

**REGULAR MEETING
OF THE
ARKANSAS STATE BANKING BOARD
OCTOBER 15, 2015**

A regular meeting of the Arkansas State Banking Board was held in the conference room of the Arkansas State Bank Department, 400 Hardin Road, Suite 100, Little Rock, Arkansas, at 10:00 a.m. on October 15, 2015. The following Board Members were present: Gary Hudson and Zach McClendon. Chairman Elizabeth Bowles and Board Members Lana Hampton and Gary Smith were called by phone and participated in the meeting by conference call. Representing the State Bank Department were Commissioner Candace A. Franks, Deputy Commissioners Luther Guinn and Susannah Marshall, Assistant Deputy Commissioner Michael Saunders, General Counsel Amanda Andrews, Certified Examinations Manager John Ashby, Certified Bank Senior Examiner Kevin Mosley, Administrative Analyst Barbara Mahoney, and Examiners Kelly Davis, Adam Chase, Wesley Mathis, and Wynne Morgan. Zac Harper from the Governor's office was also in attendance. Lynn LaSalle from Bushman Court Reporting was the recording reporter for the applicant.

Commissioner Franks opened the meeting. Secretary Luther Guinn declared a quorum was present. Commissioner Franks then asked the visitors and guests to stand and introduce themselves and state who they represent. In attendance were Randy Dennis with DD&F Consulting Group; Gary Hudson, Greg Connell, Brad Chambless, and Patricia Townsend, with The Farmers and Merchants Bank. She then turned the meeting over to Chairman Elizabeth Bowles.

First on the agenda was consideration of the Minutes of the September 24, 2015 Special Board Meeting. A motion was made by Zach McClendon, seconded by Gary Smith, to approve the Minutes as presented. Motion carried and the Commissioner concurred.

Next on the agenda was an application by The Farmers and Merchants Bank, Stuttgart, Arkansas, to merge The Bank of Fayetteville, Fayetteville, Arkansas, with and into The Farmers and Merchants Bank, Stuttgart, Arkansas. Vice-Chairman Gary Hudson requested and received permission to be recused from voting on the application. Mr. Hudson represented and spoke for the application.

Mr. Hudson stated the holding companies involved are The Farmers and Merchants Bankshares, Inc. and Bankshares of Fayetteville, Inc., and both holding companies only have one entity in them. Mr. Hudson stated The Farmers and Merchants Bank was chartered in 1945 and is basically an agricultural bank in southeast Arkansas that purchased First National Bank of Marianna and then Chart Bank. Mr. Hudson stated The Bank of Fayetteville was chartered in 1987 and is about \$340 million. Mr. Hudson stated that the asset quality of The Bank of Fayetteville is extremely clean. Mr. Hudson stated there are many of the products and services of The Bank of Fayetteville that are somewhat different than The Farmers and Merchants Bank and plans are to take the best of both banks, put them together, and be able to serve customers in a manner to which they have not been accustomed.

Mr. Hudson stated that pursuant to the statutes, there are five criteria for approval. The merger must provide an adequate capital structure and after consolidation, capital will be a little bit over 9 percent; the terms of the merger must be fair and the price is a premium of \$10,750,000, with KPW offering a favorable fairness opinion; the merger is not contrary to the public interest, as can be seen in the application with no overlap of customers and consumers, 130 miles between the actual closest branches, and four senior officers, with the exception of CEO Mary Beth Brooks, will stay on after the merger; the merger adequately provides for dissenters' rights with an all-cash transaction and holding companies of both banks have approved the merger transaction; requirements for all applicable state and federal laws to be complied with, and Mr. Hudson stated they have

filed the application with the Federal Reserve Bank of St. Louis. Mr. Hudson stated they hope to close around November 30, 2015.

