



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

November 17, 2003

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The First National Bank Of Arcola
Charter Number 2204**

**127 S. Oak Street, P.O. Box 100
Arcola, IL 61910**

**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 “Satisfactory”.

The major factors that support the rating are:

- The distribution of loans reflects, given the demographics of the assessment areas, reasonable penetration among individuals of different income levels (including low- and moderate-income) and businesses and farms of different sizes.
- A substantial majority of loans are in the bank’s assessment area.
- The bank’s loan-to-deposit ratio is less than satisfactory given the bank’s size, financial condition, and assessment area credit needs. However, in the last three years, the bank has sold \$16 million of secondary market loans, which helps mitigate the low loan-to-deposit ratio.

DESCRIPTION OF INSTITUTION

First National Bank of Arcola (FNB) is a \$101 million intrastate bank situated in Arcola, Illinois. Arcola is a community of approximately 2,700 located in Douglas County in east central Illinois on Interstate 57 and Illinois Route 133. Arcola is approximately 30 miles south of Champaign and 15 miles north of Mattoon. Eighty-six percent of the bank’s stock is owned or controlled by the Monahan family. FNB operates two full service branches in Tuscola and Arthur. FNB has not opened or closed any branches since the previous CRA examination. ATMs are located at all three offices for customer service and convenience; the ATMs in Arcola and Arthur accept deposits.

FNB offers a full range of retail and commercial banking products normally associated with a community bank. Net loans were \$18.9 million on June 30, 2003, and made up 18% of total assets. The bank is primarily a residential real estate lender, but does a fair amount of commercial and agricultural lending as well. Based upon the information that was available, the bank’s portfolio mix has not significantly changed during this evaluation period. The following represents this institution’s loan and lease portfolio mix as of June 30, 2003:

Residential Real Estate	\$7.2 million	37%
Commercial	\$5.7 million	29%
Agricultural Related	\$5.1 million	26%
Consumer Installment	\$1.6 million	8%

To assist local farmers, FNB lowered the rates of all farm operating lines to be equivalent to those offered by the State of Illinois Agriculture Deposit Loan program. The bank has one Farm Service Administration (FSA) guaranteed loan and has made Small Business Administration (SBA) loans in the past.

Tier one capital totals \$11.7 million. The bank does not have any financial or legal impediments restricting it from meeting the credit needs of its local community. The bank has adequate

resources to provide for the credit needs of its assessment area. The type of CRA activities is consistent with the bank's size, its financial capability, local economic conditions, and credit needs of the community. FNB's last CRA examination was April 12, 1999 and rated the bank "Satisfactory".

DESCRIPTION OF THE ASSESSMENT AREA

The bank's assessment area includes all of Douglas County, the east and north sides of Moultrie County, and north side of Coles County. The BNAs (based on 1990 data) are #0001, #0002, #9520, #9521, #9522, #9523, #9524, #9769, and #9770. This assessment area conforms to the regulation and does not arbitrarily exclude low- or moderate-income areas. Eight of the BNA's are middle-income geographies. The other one BNA is upper-income area based on 1990 census data. There are no low- or moderate-income BNAs located in the assessment area. The following demographic information on the bank's assessment area is based on 1990 census data:

Population:	35,149 people live in the assessment area.
Housing Stock:	61% of the housing units are 1-4 family.
Occupancy:	71% owner occupied, 23% renter occupied and 6% vacant.
Home Values:	The median home value is \$45,425.
Age of Homes:	The median year of homes built is 1957.
Income:	Median family income of the assessment area is \$32,898.
Income Levels:	16% of the families are low-income, 17% are moderate-income, 23% are middle-income, while 44% are upper-income.
Updated Income:	2002 HUD non-MSA Illinois median family income is \$46,700.
Small Farms:	Small farms make up 99% of the farms located in the assessment area.
Small Businesses:	Small businesses make up 93% of the businesses in the assessment area.

The local economy is stable and driven by agriculture. The area includes the only Amish settlement in Illinois. Many of the residents commute to Mattoon, Decatur, and Champaign-Urbana for employment. Some of the major employers in the area are RR Donnellys, Masterfoods (KAL Kan), Equistar Chemicals, Cabot Corp., Masterbrand Cabinet Factory, Libman Broom, and CHI Overhead Doors. Several other smaller manufacturers, local governments, and school systems make up some of the other employers found in the assessment area. September 2003 unemployment rates for Douglas, Moultrie, and Coles Counties were 4.6%, 4.9%, and 5.5%, respectively. The state unemployment rate was 7.1%, compared to the national rate of 6.1%.

There are two other banks that are headquartered in the assessment area with asset sizes between \$70 million-\$110 million. These banks are Tuscola National Bank and the State Bank of Arthur. There are a total of twelve financial institutions with offices located in the assessment area.

One community contact with a local real estate agent stated that the community's credit needs are generally met. The contact stated that if local financial institutions would participate in low down-payment real estate loan programs and offer pre-approval letters to buyers, it would be beneficial to the community. FNB does offer pre-approval letters.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

This review concentrated on the bank's primary loan products. Based upon the bank's portfolio mix, residential real estate, agricultural and commercial loans were the primary loan products. When looking at the residential real estate loans made in 2001 and 2002, refinance loans were made more often than purchase loans. Based upon this information, the primary samples used to evaluate the lending performance components were agriculture loans, commercial loans, and refinance residential real estate mortgages. In addition, purchase real estate mortgages were sampled. The samples included originations from 2001 and 2002.

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

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 and farms of different sizes.

