



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

August 4, 2003

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The First National Bank in Carlyle
Charter Number 14268**

**891 Fairfax Street
Carlyle, IL 62231**

**Comptroller of the Currency
St. Louis Field Office
2350 Market Street, Suite 100
St. Louis, MO 63103**

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.

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INSTITUTION'S CRA RATING

This institution is rated Satisfactory.

All the lending performance components meet the standards for satisfactory performance. The major factors that support this rating are:

- The bank's lending distribution to borrowers of different income levels is good based on the demographics of the community and credit needs of the assessment area (AA).
- The bank's record of lending to farms of different revenue sizes is reasonable based on our sample of farm-related loans.
- Loans are reasonably distributed by geography classification.
- The level of lending is reasonable. The bank's average loan-to-deposit ratio is 56%. Although below its peer group, the bank's loan-to-deposit ratio meets the standards for satisfactory performance given the demographics, economic factors, and competitive pressures faced by the bank.
- A substantial majority of the bank's loans extended during this evaluation period were originated within the bank's AA.

DESCRIPTION OF INSTITUTION

The First National Bank in Carlyle (FNB) is wholly owned by First National Bancorporation, a one-bank holding company located in the city of Carlyle, Illinois. As of December 31, 2002, FNB had total assets of \$113 million, net loans of \$44 million, total deposits of \$95 million, and total risk based capital of \$16 million. FNB assets represent substantially all of the holding company's assets; there are no subsidiaries or affiliates. There have been no changes in the bank's corporate structure since the last CRA evaluation.

FNB is primarily an agricultural and residential real estate lender that operates two offices and two depository automated teller machines (ATMs), all located in Clinton County. The main office is located in downtown Carlyle, Illinois; the branch is located at the north edge of town. The depository ATMs are located at each of the branches. Management has neither opened nor closed any branches during this evaluation period.

FNB offers traditional bank services and loan products normally associated with a community bank. As of December 31, 2002, net loans totaled \$44 million, representing 39% of total assets. The loan portfolio consisted of 50% farm real estate/agriculture production, 36% residential real estate, 8% commercial real estate/business, and 6% consumer loans. Agriculture-related and residential real estate loans represent the substantial majority of the loans originated during this evaluation period.

There are no legal or financial constraints placed on the bank's ability to meet the community credit needs. The bank has adequate resources to provide for the credit needs of its assessment area. The type and amount of CRA activities are consistent with the bank's size, its financial capacity, local economic conditions, and the credit needs of the community.

FNB's last CRA evaluation was January 28, 1998, and we rated the bank Satisfactory.

DESCRIPTION OF ASSESSMENT AREA

Management designated Clinton County as its AA. This is a contiguous area, meets the requirements of the regulation, and does not arbitrarily exclude low- or moderate-income geographies.

Clinton County is a Metropolitan Statistical Area (MSA) and is comprised of six census tracts (CTs): 9001, 9002, 9003, 9004, 9005, and 9006. Based on the 1990 MSA median family income, five CTs or 83% are classified as middle-income and one CT or 17% is classified as moderate-income. The bank's main office and branch are both located in moderate-income CT 9004.

The 1990 census data shows that the total population in Clinton County was 33,944, which included 8,838 families. Of these families, 1,755 or 20% were classified as low-income, 1,869 or 21% as moderate-income, 2,790 or 32% as middle-income, and 2,424 or 27% as upper-income. FNB's main office and branch are located in downtown Carlyle, Illinois, and it is the primary municipality in the moderate-income CT 9004. Based on the 1990 census data, the total population in CT 9004 was 6,762, which included 1,939 families. Of these families, 564 or 29% were classified as low-income, 413 or 21% as moderate-income, 577 or 30% as middle-income, and 385 or 20% as upper-income.

The MSA median family income as of the 1990 Census was \$37,995, and the 2002-updated figure (adjusted for inflation by the Department of Housing and Urban Development) is \$61,400. We used the 2002-updated figure in our analysis to determine the borrower income levels.

Based on the 1990 census data for the AA, 14% of the population is age 65 and over, 17% of households are in retirement, and 9% of households live below the poverty level. Approximately 6,792 people live in and near the downtown area of Carlyle where the main bank and branch are located. The Carlyle area (CT 9004) is experiencing sluggish business growth and a shrinking and aging population, with a notable percentage of households (14%) living below the poverty level. The downtown area is primarily supported by small retail trade and service-related businesses.

