



PUBLIC DISCLOSURE

December 18, 2014

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First Neighbor Bank, National Association
Charter Number 13682

101 North Meridian
Toledo, IL 62468

Office of the Comptroller of the Currency

Harris Center
3001 Research Road
Champaign, IL 61822-1089

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 major factors supporting this rating include:

- The borrower distribution of loans represents excellent penetration to borrowers of different income levels and businesses of different sizes, given the demographics of the assessment area (AA).
- The geographic distribution of loans represents excellent dispersion in all income levels of census tracts located in the bank's AA.
- The bank's loan-to-deposit ratio is more than reasonable based on the institution's size, financial condition, AA credit needs, and competition.
- The bank originated a substantial majority of the primary product loans within the AA.

SCOPE OF EXAMINATION

We evaluated the bank under the small bank performance standards, which entailed a review of the bank's records of meeting the credit needs of the AA through lending activities. The evaluation period for this review is from February 1, 2011, to December 22, 2014. The bank's business and lending strategies have not changed since the previous evaluation.

An analysis of the number and dollar volume of loan origination information supplied by the bank identified the bank's primary loan products for this evaluation period to be business and residential real estate loans. As primary loan products have not changed since the prior examination, our analysis utilized a sample of business and residential real estate loans originated between January 1, 2012, and December 31, 2013. Our sample included 20 business and 20 residential real estate loans originated during the loan sample period. For our analysis, we utilized 2010 U.S. Census data, updated FFIEC Median Family Income, 2013 Business Geodemographic data, and FDIC deposit market share data as of June 30, 2014. There is no affiliate activity considered in this evaluation.

DESCRIPTION OF INSTITUTION

First Neighbor Bank, N.A., (FNB) is a \$296 million intrastate institution headquartered in Toledo, Illinois. Toledo is the county seat of Cumberland County, which is located in East Central Illinois. First Neighbor Bancshares, a one-bank holding company, owns FNB.

In addition to the main location, FNB has branches in Casey, Charleston, Neoga, Greenup, Newman, and Mattoon, Illinois. The bank opened the Mattoon branch at a temporary location on December 13, 2012, until the permanent branch was built and opened in May 2014. The Mattoon branch is located in a moderate-income census tract. All bank locations have deposit-taking ATMs at their locations offering 24-hour access. FNB offers retail non-deposit investment sales; accounting, payroll, and tax preparation services; crop insurance sales; and remote banking services. While FNB offers standard loan products, it also offers Farm Service Administration guaranteed loans (farm, municipal, etc.), Small Business Administration loans, and Rural Development loans (USDA guaranteed). FNB offers secondary market mortgage

loans through Freddie Mac to help meet the needs of the community. The bank also participates in the Downpayment Plus program through the Federal Home Loan Bank of Chicago.

As of September 30, 2014, net loans totaled \$221 million, representing 75 percent of total assets. Tier 1 capital totaled \$36 million. The bank’s business strategy during the evaluation period has been to grow the loan portfolio within the AA. The financial condition of the bank does not impede its ability to meet the credit needs of the area. The bank received a Satisfactory rating on its last CRA performance evaluation dated January 31, 2011. The following table represents the bank’s loan portfolio mix as of September 30, 2014:

Loan Type	Percent of Total Loans
Residential Real Estate	54.51%
Commercial	22.97%
Farm	13.63%
Consumer	8.57%
Other	0.32%

**Source: September 30, 2014 Uniform Bank Performance Report*

DESCRIPTION OF ASSESSMENT AREA(S)

FNB has one AA that is comprised of 25 census tracts. All of Cumberland, Coles, Clark, and Douglas counties are included in the AA, as well as census tract # 0702.00 of Edgar County. The census tract in Edgar County is adjacent to the Newman Branch. The AA includes no low-income, two moderate-income, 22 middle-income, and one upper-income census tracts. Since the previous evaluation, one census tract in Coles County was redesignated as moderate-income. All geographies are in non-metropolitan statistical areas (MSA) within the state of Illinois. This AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income areas.

