



Comptroller of the Currency
Administrator of National Banks

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PUBLIC DISCLOSURE

**COMMUNITY REINVESTMENT ACT
PERFORMANCE EVALUATION**

September 3, 1996

The First National Bank of the Mid-South
Charter Number 15302
One First National Plaza
Sikeston, Missouri 63801

<p>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, conclusions, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.</p>
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GENERAL INFORMATION

This document is an evaluation of the Community Reinvestment Act (CRA) performance of The First National Bank of the Mid-South, Sikeston, Missouri prepared by the Office of the Comptroller of the Currency (OCC), the institution's supervisory agency.

This evaluation represents the OCC's current assessment and rating of the institution's CRA performance based on an examination conducted as of September 3, 1996. It does not reflect any CRA-related activities that may have been initiated or discontinued by the institution after the completion of the examination.

The purpose of the Community Reinvestment Act of 1977 (12 U.S.C. 2901), as amended, is to encourage each financial institution to help meet the credit needs of the communities in which it operates. The Act requires that in connection with its examination of a financial institution, each federal financial supervisory agency shall (1) assess the institution's record of helping to meet the credit needs of its entire community, including low- to moderate-income (LMI) neighborhoods, consistent with safe and sound operations of the institution, and (2) take that record of performance into account when deciding whether to approve an application of the institution for a deposit facility.

The Financial Institutions Reform, Recovery and Enforcement Act of 1989, Pub. L. No. 101-73, amended the CRA to require the Agencies to make public certain portions of their CRA performance assessments of financial institutions.

Basis for the Rating

The assessment of the institution's record takes into account its financial capacity and size, legal impediments and local economic conditions and demographics, including the competitive environment in which it operates. Assessing the CRA performance is a process that does not rely on absolute standards. Institutions are not required to adopt specific activities, nor to offer specific types or amounts of credit. Each institution has considerable flexibility in determining how it can best help to meet the credit needs of its entire community. In that light, evaluations are based on a review of 12 assessment factors, which are grouped together under 5 performance categories, as detailed in the following section of this evaluation.

ASSIGNMENT OF RATING

Identification of Ratings

In connection with the assessment of each insured depository institution's CRA performance, a rating is assigned from the following groups:

Outstanding record of meeting community credit needs.

An institution in this group has an outstanding record of, and is a leader in, ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Satisfactory record of meeting community credit needs.

An institution in this group has a satisfactory record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Needs to improve record of meeting community credit needs.

An institution in this group needs to improve its overall record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Substantial noncompliance in meeting community credit needs.

An institution in this group has a substantially deficient record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

DISCUSSION OF INSTITUTION'S PERFORMANCE

Institution's Rating:

Based on the findings presented below, we have rated this institution Outstanding Record of Meeting Community Credit Needs.

The purpose of CRA is to ensure that financial institutions help meet the credit needs of their local communities. We rated this institution's CRA record as Outstanding because:

- The First National Bank of the Mid South's (FNB) high loan-to-deposit ratio demonstrates exceptional responsiveness to the credit needs of its community. This is particularly impressive in light of the poor economic conditions of the local economy.
- The dispersion of FNB's lending efforts exemplifies a strong willingness on the bank's behalf to serve all areas of its assessment area and meet the credit needs of borrowers of all income and revenue sizes.
- Management has effectively addressed the credit needs of its community by offering credit products which are well-suited to the borrowing needs of its customers. FNB has done this by creating specific credit products for identified needs and instituting a credit culture within the bank which emphasizes flexible underwriting criteria.

Bank Profile

FNB is a wholly-owned subsidiary of Continental Bancorporation, a one-bank holding company headquartered in Sikeston, Missouri. FNB is a full-service financial institution with retail, commercial, and agricultural lending as its primary business focus. FNB has branch locations in Cape Girardeau, Miner, Caruthersville, and Chaffee. Management reports indicate that 84% of the bank's deposit customers reside within the assessment area.

As of June 30, 1996, the bank had approximately \$309 million in total assets. The bank's loan-to-deposit ratio was 99.7% with a loan mix of 73% real estate, (including 59% 1-4 family residential, 35% commercial, and 6% agriculture), 15% commercial, 5% agricultural, and 7% consumer.