Mr. Hudson stated one thing that is not similar is they have a Fiserv computer system and The Bank of Fayetteville has the Jack Henry system. Mr. Hudson stated plans are to run those two systems concurrently until the proposed transfer over The Bank of Fayetteville into Fiserv around May 20, 2016. Mr. Hudson stated plans are to keep The Bank of Fayetteville name and they have applied for a fictitious name to use after the collapse of the charter. Mr. Hudson stated there are several things that are happening within the bank once they reach a billion dollars. Mr. Hudson stated plans are to have on-site loan review with one or two people, as well as continuing the off-site loan review through Bankers Assurance. Mr. Hudson stated plans to enhance the compliance and audit departments and to add additional staff in those areas. Mr. Hudson stated they have hired BKD to assist with FDICIA.

Mr. Hudson stated they have asked The Bank of Fayetteville Board of Directors to stay on as an advisory board and anticipate all except CEO Mary Beth Brooks to stay on. Mr. Hudson stated that the advisory board would remain in place at least through June 30, 2016, and then some have indicated not to continue past that date and additional advisory board members from northwest Arkansas would be sought.

Mr. Zach McClendon asked about the cost savings as a result of consolidating bookkeeping, etc. Mr. Hudson stated there were seven people involved in the IT area and they are in a separate building off Wedington that is only being utilized about 30 to 40 percent. This building is being rented for \$13,000 a month and contracted through May 2017. Mr. Hudson stated they would be able to move the IT function back into the main bank there off the square, with a savings of \$150,000 - \$160,000 annually on rental once that contract goes away. Mr. Hudson stated there will be some reductions as far as salary is concerned because they won't need all of those folks, but will have probably three.

Mr. Hudson stated they were going to have to enhance their product with Fiserv, probably to the tune of somewhere around \$500,000 annually, but will be reducing the amount of money with Jack Henry, so there will probably be a 25 percent reduction in overall cost for the IT. Mr. Hudson stated they were not going in with a razor blade and start slashing and cutting because there are competent people there and one of the major things of this transaction is the talent pool in northwest Arkansas is much deeper than where they are, and they have had a hard time not only getting talent to come in, but to retain it, because they want to move back to where they were.

Mr. McClendon asked how many stockholders they have. Mr. Hudson stated 414. Mr. McClendon asked how many stockholders Fayetteville has. Mr. Hudson stated 400, and one of the things to be considered is potentially selling some stock whether it be treasury or unissued common stock.

Mr. Gary Smith asked if any of the board members from The Bank of Fayetteville would be asked to serve on the board. Mr. Hudson stated at this point, probably not, but there is a chance that could happen, and there has not been any serious interest of the existing board members to come on the board. Mr. Hudson stated there may be one exception to that.

Mr. McClendon asked what the percent of the largest stockholder in Stuttgart is. Mr. Hudson stated two stockholders exceed 10 percent of the stock and the Board of Directors control 20 to 22 percent.

A motion was made by Gary Smith, seconded by Zach McClendon, to approve the application, the motion carried and the Commissioner concurred.

Being no further business, a motion was made by Gary Smith, seconded by Zach McClendon, to adjourn. Motion carried.

L. Elizabeth Bowles
ELIZABETH BOWLES, CHAIRMAN
State Banking Board

ATTEST:

Luther Guinn
LUTHER GUINN, Secretary
State Banking Board

Candace A. Franks
CANDACE A. FRANKS
Bank Commissioner

DRAFT

Board Members in Attendance:

L. Elizabeth Bowles
ELIZABETH BOWLES, Chairman
State Banking Board

12-16-15
Date

Gary Hudson
GARY HUDSON, Vice-Chairman
State Banking Board

12-16-15
Date

Zach Mc Clendon
ZACH McCLENDON, Member
State Banking Board

12/16/15
Date

Gary Hudson
GARY HUDSON, Member
State Banking Board

12/16/15
Date

LANA HAMPTON, Member
State Banking Board

Date

Gary Smith
GARY SMITH, Member
State Banking Board

12/16/15
Date