



SMALL BANK

Comptroller of the Currency
Administrator of National Banks
Washington, DC 20219

PUBLIC DISCLOSURE

October 04, 2004

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First Neighbor Bank, National Association
Charter Number 13682**

**101 North Meridian
Toledo, IL 62468**

**Comptroller of the Currency
Champaign Field Office
3001 Research Road Suite E2
Champaign, IL 61822**

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 Outstanding.

- **The distribution of loans reflects, given the demographics of the assessment area, good penetration among individuals of different income levels (including low- and moderate-income) and businesses of different sizes.**
- **A substantial majority of the loans are originated within the bank's assessment area.**
- **The bank's loan-to-deposit ratio is more than reasonable based on the institution's size, financial condition, and assessment area's credit needs.**

DESCRIPTION OF INSTITUTION

First Neighbor Bank, NA (FNB) is a \$192 million intrastate institution headquartered in Toledo, Illinois. Toledo, the county seat of Cumberland County, is located in East Central Illinois. This institution is owned by First Neighborhood Bancshares, a one-bank holding company.

FNB operates branch facilities in Greenup, Casey, Charleston, Neoga, and Newman. FNB offers deposit taking ATMs at all locations for customer convenience. The Greenup, Neoga, and Newman branches became branches after the prior Community Reinvestment Act (CRA) examination. The Greenup and Newman branches were acquired by merging Greenup National Bank and Newman State Bank, which were affiliates of the bank into FNB. FNB has not closed a branch since the prior examination.

FNB offers a full range of retail and commercial banking products normally associated with a community bank. Net loans were \$144 million on June 30, 2004, or 75% of total assets. The following represents this institution's loan and lease portfolio mix as of June 30, 2004:

Commercial	\$68.2 million	47%
Agricultural related	\$24.2 million	16%
Residential Real Estate	\$37.9 million	26%
Consumer Installment	\$15.7 million	11%

During 2002 and 2003, the bank originated 2,565 loans. According to bank reports, 1,028 of these loans were consumer installment credits. Real estate loans made up 1,054 credits; however, this includes commercial real estate and residential real estate. The remaining credits were commercial or agricultural.

The bank offers standard loan products to the community. Additional loan products that the bank offers include Farm Service Administration (FSA) guaranteed loans, Small Business Administration (SBA) loans, and Rural Development Loans (USDA guaranteed).

Tier one capital totals \$19 million. There were no financial, legal, or other impediments that would hinder the bank's ability to help meet the credit needs of its assessment area. Bank activities are consistent with the bank's size, its financial capability, local economic conditions,

and credit needs of the community. The bank was rated “Satisfactory” at its last CRA examination on May 17, 1999.

DESCRIPTION OF THE ASSESSMENT AREAS

FNB has two assessment areas that will be combined for evaluation, as both are nonMSA areas (not located in a Metropolitan Statistical Area) in Illinois. The first assessment area consists of: Cumberland County, all of Coles County (with the exception of two eastern census tracts), and a west census tract in Clark County. According to the 1990 census data, 10 of the assessment area’s 14 census tracts are middle-income areas, one census tract on the northeast side of Mattoon was moderate-income, and three census tracts were upper-income. Demographics from the 2000 Census differ from the 1990 data as 12 out of the 14 census tracts are middle-income tracts, one is an upper-income tract, and one census tract in Charleston is a moderate-income tract.

The second assessment area includes the eastern census tract of Douglas County and an adjacent census tract in Edgar County. Both census tracts were designated middle-income in both census years.

Both assessment areas conform to the regulation and do not arbitrarily exclude low- or moderate-income areas. The following demographic information for the combined assessment areas is based on census data:

Table 1 – Demographic Information for Assessment Area (AA)		
	1990 Census Data	2000 Census Data
Population:	66,522	67,984
Housing Stock: <i>1-4 family housing units</i>	80%	79%
Occupancy: <i>owner-occupied, renter-occupied, vacant</i>	62%, 30%, 8%	60%, 32%, 8%
Home Values: <i>Median home value</i>	\$42,618	\$68,649
Age of Homes: <i>Median year of homes built</i>	1957	1959
Family Income Levels (%): <i>Low-, moderate-, middle-, upper-income</i>	18%, 18%, 22%, 42%	18%, 18%, 23%, 41%
Household Income Levels (%): <i>Low-, moderate-, middle-, upper-income</i>	26%, 15%, 19%, 40%	27%, 17%, 18%, 38%
Updated Income: 2002 HUD Non-MSA Illinois median family income was \$46,700. 2003 HUD Non-MSA Illinois median family income was \$48,200.		
Based on 2003 Business demographic data, 98% of the farms in the assessment area are small farms. Sixty-six percent of businesses in the assessment area are small businesses. (It is important to note that 29% of the businesses in the assessment area did not report revenue.)		

The local economy is stable and driven by agriculture. In addition to the Mattoon-Charleston area, some residents in the southern portion of the first assessment area commute to Effingham for employment. In the second assessment area, some residents commute to Champaign-Urbana for employment. Some of the major employers in the area are Eastern Illinois University, Sarah

Bush Lincoln Healthcare, Lake Land College, RR Donnellys, and Materfoods. Smaller manufacturers, local governments, and school systems comprise some of the other employers in the assessment area. July 2004 unemployment rates are: 5.2% for Clark County, 5.5% for Coles County, 6.6% for Cumberland County, 4.0% for Douglas County, and 4.1% for Edgar County. The state unemployment rate was 6.2%, compared to the national rate of 5.7%.

