

PUBLIC DISCLOSURE

April 12, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First National Bank of Arcola
Charter #2204**

**P.O. Box 100
Arcola, Illinois 61910-0100**

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

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 financial supervisory agency 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 CRA performance of **First National Bank of Arcola** prepared by Office of the Comptroller of the Currency, the institution's supervisory agency, as of April 12, 1999. Our assessment of the bank's performance covers the period since June 9, 1997. The rating received at that time was "Satisfactory Record of Meeting Community Credit Needs". The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 C.F.R. Part 25.*

INSTITUTION'S CRA RATING

This institution is rated **Satisfactory Record of Meeting Community Credit Needs.**

This rating is supported by the following:

- C The bank has a good record of lending to small farms and small businesses.
- C The bank has a good record of providing consumer credit and real estate loans to low- and moderate-income individuals.
- C A substantial majority of the bank's loans are within its assessment area.

This rating is based on analyses of the bank's lending performance from June 9, 1997 - March 31, 1999. The lending performance test includes analyses of the distribution of credit to borrowers of different incomes and businesses of different sizes, the bank's average loan-to-deposit ratio, the volume of total lending within the bank's assessment area, and the bank's level of compliance with Fair Lending laws and regulations.

DESCRIPTION OF INSTITUTION

First National Bank of Arcola is a \$101 million institution headquartered in Arcola with two full service branches located in Tuscola and Arthur. Arcola is a community of approximately 2,700 located in Douglas County in east central Illinois on Interstate 57 and Illinois Route 133, approximately 30 miles south of Champaign and 15 miles north of Mattoon.

The bank is owned by a group of 66 individual shareholders.

The bank's loan portfolio totals approximately \$24 million. The loan mix at March 31, 1999 was as follows:

Residential Real Estate Loans	38%
Agriculture Loans	27%
Commercial Loans	26%
Consumer Loans	9%

As shown in *Table 1*, loan originations from a number standpoint have been centered in consumer, agricultural, and commercial credit. From a dollar standpoint, originations have been centered in agricultural and commercial credit, which are the bank's primary product focus. The table shows the breakdown of loan originations made from June 9, 1997 through March 31, 1999. A total of 1,308 loans were made, with the dollar volume being \$21,519,639.

Total Originations Since June 9, 1997		
Table 1		
Type of Loans	Number Made	Dollar Amount Made
Residential Real Estate	118	\$4,708,386
Consumer	664	\$3,033,084
Agricultural	300	\$6,259,800
Commercial	226	\$7,518,369
Total	1,308	\$21,519,639

Discussions with a local real estate agent support that extensive local banking services and credit accessibility are available. Two recent community contacts conducted by the OCC, in the assessment area, were also reviewed and no specific credit needs were identified as not being met by the local financial institutions.

The bank has no financial or legal impediments that restrict it from meeting the credit needs of its local community.

DESCRIPTION OF ASSESSMENT AREA

The bank's assessment area consists of five Block Numbering Areas (BNAs) in Douglas County, two BNAs in Moultrie County, and two BNAs in Coles County. Based on 1990 census data, eight of the BNAs in the bank's assessment area are designated middle-income and one is designated as upper-income. The following demographic information for the assessment area is based on 1990 census data:

Housing Stock:	85% of the housing units are 1-4 family.
Occupancy:	70% are owner occupied, 22% are renter occupied, and 6% are vacant. va
Home Values:	Median home value is \$45,400.
Age of Homes:	Median year of homes built is 1957.
Income Levels:	16% of families are designated low-income, 17% are moderate-income, 23% are middle-income, and 44% are upper-income.

The local economy is stable and is driven by agriculture, tourism, and light industry. The largest employers include Littlefuse, Cap and Gown, and Libman Broom.