Community Profile

FNB's assessment area consists of 6 contiguous counties in southeastern Missouri - Scott, New Madrid, Cape Girardeau, Stoddard, Pemiscot and Mississippi. Combined, these counties have a population of approximately 187,000. FNB's assessment area consists of 51 Block Numbering Areas (BNA). Based on the 1990 State of Missouri median family income figure

of \$31,838, three of the BNAs (6%) are designated low-, 28 (55%) moderate-, 18 (35%) middle-, and two (4%) upper-income. The Department of Housing and Urban Development's (HUD) estimate of the 1996 median family income for non-metropolitan areas in the State of Missouri is \$30,100. In contrast, the median family income for the six-county assessment area is only \$23,000.

The economic climate of the assessment area can be described as depressed. Although the unemployment rate is relatively low, a large portion of the workforce is underemployed. This is attributed to the relatively uneducated workforce in the area. Approximately 45% of the population has not graduated from high school, compared to a state average of 26%. Likewise, only 12% of the population has some degree of secondary education, compared to a state figure of 26%. Approximately 27% of households in the assessment area are below the poverty level, nearly twice the state average of 14%. Approximately 12% of all households are on public assistance.

The most pressing credit needs identified in the area include affordable housing, home purchase loans, and used vehicle loans. These needs have been identified by bank management and verified through examiner contact with community organizations.

FNB's main competition comes from several regional bank branches located in the area. Additional competition comes from local state banks and savings and loan associations.

Reasonableness of Assessment Area

FNB's assessment area is reasonable and does not arbitrarily exclude any low- to moderate-income (LMI) areas. Management reports indicate that between January 1995 and June 1996, 87% of the number of loans and 82% of the dollar amount of loans originated were to customers residing within the bank's assessment area. This is consistent with the 84% of deposits which come from customers located within the assessment area.

I. ASCERTAINMENT OF COMMUNITY CREDIT NEEDS

Assessment Factor A - Activities conducted by the institution to ascertain the credit needs of its community, including the extent of the institution's efforts to communicate with members of its community regarding the credit services being provided by the institution.

- Management maintains regular contact with a variety of individuals and groups representing various community interests, as well as public officials and leaders.

FNB meets regularly with a large range of individuals and groups. In many instances, bank employees are members of, or serve on, governing boards and committees of these organizations. This allows the bank to receive ongoing input and feedback on community credit needs. FNB's 1996 Community Reinvestment Act Self-Assessment lists these organizations and the general frequency of meetings. Management also regularly analyzes demographic data relative to credit and educational needs of the assessment area.

Assessment Factor C - The extent of participation by the institution's board of directors in formulating the institution's policies and reviewing its performance with respect to the purposes of the Community Reinvestment Act.

- Management and the Board of Directors actively support CRA objectives in the day-to-day activities of the bank.

Management and the Board have implemented a credit culture which encourages CRA performance. This culture emphasizes flexible underwriting criteria. As a result, lenders are able to focus on a borrower's ability to maintain employment and demonstrate repayment capacity, as opposed to collateral values. In addition, the Board has demonstrated its commitment to CRA by approving special lending programs, such as the "No Hassle" loan program, which are well-suited to the specific credit needs of the community.

II. MARKETING AND TYPES OF CREDIT OFFERED AND EXTENDED

Assessment Factor B - The extent of the institution's marketing and special credit-related programs to make members of the community aware of the credit services offered by the institution.

- FNB's marketing program effectively keeps all segments of its assessment area aware of the credit products it offers.

Management regularly advertises its various credit products and services throughout the bank's assessment area. Most advertising is via local newspapers, which all have at least one free day of distribution to every home. Management also periodically sponsors advertisements in available special event publications to target specific groups, as well as community civic newsletters. In addition, FNB sends statement stuffers to its customers with their monthly account statements several times per year.

Assessment Factor I - The institution's origination of residential mortgage loans, housing

rehabilitation loans, home improvement loans, and small business or small farm loans within its community, or the purchase of such loans originated in its community.

- FNB has originated a significant volume of loans within the assessment area. This volume of lending is the result of FNB's exceptional responsiveness to the credit needs of its assessment area through product development.

FNB offers several loan products which are tailored to specific credit needs of the community, including loans for housing, consumer, small business and small farm needs. As an example of its responsiveness to the needs of its assessment area, FNB created its "No Hassle" mortgage loan product to overcome the barriers normally associated with home purchase loans. This product allows management a faster response time with customers, offers the borrowers reduced closing costs, and allows for higher loan to value ratios. This loan product has a fixed rate of interest for five years, and then converts to an adjustable-rate mortgage with annual interest rate adjustments.

Due in large part to the success of the "No Hassle" loan program, FNB has met a significant portion of the assessment area's mortgage-related credit needs. Between January 1995 and June 1996, FNB originated 467 real estate purchase mortgages totaling \$27 million. Of these, 298 (64%) loans totaling \$15.5 million (58%) were the bank's "No Hassle" loans.