Ninety-four percent of the dollar amount and eighty-five percent of the number of the twenty agricultural loans made within the assessment area that were sampled, were made to small farms. (The remaining 3 loans did not have income information documented in the files.) Small farms are farms with annual gross revenues of less than one million dollars. Ninety-nine percent of the farms in the assessment area have revenues of equal to or less than one million dollars. The bank's performance of lending to farms of different sizes is reasonable.

Sixty percent of commercial loans sampled in the assessment area were made to small businesses. Thirty percent of the twenty commercial loans sampled in the assessment area did not contain adequate income information to properly analyze the bank's performance. Only seventeen percent of the dollar amount sampled of the twenty commercial loans was to small businesses. The dollar amount was skewed, as one of the two loans reviewed for large businesses was over one million dollars. All other loans in the assessment area had loan amounts of \$100,000 or less. A small business is defined as those businesses with annual gross revenues of less than one million. Ninety-three percent of the businesses located in the assessment area do have revenues equal or less than one million dollars. While thirty percent of the sample did not contain income information, it is assumed with ninety-five percent of the sample being loans of \$100,000 or less, that a majority of these business are small businesses. The bank's performance of lending to businesses of different sizes is reasonable.

The following information on the bank's performance with borrowers of different incomes refers to Tables 1 & 2 on the residential real estate samples.

The bank's performance with low-income borrowers is less than favorable compared to demographic data from the 1990 census, which shows that 16% of the assessment area is made up of low-income families. However, it is important to note that 10% of the assessment area's population is below poverty level. With income that low, it is difficult to own a home. The bank's performance with moderate-income borrowers is favorable compared with demographic data. The 1990 census data shows that 17% of the assessment area is made up of moderate-

income families.

Table 1					
Refinance Residential Real Estate Loans by Income Distribution					
<u>Income Level</u>	<u>% of families in the AA</u>	<u># of Loans</u>	<u>% of #</u>	<u>\$ of Loans</u>	<u>% of \$</u>
Low-Income Less than 50% of Median	16%	2	10%	\$29,659	2%
Moderate-Income 50% - 79% of Median	17%	5	25%	\$287,800	19%
Middle-Income 80% - 119% of Median	23%	3	15%	\$187,000	12%
Upper-Income 120% or more of Median	44%	10	50%	\$1,018,433	67%

Table 2					
Purchase Residential Real Estate Loans by Income Distribution					
<u>Income Level</u>	<u>% of families in the AA</u>	<u># of Loans</u>	<u>% of #</u>	<u>\$ of Loans</u>	<u>% of \$</u>
Low-Income Less than 50% of Median	16%	1	5%	\$39,645	3%
Moderate-Income 50% - 79% of Median	17%	5	25%	\$227,700	20%
Middle-Income 80% - 119% of Median	23%	6	30%	\$213,786	19%
Upper-Income 120% or more of Median	44%	8	40%	\$652,806	58%

Lending in Assessment Area

A substantial majority of the loans being originated are within the bank's assessment area. Based upon a sample of loans (20 agricultural, 20 commercial, 20 refinance residential mortgages, and 20 purchase mortgages) originated in 2001 and 2002, 90% of the number and 87% of the dollar amount of loans were made within the bank's assessment area. The following table shows the dollar amount and the number of loans from our sample that fall within the assessment area and outside the assessment area:

Table 3 - Lending in FNB's Assessment Area

Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Agricultural	18	90%	2	10%	20	\$1,497,793	93%	\$108,000	7%	\$1,605,793
Commercial	19	95%	1	5%	20	\$1,713,656	83%	\$360,000	17%	\$2,073,656
Refinance Residential RE	19	95%	1	5%	20	\$1,461,706	94%	\$89,500	6%	\$1,551,206
Purchase Residential RE	16	80%	4	20%	20	\$804,700	74%	\$289,591	26%	\$1,094,291
Totals	72	90%	8	10%	80	\$5,477,855	87%	\$847,091	13%	\$6,324,946

Loan-to-Deposit Ratio

The bank's loan-to-deposit ratio is less than reasonable based on the institution's size and assessment area's credit needs. During the past 17 calendar quarters, FNB's loan-to-deposit ratio has averaged 30.05%. As of June 30, 2003, FNB's loan-to-deposit ratio is 21.66%. However since 2001, FNB has originated and sold \$16.2 million residential real estate loans in the secondary market. Several of these were multiple refinances to the same borrowers. When adjusting for the refinances, an additional \$11.4 million could be added to the bank's loan portfolio. The adjusted loan-to-deposit ratio is 35%. Four area competitors, with at least one location in the assessment area or bordering the assessment area, having an asset size of \$54 million to \$93 million were also reviewed. The average loan-to-deposit ratios of these four banks ranged from 59% to 75%.

Bank management stated that they are working on improving marketing in Arthur and Tuscola. Both of these branches were acquired in the mid-1990s, and were known as savings and loan institutions. Through increased marketing, senior management hopes to ensure these communities are aware of all of the commercial banking services offered by FNB.

The effect of the bank's low loan-to-deposit ratio on the over all CRA rating is mitigated by the performance in the other factors. The bank makes a large number of small dollar loans to consumers of differing income levels, in addition to small businesses and farms in the bank's assessment area. The assessment area has a lower demand for credit than typical.

Geographic Distribution of Loans

A geographic distribution analysis was not performed, as the assessment area does not include any low- or moderate-income BNAs.

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 Review

An analysis of public comments and consumer complaint information was performed according to the OCC's risk based fair lending approach. We found no evidence of illegal discrimination or other illegal credit practices. Based on its analysis of the information, the OCC decided that a comprehensive fair lending examination would not need to be conducted in connection with the CRA evaluation this year. The latest comprehensive fair lending exam was performed in 1999.