In 1990, the median housing value for the AA was \$54,369 and the median age of the housing stock was 24 years. Local housing for the AA was 79% 1-4 family units, with 72% being owner-occupied. The median housing value for CT 9004 was \$50,400 and the median age of the housing stock was 23 years. Local housing for CT 9004 was 70% 1-4 family units, with only 59% being owner-occupied. It should be noted that 19% of the housing units are vacant. Carlyle has a diverse economy along with outstanding recreation including 45 acres of beautiful

parks, championship golf courses, and the recreational attractions of Carlyle Lake. Services, retail trade businesses, tourism, and agriculture primarily support the local economy. Carlyle is home to the largest man-made lake in the state of Illinois. The 26,000 acre Carlyle Lake attracts numerous visitors and offers many activities including fishing, sailing, boating, camping, hunting, hiking, swimming, etc. In addition, the completion of the new resort has had a positive economic impact on Carlyle.

Economic conditions in Clinton County are stable, with unemployment slightly lower than that of the state of Illinois. The August 2003 seasonally unadjusted unemployment rates for Clinton County and Illinois are 6.4% and 6.7%, respectively. These ratios are comparable to the national unemployment rate of 6.0%. Major employers in Clinton County are St. Joseph's Hospital, with 400 employees; Arrow Group Industries, Inc., with 250 employees; Breese Journal, with 150 employees; Jim's Tuxedo Rental & Supply, with 190 employees; Pulsar Plastics, Inc., with 125 employees; Carlyle Health Care, with 125 employees; B & M Manufacturing, Inc., with 122 employees; Haag Foods & Poultry, with 100 employees; Quip Industries, Inc., with 90 employees; HMG, with 75 employees; and Rail Bearing Service, with 60 employees. About 9% of the labor force in Clinton County is self-employed farmers.

Competitive pressures are strong and primarily come from six local banks and three large regional banks, which have branches located in Clinton County. Together, the competitors have eighteen branches located in Clinton County. This number does not include the array of credit unions, mortgage companies, farm services, and insurance company offices that now offer loan products.

Management indicated the primary credit needs of Clinton County are residential real estate loans, home equity lines of credit, consumer personal loans, and farm-related loans. To further our understanding of the community's credit needs, we performed a community contact with a local government official knowledgeable about the community. Our contact stated that Carlyle is thought of as somewhat of a retirement community. He believes the reason it is hard to attract/retain young people is due to the lack of services in town. For example, Carlyle does not have a recreation center/gym, any upscale rental units or shopping centers. Our contact did not identify any unmet credit needs and feels that the local banks are adequately involved in the community. However, he stated that the area could benefit from more effort devoted to the Economic Development Council.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

FNB does a satisfactory job of meeting the credit needs of its AA, including those of low- and moderate-income people and small farmers, given the performance context, demographics, economic factors, and competitive pressures faced by the bank. Please refer to the "Description of Institution" and "Description of Assessment Area" sections of this evaluation for details on these performance context factors.

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

The bank's lending distribution to farms of different revenue sizes is reasonable. The bank's lending distribution to borrowers of different income levels is good.

During this evaluation period, FNB's primary loan products were farm-related loans and residential real estate loans by dollar and residential real estate loans and consumer loans for various purposes by number. An analysis of the consumer loan portfolio was not performed. Such an analysis would not have been meaningful, as the consumer loan portfolio comprises only 6% of the bank's total loan portfolio by dollar.

Using only loans made in the AA, we sampled 20 farm-related loans and reviewed all Home Mortgage Disclosure Act (HMDA) reportable loans originated and purchased from January 1, 2000 through December 31, 2002. As part of this CRA evaluation, we verified a sample of 15 HMDA-reportable transactions to determine the accuracy of the bank's HMDA loan application register. FNB had no significant errors in its data that would prevent an accurate evaluation of its CRA performance. The bank's publicly filed data was substantially correct and reliable.

The facts and data used to evaluate FNB's lending activity are presented in the following tables.

Farm Loans

FNB is responsive to the credit needs of small farms in its AA. During this evaluation period, the bank originated 365 farm-related loans totaling \$23.4 million. Based on the sample of 20 farm-related loans, the bank's lending to small farms is reasonable compared to the percentage (97%) of small farms within the AA. Ninety percent of the number of loans was extended to small farms. Additionally, 60% of the loans were for amounts of \$100 thousand or less.