Competition is very strong among 16 financial institutions located throughout Douglas, Moultrie, and Coles counties. Competition includes the branches of two much larger financial institutions with assets exceeding \$550 million. In addition, the cities of Arcola and Tuscola each participate in Tax Increment Financing (T.I.F.) Districts which retain a portion of state sales and real estate tax revenues to be used to make loans and grants to local businesses. Both towns also actively participate in other various state sponsored grant and loan programs for businesses.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

LENDING TO BORROWERS OF DIFFERENT INCOMES AND TO BUSINESSES OF DIFFERENT SIZES

First National Bank of Arcola satisfactorily extends credit to consumers of all income levels, and satisfactorily extends credit to smaller-sized agricultural and commercial borrowers within its assessment area. Sixteen percent of the population in the bank's assessment area is considered low-income, with an additional seventeen percent classified as moderate-income. Income levels used in our analysis are based on the 1998 nonmetropolitan median family income for Illinois, which is \$39,500 and the 1997 nonmetropolitan median family income of \$37,600. (Our sample included originations from 1999, 1998, and 1997. The applicable year's median family income was used in our analysis.)

Agricultural and Commercial Loan Analysis

Since the bank does not routinely collect revenue information for all business and farm loans, an analysis of the data would not be meaningful. Therefore, loan size was used as a proxy for business or farm size.

The bank's record of lending to small farms is good. As shown on *Table 2*, all loans sampled in the assessment area were for amounts less than \$250,000.

AGRICULTURAL LOANS Proforma Distribution to Various Farm Sizes Table 2				
<i>Loan Size</i>	<i># of Loans</i>	<i>%</i>	<i>\$ of Loans</i>	<i>%</i>
Less than \$100,000	14	74%	\$271,502	27%
\$100,001 -250,000	5	26%	\$717,500	73%
More than \$250,000	0	0%	\$0	0%
Totals	19	100%	\$989,002	100%

Source: This table based on a sample of agricultural loans originated in the bank's assessment area between 6/9/97 and 3/31/99.

The bank's record of lending to small businesses is good. As shown on *Table 3*, 100% of the number and 100% of the dollars of the loans sampled in the assessment area were for amounts less than \$100,000.

COMMERCIAL LOANS Proforma Distribution to Various Business Sizes Table 3				
<i>Loan Size</i>	<i># of Loans</i>	<i>%</i>	<i>\$ of Loans</i>	<i>%</i>
Less than \$100,000	19	100%	\$368,609	100%
\$100,001 -250,000	0	0%	\$0	0%
\$250,001-500,000	0	0%	\$0	0%
More than \$500,000	0	0%	\$0	0%

Totals	19	100%	\$368,609	100%
--------	----	------	-----------	------

Source: This table based on a sample of commercial loans originated in the bank's assessment area between 6/9/97 and 3/31/99.

Mortgage Loan Analysis

The bank's record of real estate lending is good. As illustrated in *Table 4*, our analysis of a residential real estate loan sample indicated that the bank provides home loans to low- and moderate-income borrowers at a level exceeding the population's characteristics: 17% of the number and 17% of the dollars of residential real estate loans were made to low-income borrowers, while 44% of the number and 46% of the dollars were to moderate-income borrowers.

REAL ESTATE LOANS					
Proforma Distribution of Borrowers' Income Levels					
Table 4					
<i>Income Level</i>	<i># of Loans</i>	<i>%</i>	<i>\$ of Loans</i>	<i>%</i>	<i>% of Families in Each Category</i>
Low - Income Less than 50% of Median	3	17%	\$87,476	17%	16%
Moderate - Income 50% - 79% of Median	8	44%	\$241,181	46%	17%
Middle - Income 80%-119% of Median	4	22%	\$105,666	20%	23%
Upper - Income 120% or more of Median	3	17%	\$86,792	17%	44%
Totals	18	100%	\$521,106	100%	100%

Source: This table is a proforma analysis based on a sample of real estate loans originated in the bank's assessment area between 6/9/97 and 3/31/99.

Consumer Loan Analysis

First National Bank of Arcola originates retail loans to individuals of different income levels in more than reasonable proportion to the area's income characteristics. As shown in *Table 5*, the amount of installment loans made to low- and moderate-income borrowers was good. Our analysis indicates that 45% of the number and 17% of the dollars of installment loans were made to low-income borrowers, and 32% of the number and 54% of the dollars were made to moderate-income borrowers.