The population of the AA is 103,227. All middle-income census tracts in Coles County are considered distressed non-MSA areas due to poverty. Eighty-three percent of the housing stock is 1-4 family units and 62 percent of the housing stock is owner occupied housing. The following demographic information for the AA is based on 2010 census data:

Demographic Information for the AA					
	#	% Low	% Moderate	% Middle	% Upper
Geographies (Census Tracts)	25	0.00	8.00	88.00	4.00
Owner-Occupied Housing by Geography	28,220	0.00	7.36	88.09	4.55
Businesses by Geography	6,718	0.00	13.92	82.87	3.22
Family Distribution by Income Level	25,772	0.00	8.54	87.17	4.28
Households below poverty level	16.88%				
2010 Median Family Income (MFI)	\$55,684				

Source: 2010 U.S. Census Data

The local economy is stable and supported by agriculture and small business. Small businesses are defined as those with annual gross revenues of \$1 million or less; and account for 71.33 percent of total businesses in the AA. Businesses reporting revenues over \$1 million represent 3.90 of AA businesses, with the remaining 24.77 percent not reporting revenue data.

Non-farm employment opportunities within the AA are greatest in the Mattoon-Charleston area, which is home to several large employers, including RR Donelley & Sons, Consolidated Communications, Rural King, General Electric, Sarah Bush Lincoln Health Center, Eastern Illinois University, Lake Land Community College, and local school districts. In addition, many residents commute to Champaign and Effingham in Illinois, and Terre Haute, Indiana, for additional employment opportunities. Shown below are October 2014 unemployment rates for the AA counties, state, and country:

Clark County	7.3
Coles County	6.3
Cumberland County	6.6
Douglas County	5.8
Edgar County	7.3
Illinois	6.2
USA	5.8

*Source: Bureau of Labor Statistics

Beginning in 2013, the Federal Financial Institutions Examination Council (FFIEC) identified Coles County as a distressed community, due to poverty levels. The determination is based on results from the U.S. Census Bureau Small Area Income and Poverty Estimates (SAIPE), completed in 2012. The key variable identified in the study is the “estimated percent of people of all ages in poverty”. The results of the five-year study showed Coles County had a 19.8 percent poverty rate for persons of all ages, compared to 14.6 percent and 15.8 percent at the state and national levels respectively. The bank’s Mattoon and Charleston branches are located in Coles County.

Bank competition within the AA is strong with 35 institutions serving the AA counties. These institutions include several larger regional and national institutions. Out of those 35 institutions, First Neighbor Bank holds the second largest market share of deposits at 10 percent. A regional \$1.5 billion institution holds the largest deposit market share at 24 percent. Loan competition, particularly for new, quality credits, is strong.

We performed one community contact with a local real estate agent, who primarily serves the Charleston and Mattoon area. The contact stated the local economy and housing market is stagnant, primarily due to low job demand in the area. The contact stated the overall credit needs of the area are being met, but also stated the changes to credit score requirements for mortgages has negatively impacted potential borrowers. The contact stated this is especially true for younger persons who do not have enough credit history built up to provide a score.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank's performance under the lending test is excellent. This review concentrated on the bank's primary loan products, which include business and residential real estate loans. FNB originated a substantial majority of their primary product loans within the AA. The loan-to-deposit ratio is more than favorable given the size of the institution and credit needs and competition within the AA. The distribution of loans reflects excellent penetration to borrowers of different income levels and businesses of different sizes. Geographic dispersion with respect to residential real estate and commercial loans within the AA is excellent.

Loan-to-Deposit Ratio

The bank's loan-to-deposit ratio is more than reasonable given the institution's size, financial condition, and AA credit needs. The bank's average loan-to-deposit ratio for the preceding 15 quarters was 78.89 percent, with a high of 90.06 percent at September 30, 2014, and low of 73.14 percent.

The bank's loan-to-deposit ratio is more than reasonable compared to six similarly situated institutions. These six institutions have an average loan-to-deposit ratio of 70.61 percent for the same 15 quarters. The similarly situated institutions are located in or near the AA, and have total assets ranging between \$200 million and \$429 million. The comparison banks' average low and average high loan-to-deposit ratios are 54.06 percent and 93.26 percent, respectively. FNB has the second highest average loan-to-deposit ratio of the six institutions reviewed.