Revenue Ranges	Lending to Farms of Different Sizes				Farms within AA	
	#	Percent	\$ (000s)	Percent	#	Percent
\$1 Million or Less	18	90%	2,743	88%	392	97%
Greater than \$1 Million	2	10%	387	12%	8	2%
Revenue Not Reported	0	0%	0	0%	3	1%

Sources: Bank records, and Dun & Bradstreet 2002

Residential Real Estate Loans

During this evaluation period, the bank originated 105 home purchase loans totaling \$7.2 million; 129 home refinance loans totaling \$6.8 million; and 33 home improvement loans totaling \$692 thousand. Using only the HMDA reportable loans made within the AA, the bank originated 80 home purchase loans totaling \$5.5 million; 116 home refinance loans totaling \$5.9 million; and 31 home improvement loans totaling \$659 thousand. Based on the HMDA reportable loans made within the AA, the bank's residential lending reflected good penetration to borrowers of different income levels compared to the AA family income demographic data.

Borrower Income Level	Residential Real Estate Loans								AA Family Income
	Home Purchase		Home Improvement		Home Refinance		All Mortgage Loans		
	# of Loans	% of Loans	# of Loans	% of Loans	# of Loans	% of Loans	# of Loans	% of Loans	
Low	11	14%	5	16%	22	20%	38	17%	20%
Moderate	18	23%	5	16%	34	29%	57	25%	21%
Middle	26	32%	14	45%	36	31%	76	33%	32%
Upper	25	31%	7	23%	24	20%	56	25%	27%

The 2002 MSA median family income is \$61,400. The income categories are defined as: less than 50%, 50% to 80%, 80% to 120%, and over 120%, respectively, of \$61,400.

Sources: Bank records, and based on 1990 US Census Information

Geographic Distribution of Loans

No unexplained conspicuous gaps were identified. The bank's lending distribution to geographies of different income levels is reasonable, given the contextual factors. Our conclusion was based on the HMDA reportable loans discussed above.

The findings of this analysis are presented in the following table.

Census Tract Income Level	Percentage of Residential Real Estate Loans								% of Owner- Occupied Units in AA
	Home Purchase		Home Improvement		Home Refinance		All Mortgage Loans		
	# of Loans	% of Loans	# of Loans	% of Loans	# of Loans	% of Loans	# of Loans	% of Loans	
Low	0	0%	0	0%	0	0%	0	0%	0%
Moderate	57	71%	20	65%	82	71%	159	70%	18%
Middle	23	29%	11	35%	34	29%	68	30%	70%
Upper	0	0%	0	0%	0	0%	0	0%	0%

Sources: Bank records, and based on 1990 US Census Information

Loan-to-Deposit Ratio

FNB's loan-to-deposit (LTD) ratio is reasonable. As of December 31, 2002, the bank's LTD ratio was 47%. FNB's quarterly average LTD ratio since the 1998 CRA examination was 56%. This is comparable to six similarly situated banks in the area whose quarterly average LTD ratios ranged from 57% to 84%, with an average ratio of 70%. These banks are considered similarly situated because of their size, lending opportunities, and location. Although below the average LTD ratio for its peer group, FNB's LTD ratio is satisfactory based on the contextual factors. Please refer to the "Description of Institution" and "Description of Assessment Area" sections of this evaluation for details on these performance context factors.

FNB has experienced some loan run-off given a large number of refinancings and strong rate competition in the market. It should also be noted that since November 2002, the bank has originated and sold \$1.2 million long-term fixed-rate residential loans to the Federal Home Loan Bank. Because these loans are sold, they are not reflected in the bank's LTD ratio. This is indicative of the bank's willingness to meet community credit needs.

Lending in Assessment Area

Lending in the AA is satisfactory. A substantial majority of the bank's loans originated since the last CRA evaluation were made in the AA. We analyzed HMDA data to review residential real estate loans originated and purchased from 2000 through 2002. The data shows that 85% by number and 82% by dollar were made within the bank's AA.

Responses to Complaints

FNB has not received any complaints about its performance in helping to meet community credit needs since the last CRA examination.

Fair Lending Review

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