



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

January 05, 2009

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The First National Bank of Monterey

Charter Number 9784

Main Street
Monterey, IN 46960

Office of the Comptroller of the Currency

Cleveland/Detroit Field Office
3 Summit Park Drive Summit Office Park, Suite 530
Independence, OH 44131-6900

NOTE: This document is an evaluation of this 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. 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.

INSTITUTION'S CRA RATING: This institution is rated Satisfactory.

The assigned rating is based on the following conclusions:

- The First National Bank of Monterey (FNB of Monterey) has a reasonable geographic distribution of commercial/business (business) and farm/agriculture (farm) loans throughout the assessment area (AA). The bank exhibited an excellent dispersion of single family residential mortgage loans throughout the AA, including two moderate-income census tracts in the AA.
- The bank's loan-to-deposit ratio is reasonable in light of the bank's size, financial condition, and AA credit needs.
- FNB of Monterey lending to farms and businesses of different sizes reflects a good performance. The bank's performance of lending to individuals of different income levels including low- and moderate-income people is excellent.
- A substantial majority of loans made are in the bank's AA.

SCOPE OF EXAMINATION

We evaluated FNB of Monterey's performance under the Community Reinvestment Act (CRA) small bank criteria. We focused on the following five main factors: lending to borrowers of different incomes and to businesses of different sizes, lending in and outside the AA, loan-to-deposit ratio, geographic distribution of loans, and responses to complaints.

We evaluated the bank's three main loan products including farm loans, business loans, and single family residential mortgage loans. We took a sample of 25 farm real estate loans, 25 business loans, and 30 first lien single family residential mortgage loans from calendar years 2006, 2007, and 2008. Our business loan sample included non-real estate loans to farmers. We placed more weight on business and farm lending than single family residential mortgage lending due to the dollar amount of loans originated and/or number of loans made during the evaluation period. We also took into consideration an internal CRA analysis done by the bank.

DESCRIPTION OF INSTITUTION

The bank is a \$240.7 million intrastate financial institution headquartered in the City of Monterey, which is located in the northwest part of Indiana. There are no other financial institutions in Monterey and the bank plays a vital financial role for its citizens.

In addition to the main office, the bank has three branch offices located in Winamac, Culver, and North Judson. There have been no branch closings since the previous CRA evaluation performed in the third quarter of 2003. The Winamac office is located in a moderate-income

census tract. The business strategy is to provide a broad range of loan products, an array of checking and savings account services with competitive returns, and a variety of other financial services such as trust, vault facilities, debit cards, internet banking, and ATM machines.

As of December 31, 2008, the bank reported \$145.8 million in outstanding loans reflecting net loans and leases to total asset of 59.8 percent. To help meet community needs the bank offers a variety of loan products including residential, consumer, agriculture/farm, and commercial/business loans. The bank offers loans under the Farm Service Agency (FSA) government program. The loan portfolio consists of the following (see table 1):

Table 1 FNB of Monterey Loan Portfolio as of December 31, 2008 (reported 000)		
Farm/Agriculture Loans	\$58,350	40.0%
Commercial/Business Loans	\$54,157	37.2%
Single Family Residential Mortgage Loans	\$27,473	18.8%
Consumer Loans	\$4,749	3.3%
Other Miscellaneous Loans	\$1,066	0.7%
Total Loans Outstanding	\$145,795	100.0%

Data Source: Internal Bank Report.

There are no legal impediments, which would affect the bank’s ability to serve the community. Capital ratios are well above regulatory requirements and have no negative impact on the bank’s ability to lend. The previous CRA evaluation was performed in the third quarter of 2003 and resulted in a CRA rating of Satisfactory.

DESCRIPTION OF ASSESSMENT AREA

This AA of small towns and rural areas consists of 16 census tracts including all of Pulaski County (4 census tracts), the southern two-thirds of Starke County (6 census tracts), the southern third of Marshall County (2 census tracts), and the northwest portion of Fulton County (4 census tracts). There are no low-income census tracts and two moderate-income census tracts. The remaining AA represents middle-income tracts.

The FNB of Monterey is one of 15 financial institutions within the AA area that also includes five regional banks, nine community banks, one savings and loan, and a number of credit unions. The number of financial institutions in the AA helps to provide a competitive banking environment. According to the September 30, 2008 Federal Deposit Insurance Corporation (FDIC) report, FNB of Monterey is ranked third in the four counties of Marshall, Pulaski, Starke, and Fulton with a 13.9 percent deposit share.

