

PUBLIC DISCLOSURE

January 4, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Pinnacle Bank
RSSD# 2503569**

**2610 Cantrell Road
Little Rock, Arkansas 72202**

**Federal Reserve Bank of St. Louis
P.O. Box 442
St. Louis, Missouri 63166-0442**

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 Reserve concerning the safety and soundness of this financial institution.

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 **Pinnacle Bank** prepared by **The Federal Reserve Bank of St. Louis**, the institution's supervisory agency, as of January 4, 1999. The agency evaluates performance in assessment area(s), as they are delineated by this institution, rather than individual branches. This assessment area evaluation may include visits to some, but not necessarily all of the institution's branches. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR. Part 228.*

INSTITUTION'S CRA RATING: This institution is rated Needs to Improve.

The assessment of Pinnacle Bank's efforts to determine and meet the credit needs of its community indicates that the bank's overall performance is in need of improvement. This conclusion is largely due to the geographic distribution of the bank's lending that reflects a less than satisfactory dispersion across low- and moderate-income (LMI) geographies in the assessment area. In addition, the distribution of loans to borrowers of different income levels reflects a poor penetration among LMI individuals. Conversely, the distribution of loans to small businesses is reasonable. The loan-to-deposit ratio is exceptional given the institution's size, its financial condition, the performance of its competitors, and the credit needs of the assessment area. Also, a substantial majority of the bank's loans are extended within its assessment area. However, the bank's strong performance for these criteria is insufficient to mitigate the bank's low level of lending to LMI geographies and individuals.

DESCRIPTION OF INSTITUTION

Pinnacle Bank is a full-service, retail bank, offering a wide range of both consumer and commercial loan and deposit products. The bank's branch network consists of two full-service branches (including the bank's main office). In addition, the bank has a drive-up facility at its main branch and a deposit accepting automatic teller machine. The bank is a wholly-owned subsidiary of Pinnacle BancShares Inc., a one-bank holding company located in Little Rock, Arkansas.

Pinnacle Bank is a de novo financial institution which opened for business in January of 1997. Due to the challenges of opening a new bank in a competitive market and handling the day-to-day issues of a new institution, management directed most of its

attention to these matters. In addition, this was the first CRA examination for this institution. These factors were considered in arriving at an overall rating for the bank.

As of September 30, 1998, the bank reported total assets of \$47.6 million, with net loans and leases representing 84.3 percent of total assets. Significant portions of the bank's loans consist of 1-4 family residential loans, business loans, and motor vehicle loans to individuals. The following table reflects the bank's loan mix as of September 30, 1998.

Distribution of Total Loans¹		
Credit Product Type	Amount in 000s	Percentage of Total Loans
All Real Estate Loans	\$22,798	65.5%
Construction and Development	\$3,772	10.8%
Commercial Real Estate	\$5,846	16.8%
Multifamily Residential	\$625	1.8%
1-4 Family Residential	\$11,605	33.3%
Farmland	\$950	2.7%
Commercial and Industrial	\$9,192	26.4%
Loans to Individuals	\$2,838	8.1%
Totals Loans	\$34,828	100%

As part of the CRA assessment, the bank's performance was evaluated in relation to the performance of its competitors. Three financial institutions were identified as regional competitors with asset sizes ranging from \$40.5 million to \$265.4 million.

DESCRIPTION OF ASSESSMENT AREA

The bank's assessment area is comprised of 50 census tracts within Pulaski County (see Appendix A), which is in the Little Rock Metropolitan Statistical Area (MSA 4400). Based on 1990 census tract data, the total population of the assessment area is

¹ For purposes of this distribution, total loan information is derived from gross loans and leases data as of September 30, 1998 on the Consolidated Report of Condition and Income.