INSTALLMENT LOANS					
Proforma Distribution of Borrowers' Income Levels					
Table 5					
<i>Income Level</i>	<i># of Loans</i>	<i>%</i>	<i>\$ of Loans</i>	<i>%</i>	<i>% of Families in Each Category</i>
Low - Income Less than 50% of Median	10	45%	\$11,702	17%	16%
Moderate - Income 50% - 79% of Median	7	32%	\$37,828	54%	17%
Middle - Income 80% - 119% of Median	5	23%	\$19,891	29%	23%
Upper - Income 120% or more of Median	0	0%	\$0	0%	44%
Totals	22	100%	\$69,421	100%	100%

Source: This table is a proforma analysis based on a sample of consumer installment loans originated in the bank's assessment area between 6/9/97 and 3/31/99.

LOAN-TO-DEPOSIT RATIO

The bank's loan-to-deposit (LTD) ratio is less than reasonable given the institution's size, financial condition, and assessment area credit needs. During the assessment period, the bank's net loan-to-deposit ratio ranged from 25% to 28% and averaged 26%. While marginally improved from the last assessment time period, this ratio is well below the LTD ratio of four area banks with assets between \$50 and \$150 million. At March 31, 1999 the loan to deposit ratios for these institutions ranged from 55% to 72% and averaged 60% for the assessment time period. While the bank's LTD ratio has been gradually increasing, the LTD for the peer banks reflects a declining trend beginning in 1998. The bank's loan to deposit ratio has been low in recent years, in part due to a branch acquisition of \$20 million in deposits in early 1996 and a very successful premium rate certificate of deposit program offered in 1997. The bank's LTD ratio is also affected by aggressive competition from other banks in the assessment area which utilize the secondary market to offer 30 year fixed rate mortgages and participate in indirect auto loan programs. The city sponsored grant and loan programs, as well as the T.I.F. Districts' activities, also impact the bank's lending opportunities.

The effect of the bank's low loan-to-deposit ratio on the over all CRA rating is mitigated by the large number of small dollar loans made to people of low- and moderate-incomes and to small farms and businesses. For example, 148 or 22% of the consumer loans originated during this assessment period were for amounts less than \$1,000. The bank has recently started to actively market specific loan products, rather than relying solely on name recognition. Management also recently started offering private mortgage insurance to enable customers to obtain 90% financing on home purchases. In addition, the bank provides recordkeeping and managerial services, as well as financial donations, to

the Arcola Foundation. Started by the bank in 1975, this charitable, non-profit organization has grown to more than \$5 million. One of the organization's projects includes donating land in an industrial park to bring businesses to the community. It also works with the City of Arcola to sponsor various grant and loan programs for businesses.

LENDING IN THE ASSESSMENT AREA

A substantial majority of loans originated are within the assessment area. As illustrated in *Table 6*, our analysis of a sample of loans revealed that 89% of the dollar amount, and approximately 87% of the number of loans, were made inside the bank's assessment area.

LOAN PENETRATION ANALYSIS				
Table 6				
<i>Type of Loan</i>	<i>Within Assessment Area</i>		<i>Outside Assessment Area</i>	
Residential Real Estate	\$521,106	89%	\$64,781	11%
	18	86%	3	14%
Commercial Loans	\$368,609	99%	\$5,500	1%
	19	95%	1	5%
Agricultural Loans	\$989,002	86%	\$162,000	14%
	17	81%	4	19%
Installment Loans	\$69,421	98%	\$1,545	2%
	22	88%	3	12%
Total	\$1,948,138	89%	\$233,826	11%
	76	87%	11	13%

Source: This table is a proforma analysis using the following sample: 21 agricultural loans, 20 commercial loans, 21 residential real estate loans, and 25 installment loans. This sample covered the time period of 6/9/96 - 3/31/99.

GEOGRAPHIC DISTRIBUTION OF LOANS

A review of the geographic distribution of loans would not be meaningful since all of the BNAs in the assessment area are middle- and upper-income.

COMPLIANCE WITH FAIR LENDING LAWS

During our examination we sampled 43 installment loans made in March 1999 and 24 first lien residential real estate loans made between October 1998 and March 1999 to determine if borrowers were fairly accorded loan terms. We found no evidence to indicate that the bank was not complying with the substantive provisions of the anti-discriminatory laws and regulations. There is no evidence of practices to discourage individuals from applying for credit. The bank generally solicits credit applications from all segments of its assessment area.

WRITTEN COMPLAINTS

First National Bank of Arcola has not received any written complaints about its performance in helping to meet the credit needs within its assessment area.