FNB faces competition from community banks and larger regional and national banks within its assessment areas. Twenty financial institutions, with a total of 39 locations, are located within the bank’s assessment areas.

A local housing authority official was contacted during this examination. According to the contact, local community banks are meeting community credit needs.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

This review concentrated on the bank’s primary loan products, which based on origination information provided by the bank, included consumer, residential, and commercial loans. We utilized 2002 and 2003 originations to evaluate the bank’s performance. 1990 and 2000 census data was utilized for evaluating residential and consumer loans originated in 2002 and 2003, respectively.

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

The overall distribution of loans reflects, given the demographics of the assessment area, more than reasonable penetration among individuals of different income levels (including low- and moderate-income) and businesses of different sizes.

Commercial Loans

The bank’s performance of lending to businesses of different sizes is reasonable compared to the area’s demographics. Seventy percent of the number of business loans (52% of the dollars) originated in the assessment areas during 2002 and 2003 were made to small businesses. Demographic data shows that 66% of the businesses in the assessment areas are small businesses. Small businesses are businesses with annual gross revenues of less than one million dollars. The following table shows the distribution of commercial loans among businesses of different sizes within the assessment area:

Table 2 - Borrower Distribution to Businesses in AAs				
Business Revenues (or Sales)	<= \$1,000,000	> \$1,000,000	Unavailable	Total
% of AA Businesses	66.19%	5.13%	28.68%	100.00%
% of Bank Loans in AA by #	70.00%	15.00%	15.00%	100.00%
% of Bank Loans in AA by \$	52.67%	31.60%	15.73%	100.00%

Residential Refinance Loan Originations

Given the demographics of the assessment area, the distribution of loans originated reflects more than reasonable penetration among individuals of different income levels (including low- and moderate-income).

The bank’s 2002 performance of refinancing residential real estate loans to low-income families is less than reasonable compared to demographic data. However, the bank’s 2003 performance of refinancing residential loans to low- income borrowers is reasonable compared to demographic data. The bank’s performance of refinancing residential real estate loans to moderate-income families is more than reasonable compared to the demographic data. The following tables show the distribution of residential refinance real estate loan originations among borrowers of different income levels within the assessment area:

Table 3 - Borrower Distribution of Residential Refinance Real Estate Loans in AAs								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% 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
2002 Sample	18.37%	10.00%	17.52%	30.00%	22.37%	40.00%	41.74%	20.00%
2003 Sample	17.82%	15.00%	18.23%	30.00%	22.99%	30.00%	40.96%	25.00%

Consumer Loan Originations

The distribution of loans reflects, given the demographics of the assessment area, more than reasonable penetration for originating consumer loans to individuals of different income levels (including low- and moderate-income).

The bank’s 2002 performance in originating consumer loans to low- income borrowers is significantly favorable compared to demographic data. The bank’s 2003 performance of originating consumer loans to low-income borrowers is reasonable compared to demographic data. The bank’s 2002 performance of originating consumer loans to moderate-income households is reasonable. The bank’s 2003 performance of originating consumer loans to moderate-income borrowers is significantly more than reasonable. The following tables show the distribution of consumer loan originations among borrowers of different income levels within the assessment area:

Table 4 - Borrower Distribution of Consumer Loans in AAs

Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
2002 Sample	25.70%	31.58%	14.70%	15.79%	19.20%	31.58%	40.40%	21.05%
2003 Sample	27.00%	25.00%	17.10%	40.00%	18.40%	20.00%	37.50%	15.00%

Lending in Assessment Area

A substantial majority of the loans are originated within the bank's assessment areas. Based on a sample of twenty loans from each of the three main products originated in 2002 and 2003, 90% of the loans were made in the assessment areas. See the following table for more information.

Table 5 - Lending in AAs

Type of Loan	Number of Loans					Dollars of Loans (000's)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
1-4 Family Refinance Mortgage Loans	18	90.00%	2	10.00%	20	\$1,137	89.32%	\$136	10.68%	\$1,273
Consumer Loans	18	90.00%	2	10.00%	20	\$180	96.76%	\$6	3.24%	\$186
Commercial Loans	20	90.91%	2	9.09%	22	\$3,561	90.81%	\$360	9.19%	\$3,921
Totals	56	90.32%	6	9.68%	62	\$4,878	90.66%	\$502	9.34%	\$5,380

Loan-to-Deposit Ratio

The bank's loan-to-deposit ratio is more than reasonable based on the institution's size, financial condition, and assessment area's credit needs. During the past twenty-two quarters, FNB's loan-to-deposit ratio has averaged 83%. This average ratio is favorable compared to the 73% quarterly average for the four banks headquartered in Clark, Coles, Cumberland, Douglas, or Edgar counties, with total assets between \$100 million and \$250 million.

Geographic Distribution of Loans

A geographic distribution analysis was not performed, as both the 1990 and 2000 census identified only one moderated-income census tract in the assessment areas. The assessment area does not include any low-income census tracts.

Responses to Complaints

FNB has not received any complaints about its performance in helping to meet assessment area needs during this evaluation period.

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of illegal discrimination or other illegal credit practices.