no similarly situated banks in terms of size, asset structure, branching network, and loan products; however, nearby institutions had average net loan-to-deposit ratios ranging from 85 to 86 percent over the same 16-quarter time frame.

### **Response to Complaints**

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

### **Compliance with Anti-Discrimination Laws and Regulations**

No violations of the substantive provisions of the anti-discriminatory laws and regulations were identified during the evaluation.