Local economic conditions are worse than many other counties in the State of Indiana with the exception of Pulaski County. The local area has continued to experience reduction in workforce. The local area unemployment rate is higher than the State of Indiana. The unemployment rate

for September 2008 was 5.5 percent for Pulaski County, 6.2 percent for Fulton County, 7.5 percent for Starke County, and 7.6 percent for Marshall County. The State of Indiana reported a statewide unemployment rate of 5.8 percent as of September 2008. The national unemployment rate for the same period was 6.0 percent. Major employers in the area include Braun Corporation, Plymouth Tube Company, Lau Industries, Culver Academy, Rochester Metal Products Corp., and Pioneer Hybrid International. The communities the bank serves are comprised of a large number of farms.

The 2008 HUD weighted average median family income is \$53,200 for the AA. A review of demographic information for the AA disclosed 12.5 percent of the total owner occupied housing units and 13.4 percent of population are located in the two moderate-income census tracts. Based on demographic information 98.3 percent of the farm businesses and 63.0 percent of non-farm businesses had revenue of \$1 million or less. Table 2 below provides further demographic information for the bank’s AA.

Table 2 Demographic Information for Assessment Area						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	16	0.0	12.5	87.5	0.0	0.0
Population by Geography	57,350	0.0	13.4	86.6	0.0	0.0
Owner-Occupied Housing by Geography	17,230	0.0	12.5	87.5	0.0	0.0
Non-Farm Businesses by Geography	3,978	0.0	14.4	85.6	0.0	0.0
Farms by Geography	659	0.0	9.7	90.3	0.0	0.0
Family Distribution by Income Level	15,859	18.8	21.1	25.9	34.2	0.0
Distribution of Low- and Moderate-Income Families throughout AA Geographies	6,323	0.0	16.6	83.4	0.0	0.0
Median Family Income	\$45,666	<u>Unemployment Rate -September 2008 (Not Seasonally Adjusted)</u> Pulaski County 5.5% Fulton County 6.2% Stark County 7.5% Marshall County 7.6% State of Indiana 5.8% United States 6.0%				
HUD Updated Median Family Income for 2008	\$53,200					
Households Below the Poverty Level	9.2%					

DataSource: 2000 U.S. Census and 2008 Business Geodemographic Data.

For this evaluation, we conducted three community contact interviews, two with economic development organizations and one with a real estate company. The interviews disclosed a great need to retain and create more jobs for the local area. One interviewee stated that banks in general could do a better job of periodically communicating to local real estate companies their different lending product offerings.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

FNB of Monterey CRA performance is satisfactory. The bank exhibits some aspects of a strong CRA performance, but needs to make greater efforts to attain a higher rating. A substantial majority of loans made are in the bank's AA. FNB of Monterey's record of originating loans reflected a reasonable dispersion for farm and business loans and an excellent dispersion for residential mortgage lending in the AA. The bank's loan-to-deposit ratio over the evaluation period is reasonable. The bank exhibited a good performance of lending to farms and businesses of different sizes. The bank's performance of residential mortgage lending to individuals of different income levels including low- and moderate-income people is considered excellent. FNB of Monterey demonstrated good lending flexibility by granting small dollar loans of \$1,000 or less to people in the community. The majority of these loans are to low- and moderate-income people based on a loan sample.

Loan-to-Deposit Ratio

The bank's average loan-to-deposit ratio is reasonable given the bank's size, financial condition, and AA credit needs. FNB of Monterey's loan-to-deposit ratio is lower than other banks in the AA, but considered reasonable. FNB of Monterey's quarterly average loan-to-deposit ratio for the period from September 30, 2003 to September 30, 2008 was 59.7 percent. The bank's loan-to-deposit ratio has range from 49.6 percent to 71.4 percent over the evaluation period. The loan-to-deposit ratio has improved over the evaluation period. Over the past six quarters FNB of Monterey's loan-to-deposit ratio has averaged 67.2 percent. The loan-to-deposit ratio for three other institutions in the AA with total assets of \$275 million or less was 78.4 percent as of September 30, 2008. These three institutions reported a loan-to-deposit ratio of 75.5 percent, 79.5 percent, and 80.2 percent. The bank has increased its commercial leasing activity to help improve the bank's loan volume.