203,366. The following table reflects the number and population of the census tracts within the assessment area in each income category.²

Assessment Area Census Tract Information by Income Level					
1990 Census Data	Low-	Moderate-	Middle-	Upper-	TOTAL
Distribution of Census Tracts	2 4.0%	16 32.0%	20 40.0%	12 24.0%	50 100%
Population Residing in Each Income Category of Census Tract	4,141 2.0%	51,503 25.3%	74,124 36.5%	73,598 36.2%	203,366 100%

The above table demonstrates that Pinnacle Bank's assessment area contains 2 low-income census tracts, 16 moderate-income census tracts, 20 middle-income census tracts and 12 upper-income census tracts. Although the assessment area contains two low-income census tracts, one of the tracts (24.02) contains no population or households based on 1990 census information.

As of the 1990 census, the medium family income for the assessment area was \$33,355, compared to the MSA median family income of \$31,598. The following table displays population percentages of the assessment area families by income level, compared to the MSA population as a whole.

Assessment Area Population of Families by Income Level					
1990 Census Data	Low-Income	Moderate-Income	Middle-Income	Upper-Income	TOTAL
Assessment Area	10,680	8,554	10,868	23,351	53,453
	20.0%	16.0%	20.3%	43.7%	100%
MSA 4400	27,572	25,279	31,638	54,888	139,377

² Low-income is defined as individual income, or in the case of a geography, a median family income that is less than 50 percent of either the MSA median family income or the statewide nonmetropolitan median family income.

Moderate-income is defined as individual income, or in the case of a geography, a median family income that is at least 50 percent and less than 80 percent of either the MSA median family income or the statewide nonmetropolitan median family income.

Middle-income is defined as individual income, or in the case of a geography, a median family income that is at least 80 percent and less than 120 percent of either the MSA median family income or the statewide nonmetropolitan median family income.

Upper-income is defined as individual income, or in the case of a geography, a median family income that is 120 percent or more of either the MSA median family income or the statewide nonmetropolitan median family income.

	19.8%	18.1%	22.7%	39.4%	100%
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The assessment area family population percentages are similar to that of the entire MSA. Although the majority of assessment area census tracts are middle- and upper-income geographies, LMI families comprise over one-third of the assessment area families and are dispersed throughout the assessment area.

According to the September 1998 newsletter published by the Arkansas Employment Security Department, major industries within the assessment area were the services industry (29.3 percent), trade-related industries (23.1 percent) and the government sector (19.4 percent). These three industries combine to provide 71.8 percent of available employment opportunities. Currently, unemployment is estimated at 3.4 percent.

According to a community contact whose organization promotes affordable housing and community development, conditions appear to be eroding for LMI families in the area. The city continues to become increasingly economically segregated. The most economically disadvantaged areas of the city are considered the central, eastern, and southeastern segments. The community contact claims that these areas continue to decline due to the westward movement of the population.

CONCLUSIONS WITH RESPECT TO THE PERFORMANCE TESTS:

The bank's performance was evaluated under the CRA small bank performance standards. Loan information was taken from statistical samples of motor vehicle and residential real estate² loans originated in 1998, and small business loans originated in the last six months prior to the examination. The performance standards evaluate:

- The geographic distribution of loans;
- The bank's lending to borrowers of different income levels and businesses of different sizes;
- The bank's average loan-to-deposit ratio;
- The overall level of lending within the assessment area; and
- Any written complaints since the last examination.

Geographic Distribution

As noted above, the bank's assessment area includes 50 census tracts composed of two low-income, sixteen moderate-income, twenty middle-income, and twelve upper-income census tracts. The following table depicts the distribution of sampled motor vehicle, residential, and small business loans across these geographies.

² Residential real estate includes home purchase and refinancing loans.