Lending in Assessment Area

The bank originated a substantial majority of loans sampled within the AA. Our sample of 40 loans showed that the bank originated 90 percent of the number of loans and 78 percent of the dollar volume of loans to borrowers within the AA:

Table 1 - Lending in the AA										
Type of Loan	Number of Loans					Dollars of Loans (000's)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
RE - Home Purchase	18	90.00%	2	10.00%	20	\$1,211	83.52%	\$239	16.48%	\$1,450
Commercial Loans	18	90.00%	2	10.00%	20	\$1,606	73.63%	\$575	26.37%	\$2,181
Totals	36	90.00%	4	10.00%	40	\$2,817	77.57%	\$814	22.43%	\$3,631

**Source: Sample of 20 residential real estate, and 20 business loans originated between January 1, 2012 and December 31, 2013*

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

The borrower distribution of loans represents excellent penetration to borrowers of different

income levels and businesses of different sizes, given the demographics of the AA.

Residential Real Estate Loans

The distribution of residential real estate loans reflects excellent penetration among borrowers of different income levels. Originations to both low- and moderate-income borrowers are excellent and significantly above the demographic comparators.

Table 2 - Borrower Distribution of Residential Real Estate Loans in AA									
Borrower Income Level	Low		Moderate		Middle		Upper		Unavailable
	% 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	% of Number of Loans
% of Total	18.72%	25.00%	20.40%	35.00%	20.85%	25.00%	40.03%	15.00%	0.00%

Sources: Sample of 20 residential real estate loans originated between 1/1/2012 and 12/31/2013 made within the AA and 2010 US Census data

Commercial Loans

The distribution of loans to businesses reflects excellent penetration among businesses of different sizes. The bank originated 80 percent of the number of business loans and 75 percent of the dollar of business loans in the AA to small businesses, as compared to 76 percent of small businesses located in the AA. Small businesses are businesses with annual gross revenues of \$1 million or less. It should be noted that two of three loans originated to businesses with revenues above \$1 million in our sample are to businesses located in Coles County, which was designated a distressed community by the FFIEC in 2013. It is important to recognize that some of the businesses that did not report revenues in the demographic data are likely also small businesses. The following table illustrates the borrower distribution of business loan originations in the AA by revenues and by loan size:

Table 2A - Borrower Distribution to Businesses in the AA				
Business Revenues (or Sales)	<= \$1,000,000	> \$1,000,000	Unavailable	Total
% of AA Businesses	71.33%	3.90%	24.77%	100.00%
% of Bank Loans in AA by #	80.00%	15.00%	5.00%	100.00%
% of Bank Loans in AA by \$	75.88%	7.12%	17.00%	100.00%

Source: Sample of 20 business loans originated between January 1, 2012 and December 31, 2013, and 2013 Business Geodemographic Data.

Geographic Distribution of Loans

The geographic distribution of loans represents excellent dispersion throughout census tracts of different income levels, given the demographics of the AA. Since the previous evaluation period, one census tract was reclassified as moderate-income. This significantly increased the number of owner occupied housing units in moderate-income tracts within the AA from 144 to

2,076 Overall, the AA consists of two moderate-income tracts, 22 middle-income tracts, and one upper-income tract.

Residential Real Estate Loans

The geographic distribution of residential real estate loans has excellent dispersion among the various census tract income levels. FNB originated 20 percent of loans sampled to borrowers located within moderate-income tracts, which compares favorably to the demographic comparator of owner occupied housing in moderate-income tracts of 7.36 percent.

Table 3 - Geographic Distribution of Residential Real Estate Purchase Loans in the AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
% of Total	0.00%	0.00%	7.36%	20.00%	88.09%	80.00%	4.55%	0.00%

Source: Sample of 20 residential real estate loans originated between January 1, 2012, and December 31, 2013, and 2013 Geodemographic Data.

Commercial Loans

The geographic distribution of business loans reflects excellent dispersion throughout the census tracts of different income levels. There are no conspicuous gaps in lending within the AA. Originations in moderate-income census tracts exceeds the demographic comparator.

Table 3A - Geographic Distribution of Commercial Loans in the AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
% of Total	0	0.00%	13.92%	15.00%	82.87%	75.00%	3.22%	10.00%

Source: Sample of 20 business loans originated between January 1, 2012, and December 31, 2013, and 2013 Geodemographic Data.

Responses to Complaints

FNB did not receive any complaints about its performance in helping to meet the AA needs during this evaluation period.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 CFR 25.28(c), in determining a national bank's CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank, or in any assessment area by an affiliate whose loans have been considered as part of the bank's lending performance. We did not identify any evidence of discriminatory or other illegal credit practices inconsistent with helping meet the credit needs of the AA.