Approximately 86% of these real estate loans were granted to borrowers residing within the bank's assessment area. FNB also extended 172 secured home improvement loans totaling \$2 million during the same time period, with 95% originated to customers residing within the assessment area. In addition, during the first half of 1996, management originated and sold in the secondary market approximately \$3.5 million of residential mortgages.

Another example of management's responsiveness to the identified credit needs of its assessment area is its auto loan program. FNB customers are able to obtain used automobile loans with generous guidelines of a 100% loan-to-value ratio and competitive interest rates and terms. Lenders are encouraged to emphasize employment history and repayment ability, rather than collateral support, as they underwrite these loans. This flexibility has allowed individuals who would otherwise not qualify for a loan to fill their transportation needs. As of June 30, 1996, FNB had 1,374 secured and unsecured consumer loans outstanding for a total of \$9 million.

Management is also willing to make small dollar loans to customers for a variety of miscellaneous purposes. This is particularly beneficial for the bank's low- and moderate-income customers. Currently there are approximately two hundred loans outstanding totaling \$238,000 that were originated in amounts of less than \$2,000. In addition, between January 1995 and June 1996, FNB made approximately 1,500 loans which were paid off prior to our evaluation date. The vast majority of these loans were also small dollar originations oriented to the borrowing needs of low- and moderate-income people.

FNB is also actively meeting the credit needs of local small businesses and small farms. According to the June 30, 1996 Consolidated Report of Condition, FNB had 432 loans outstanding to businesses with revenues of \$1 million or less (defined as small businesses) totaling \$31.8 million. Of these, 378 (88%) loans totaling \$5.4 million (17%) were originated in dollar amounts of \$100,000 or less. Similarly, FNB had 143 loans totaling \$4.9 million outstanding to small farms (also defined to have revenues of \$1 million or less). Of these, 136 (95%) loans totaling \$2.6 million (52%) were originations of \$100,000 or less.

Assessment Factor J - The institution's participation in governmentally-insured, guaranteed or subsidized loan programs for housing, small businesses, or small farms.

- To complement its in house products, FNB also participates in government-related lending programs for small business, housing and small farms.

FNB participates in Small Business Administration (SBA) loan programs to help meet the needs of small business owners. During 1995 and year-to-date 1996, FNB made six SBA loans totaling \$825,000. In addition, FNB also has \$2 million in SBA loans outstanding that were originated prior to 1995. In 1995 and year-to-date 1996, FNB also originated 15 Farmers Home Administration (FmHA) loans totaling \$1 million to local agricultural borrowers.

Although FNB offers Federal Housing Authority (FHA) and Veteran's Administration (VA) loans, management does not direct borrowers to these products. Instead, management directs the borrowers to the aforementioned "No Hassle" product, which it considers to be better suited to the needs of its mortgage customers. FNB sells its government guaranteed mortgage loans in the secondary market. Management indicates that over the past three years, they have sold over \$28 million of real estate loans in the secondary market.

III. GEOGRAPHIC DISTRIBUTION AND RECORD OF OPENING AND CLOSING OFFICES

Assessment Factor E - The geographic distribution of the institution's credit extensions, credit applications, and credit denials.

- The distribution of FNB's lending efforts demonstrates a strong commitment to serve all areas of the assessment area, as well as all income levels of borrowers.

FNB's lending efforts reach all areas of the community and borrowers of all income levels and revenue sizes, including those designated low- and moderate-income. Please refer to Assessment Factor I for details regarding FNB's lending efforts to small businesses and small

farms.

Bank-generated data shows that consumer and real estate lending between January 1995 and March 1996 was distributed 13% to individuals with incomes less than \$20,000; 17% \$20,000-\$29,999; and 70% over \$30,000. This distribution reasonably approximates the demographic composition of the community given the decreased likelihood that low- and moderate-income individuals will qualify for credit given their lower income levels. Demographic data shows that 39% of households have incomes of \$0-\$14,999, 19% \$15,000-\$24,999, 14% \$25,000-\$34,999, and 13% \$35,000-\$49,999.

From a geographic standpoint, management reports indicate a reasonable distribution across all income levels of BNAs in the bank's assessment area. For loans originated between January 1995 and June 1996, FNB's distribution was as follows:

BNA Income Level	#	%	\$	%
Low-Income	42	1.8%	1,857,000	2.2%
Moderate-Income	930	38.7%	22,331,000	26.6%
Middle-Income	1,294	53.8%	54,826,000	65.2%
Upper-Income	139	5.7%	5,048,000	6.0%
Total	2,405	100%	84,062,000	100%

Assessment Factor G - The institution's record of opening and closing offices and providing services at offices.