Distribution of Loans (Number and Dollar Volume in 000s) Inside Assessment Area by Income Level of Census Tract					
Loan Type	Census Tract Income Classification				TOTAL
	Low-	Moderate-	Middle-	Upper-	
Motor Vehicle	0 0.0%	1 2.4%	8 19.5%	32 78.0%	41 100%
	\$0 0.0%	\$16 2.1%	\$121 15.8%	\$630 82.1%	\$767 100%
Residential	0 0.0%	3 7.0%	15 34.9%	25 58.1%	43 100%
	\$0 0.0%	\$144 2.7%	\$1,617 30.3%	\$3,572 67.0%	\$5,333 100%
Small Business	0 0.0%	1 2.5%	18 45.0%	21 52.5%	40 100%
	\$0 0.0%	\$44 0.9%	\$2,157 46.0%	\$2,484 53.0%	\$4,685 100%
Total	0 0.0%	5 4.0%	41 33.1%	78 62.9%	124 100%
	\$0 0.0%	\$204 1.9%	3,895 36.1%	6,686 62.0%	10,785 100%
Population Percentage Residing in Census Tract	2.0%	25.3%	36.5%	36.2%	100%

As depicted in the table, for each of the three loan products reviewed, the bank had negligible lending to LMI areas. Overall, the bank originated only 5 (or 4.0 percent) of 124 loans reviewed in moderate-income geographies and no loans in low-income census tracts. By dollar volume, only 1.9 percent of the bank's loans was extended in LMI geographies. When these figures are compared to the population percentage of 27.3 residing in LMI census tracts, the bank's record of making loans in LMI tracts is poor. Conversely, over 62.0 percent of originations were made in upper-income census tracts, where only 36.2 percent of the population reside. Based on these numbers, the statistical review of the distribution of loans across the assessment area reveals that they are not dispersed in a reasonable manner. Therefore, the geographic distribution of the bank's loans does not meet the standards for satisfactory performance.

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

Residential and motor vehicle loans were reviewed to determine the level of penetration among borrowers of different income levels. Borrower income levels were compared against the 1998 MSA median family income level of \$43,500. Similarly, the number

and dollar amount of small business loans originated by the bank were evaluated as well as the distribution of small business loans to businesses of various revenue sizes. The following table shows the distribution of 1998 residential and motor vehicle loans by income level of the borrower, across the assessment area.

Distribution of Loans (Number and Dollar Volume in 000s) Inside Assessment Area by Income Level of Borrower					
Loan Type	Borrower Income Classification				TOTAL
	Low-	Moderate-	Middle-	Upper-	
Motor Vehicle	2 5.0%	2 5.0%	8 20.0%	28 70.0%	40 100%
	\$14 1.9%	\$7 1.0%	\$122 16.9%	\$581 80.2%	\$724 100%
Residential	3 7.0%	5 11.6%	7 16.3%	28 65.1%	43 100%
	\$137 2.6%	\$346 6.5%	\$458 8.6%	\$4,393 82.4%	\$5,334 100%
TOTAL	5 6.0%	7 8.4%	15 18.1%	56 67.5%	83 100%
	\$151 2.5%	\$353 5.8%	\$580 9.6%	\$4,974 82.1%	\$6,058 100%
Assessment Area Family Population	20.0%	16.0%	20.3%	43.7%	100%

As the table indicates, the bank originated 14.4 percent of its motor vehicle and residential loans (or 8.3 percent by dollar volume) to LMI borrowers. In comparison, 36.0 percent of the assessment area family population are LMI. By way of comparison, over 30 percent of all the 1997 HMDA reportable loans originated by lenders in the Little Rock MSA were made to LMI borrowers³, indicating a demand for this type of lending by this segment of the population. Based on these comparisons and the absence of any impediments to the bank's ability to lend, the distribution of consumer loans reflects a poor penetration to borrowers of different income levels, particularly LMI borrowers.

While the distribution of consumer loans to borrowers of different income levels needs improvement, the bank's record of lending to small businesses (those with gross annual revenues of less than \$1 million) is satisfactory. The following table reflects the distribution of small business loans by gross annual business revenue and loan amount.

Lending Distribution by Business Revenue Level

³ This information was derived from 1997 Aggregate HMDA data.