Lending in Assessment Area

A substantial majority of loans are made in FNB of Monterey's AA. The loan sample of business loans, farm loans, and single family residential mortgage loans disclosed 88.2 percent of the number of loans and 87.4 percent of the dollar amount of loans were made in the bank's AA. This is further supported by the bank's internal analysis which found 85.5 percent of all loans granted between October 1, 2007 and September 30, 2008 were made in the bank's AA.

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

FNB of Monterey has demonstrated a good performance of lending to farms and businesses of different sizes. The bank's performance of residential mortgage lending to individuals of different income levels including low- and moderate-income people is considered excellent.

A sample of farm real estate loans disclosed the bank granted the vast majority of farm loans to borrowers with revenues of \$1 million or less. A sample of 22 loans made in the bank's AA found 95.4 percent of the number of loans and 94.3 percent of the dollar amount were to farms with revenues of \$1 million or less. Although this is slightly below the demographic information of farms in the AA with revenues of \$1 million or less, it still reflect a good lending performance

given the high percentage (see table 3).

Table 3 - Borrower Distribution of Farm Real Estate Loans in FNB of Monterey's AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Farm Businesses	98.3%	0.9%	0.8%	100%
% of Bank Loans in AA by #	95.4%	4.6%	0.0%	100%
% of Bank Loans in AA by \$	94.3%	5.7%	0.0%	100%

Source: Loan Sample and 2008 Business Geodemographic Data.

A sample of 22 business loans disclosed 81.8 percent of the number and 64.6 percent of the dollar amount of loans were granted to commercial borrowers with revenue of \$1 million or less. These figures are above the demographics of businesses with revenue of \$1 million or less, and reflect a good performance. It should be noted 33.4 percent of the revenue information for businesses was not available (see table 4).

Table 4 - Borrower Distribution of Loans to Businesses in FNB of Monterey's AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Non-Farm Businesses	63.0%	3.6%	33.4%	100%
% of Bank Loans in AA by #	81.8%	18.2%	0.0%	100%
% of Bank Loans in AA by \$	64.6%	35.4%	0.0%	100%

Source: Loan Sample and 2008 Business Geodemographic Data.

FNB of Monterey has demonstrated an excellent performance of lending to borrowers of different income levels, including low- and moderate-income people. A sample of 31 residential mortgage loans disclosed 22.6 percent were made to low-income borrowers and 29.0 percent were made to moderate-income borrowers. Both these figures are above the percentage of families that are low- and moderate-income, and reflect an excellent lending performance (see table 5).

The bank's willingness to lend to low- and moderate-income borrowers is further supported by an internal analysis of various loan types which disclosed 25 percent were made to low-income people and 23 percent were made to moderate-income people between October 1, 2007 and September 30, 2008.

Table 5 - Borrower Distribution of Residential Real Estate Loans in FNB of Monterey's AA								
Borrower Income Level	Low < \$26,599		Moderate \$26,600 - \$42,559		Middle \$42,560 - \$63,839		Upper > \$63,840	
	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Residential Real Estate Loans	18.8%	22.6%	21.1%	29.0%	25.9%	19.4%	34.2%	29.0%

Source: Loan sample; 2000 US Census, and 2008 HUD Updated Median Family Income data.

Geographic Distribution of Loans

FNB of Monterey has a reasonable geographic distribution of business and farm loans and an excellent performance of single family residential mortgage loans throughout the AA. The percentage of business loans made in moderate-income tracts was 13.6 percent, which is comparable with the percentage of businesses in moderate-income tracts of 14.4 percent. This reflects a satisfactory performance in lending in moderate-income areas. The sample of farm loans disclosed a number of farmers had farm land in more than one census tract which made it difficult to perform an analysis. However, our overall observations concluded FNB of Monterey is serving the farming community well, including the two moderate-income census tracts in the bank's AA. The percentage of single family residential mortgage loans made in moderate-income tracts of 22.6 percent was significantly above the percentage of owner occupied housing in moderate-income tracts of 12.5 percent, which reflect an excellent performance. An internal bank analysis from October 1, 2007 through September 30, 2008 provided additional support that the bank is lending in all of its census tract areas.

Responses to Complaints

There were no consumer complaints relating to the bank's CRA performance during the evaluation period.

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.