- FNB's offices are reasonably accessible to all segments of the community. The recent branch closing has not had a negative impact on the community.

FNB operates 5 full-service branches and 3 Automated Teller Machines (ATM) within the assessment area. Only the Miner branch, which is in close proximity to the main office, does not offer lending services. Miner branch employees refer loan customers to the main bank office.

Since our last examination, the bank closed its Doctor's Park office in Cape Girardeau. This office primarily served business customers in the medical community and generated minimal new business. The closing did not significantly impact retail customers or a low- or moderate-income area. The bank still retains a full-service branch in this community.

The First National Bank of the Mid-South

IV. DISCRIMINATION AND OTHER ILLEGAL CREDIT PRACTICES

Assessment Factor D - Any practices intended to discourage applications for types of credit set forth in the institution's CRA Statement(s).

- We found no practices intended to discourage applicants for any type of credit listed on the bank's CRA Statement.

As demonstrated by its CRA performance, FNB solicits applications from all portions of its communities, including low- and moderate-income areas. FNB's CRA statement correctly lists the types of credit offered and extended.

Assessment Factor F - Evidence of prohibited discriminatory or other illegal credit practices.

- The bank is in compliance with substantive provisions of antidiscrimination laws and regulations.

We did not identify any instances in which FNB denied credit to similarly situated applicants based on the applicant's race. To develop this conclusion, we performed a comparative analysis of real estate loan applicants to determine whether applicants with comparable qualifications received similar treatment. Our sample included 22 denied black applicants (100% of minority denials) and 90 approved white applicants who applied for credit between January 1, 1995 and July 31, 1996. We found no instances where treatment granted one group differed from that given the other group.

V. COMMUNITY DEVELOPMENT

Assessment Factor H - The institution's participation, including investments, in local community development and redevelopment projects or programs.

- FNB participates in community development and redevelopment programs as they become available.

Development and redevelopment opportunities within the assessment area are currently almost non-existent. However, management does express its desire to assist whenever possible. Management also purchases local bond issues as they become available. Currently, FNB has municipal bond issues totaling \$1.4 million on its books. These bond issues are all located within Southeastern Missouri. In addition, FNB also originated and services about \$3 million in Federal National Mortgage Association (FNMA) loan pools backed by conforming REMs.

To assist in the improvement of its community, FNB management is working diligently with a consortium of educational and political leaders to bring a technical college to the Southeast Missouri area. Studies are complete and support the need for the college. One of the area's challenges is its literacy rate, which is lower than the rest of the state. Management believes that individuals must gain certain skills before they can increase their income, living standard, and their ability to obtain and maintain credit. To help encourage the planners to locate the college in Sikeston, management has offered the former bank premises for the technical college's use.

Assessment Factor K - The institution's ability to meet various community credit needs based on its financial condition and size, legal impediments, local economic conditions and other factors.

- FNB's lending efforts exceed expectations in light of the depressed local economic climate. The bank's high loan-to-deposit ratio does, however, present a challenge to FNB as it attempts to meet additional credit needs of the community.

FNB has made exceptional use of its available resources to date. FNB has demonstrated a strong commitment to fulfill its CRA obligations despite operating in a tough, economically depressed marketplace. FNB's ability to meet additional credit needs of its community, however, will be impacted by its ability to generate additional core deposits or generate other sources of funding. We did not identify any other factors which hinder the bank's ability to meet its CRA obligations.

Assessment Factor L - Any other factors that, in the regulatory authority's judgement, reasonably bears upon the extent to which an institution is helping to meet the credit needs of its entire community.

- FNB has engaged in other meaningful activities which contribute to its efforts to help meet the community's credit needs.

FNB and its employees provide ongoing support to community organizations and activities which directly or indirectly address community credit needs. This support includes sponsoring credit training sessions for selected groups. The bank also provides financial support through donations to various local groups, individuals, and community initiatives.

ADDITIONAL INFORMATION

Examination Profile

The scope of our examination included an analysis of the bank's CRA performance since January 1994, the date of the prior CRA examination. We reviewed information prepared by

The First National Bank of the Mid-South

bank management and obtained through contacts with community groups and government offices. The Office of the Comptroller of the Currency (OCC) is the regulatory agency responsible for the supervision of this bank.