Gross Revenue	Loan Origination Amount (in 000s)			TOTAL
	≤\$100	<100≥250	>250≤1,000	
Less Than \$1 Million	21 60.0%	6 17.1%	1 2.9%	28 80.0%
\$1 Million or Greater	3 8.6%	0 0.0%	4 11.4%	7 20.0%
TOTAL	24 68.6%	6 17.1%	5 14.3%	35 100%

The bank makes a significant number of loans to small businesses (80 percent) and in amounts less than \$100,000. In comparison, only 51 percent of the total business loans originated in the MSA by all lenders were made to small businesses.⁴ Despite this strong performance, the poor distribution of consumer loans to LMI borrowers is significant. Consequently, the bank does not meet the standards of satisfactory performance for this performance criterion.

Loan-to Deposit Ratio

Pinnacle Bank's loan-to-deposit ratio exceeds the standards for satisfactory performance.

Loan to Deposit Ratio Competitor Analysis			
Name	Asset Size ⁵ (in 000s)	Headquarters	Average Loan to Deposit ⁶
Pinnacle Bank	\$47,619	Little Rock, Arkansas	89.0%

⁴ This information was derived from 1997 Aggregate CRA lending data.

⁵ The bank's total assets as of the September 30, 1998, Consolidated Reports of Condition and Income.

⁶ This figure represents a seven-quarter average dating back to March of 1997.

Regional Bank Competitors	\$265,472	Little Rock, Arkansas	80.6%
	\$50,290	Little Rock, Arkansas	61.5%
	\$40,506	Little Rock, Arkansas	92.3%

The loan-to-deposit ratio for Pinnacle Bank’s regional competitors ranged from 61.5 percent to 92.3 percent. In comparison to local competitors, Pinnacle Bank’s lending level is considered strong. While the bank’s level of overall lending is commendable, as previously discussed, its significance is diminished by the lack of loan penetration to LMI borrowers and geographies.

Lending in the Assessment Area

Pinnacle Bank’s lending within the assessment area exceeds the standards for satisfactory performance.

A review of statistical samples of motor vehicle loans, residential lending and business loans revealed that a substantial majority of the bank’s loans were originated within the assessment area.

The following table identifies, by loan type, the number, dollar volume and percentage of loans originated inside the assessment area.

Distribution of Lending Inside Assessment Area					
Loan Type	Number in Assessment Area		Dollar Amount in Assessment Area		TOTAL Number/Dollars
Motor Vehicle	41	80.4%	\$766,295	80.5%	51 \$951,386
Home Purchase & Refinance	43	86.0%	\$5,332,723	88.5%	50 \$6,022,373
Small Business	40	80.0%	\$4,684,000	81.2%	50 \$5,765,000
TOTAL	124	82.1%	\$10,783,018	84.6%	151 \$12,738,759

As illustrated in the table above, 124 (or 82.1 percent) of the 151 loans sampled were originated within the bank's assessment area. By dollar volume, 84.6 percent of the loans sampled were originated inside the assessment area.

Review of Complaints

No CRA-related complaints have been received since the bank has been in operation.

Additional Information

A fair lending analysis was performed to assess compliance with the Equal Credit Opportunity Act and the Fair Housing Act. The analysis concluded that the bank is in compliance with the substantive provisions of the antidiscrimination laws and regulations.

PUBLIC DISCLOSURE

Pinnacle Bank
Census Tracts within Assessment Area

Census Tract	Income Classification
1.00	Middle
2.00 – 5.00	Moderate
6.00	Middle
7.00 – 8.00	Moderate
9.00	Middle
10.00 – 14.00	Moderate
15.00	Middle
16.00 – 17.00	Upper
18.00 – 19.00	Moderate
20.01	Middle
20.02	Moderate
21.01	Upper
21.02	Middle
22.01 – 23.00	Upper
24.02	Low
24.03	Middle
24.04	Upper
24.05 – 24.06	Middle
40.01	Low
40.03 – 40.04	Middle
40.05	Moderate
41.03 – 41.06	Middle
41.07	Moderate
41.08	Middle
42.01 – 42.03	Middle
42.05 – 42.06	Upper
42.07	Middle
42.08	Upper