



INTERMEDIATE SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

February 22, 2011

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First National Bank of Illinois
Charter Number 14512

3256 Ridge Road
Lansing, IL 60438

Office of the Comptroller of the Currency

Chicago – Downers Grove Field Office
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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.

The Lending Test is rated: Satisfactory.

The Community Development Test is rated: Satisfactory.

- First National Bank of Illinois' (FNBI) lending to businesses of different sizes within the AAs is reasonable.
- The bank's responsiveness to community development needs within the AAs is reasonable.
- FNBI's loan-to-deposit (LTD) ratio is reasonable given the bank's size, financial condition, and AA credit needs.
- The bank's lending within their assessment area (AAs) is reasonable.

Scope of Examination

FNBI was evaluated under the Intermediate Small Bank examination procedures, which include a lending test and a community development (CD) test. The lending test evaluates the bank's record of meeting the credit needs of its AAs through its lending activities. The CD test evaluates the bank's responsiveness to CD needs within the AAs through CD lending, qualified investments, and CD services. The lending test for FNBI covers its performance from January 1, 2008, through December 31, 2010, as this is representative of its lending strategy since the last CRA examination. The evaluation period for the CD test is from October 2, 2007, through February 22, 2011.

FNBI's strategy and primary focus is on small business lending; thus, their primary loan product is small loans to businesses. For this reason an evaluation of the bank's home mortgage activity would not be meaningful. The bank reports mortgage data under the requirements of the Home Mortgage Disclosure Act (HMDA). HMDA data was tested and found to be reliable.

Description of Institution

FNBI is a nationally chartered bank headquartered in Lansing, Illinois, with total assets of \$388 million. FNBI is a wholly owned subsidiary of First Lansing Bancorp, Inc., a one-bank holding company also located in Lansing, Illinois. Through common ownership, FNBI is affiliated with Home State Bancorp, Inc. (Home State Bank, N.A).

FNBI is an interstate bank, operating seven bank offices in Illinois and one office in Indiana. The bank's business strategy is to provide its customers with a full range of products and services consistent with the community needs. As of December 31, 2010,

FNBI had total assets of \$388 million, total loans of \$217 million, and total deposits of \$344 million. The bank's loan to deposit ratio was 61 percent. The loan portfolio consists of residential real estate loans (28 percent), commercial and commercial real estate loans (38 percent), construction and development loans (31 percent), and other loans (3 percent). For the same time period, FNBI's Tier 1 Capital level was \$30 million, representing 8 percent of average assets.

There are no legal impediments to FNBI's ability to help meet the credit, investment, and service needs of its AAs. However, the bank's ability to lend during this evaluation period was impacted by weakened earnings and strong competition within the AAs. FNBI's last performance evaluation under the Community Reinvestment Act was dated October 1, 2007. The bank's overall level of performance was rated "Outstanding."

Selection of Areas for Full-Scope Review

In each state where the bank has an office, a sample of AAs within that state was selected for full-scope reviews. The bank's AA in the State of Illinois consists of geographies in both Cook County and Will County. The counties are contiguous political subdivisions and both are located in the Chicago Metropolitan District (MD) 16974. These counties were combined for analysis purposes and are referred to as one AA throughout this evaluation. The bank's AA in the State of Indiana consists of ten geographies in Lake County Indiana which is in Metropolitan Statistical Area (MSA) 23844. The ratings for both states are based on conclusions reached in the evaluation of FNBI's performance in both full-scope AAs.

Refer to the "Scope" section under each State Rating section for details regarding how the areas were selected.

Ratings

The bank's overall rating is a blend of the two state ratings. Due to the small percentage of deposits and loans from the Indiana AA, the State of Illinois rating was the determining factor in assigning the overall CRA rating. The state ratings are based primarily on those areas that received full-scope reviews. Refer to the "Scope" section under each State Rating section for details regarding how the areas were weighted in arriving at the respective ratings.

Conclusions with Respect to Performance Criteria

FNBI's LTD ratio and lending within the AAs is reasonable.

Loan-to-Deposit Ratio

FNBI's average quarterly LTD ratio is reasonable given the bank's size, financial condition, and AA credit needs. The average quarterly LTD ratio is 69 percent and

represents the quarterly average for the previous eighteen quarters since the last CRA examination. During this period, the ratio had a quarterly high of 80 percent and a quarterly low of 59 percent. The average quarterly LTD ratio during the review period of four similarly situated banks was 71 percent. These four financial institutions are community banks with total assets ranging from \$356 million to \$583 million located in the same vicinity as FNBI. Refer to the table below for comparative data:

Loan to Deposit Ratio		
Institution	Total Assets (millions) (As of 6/30/10)	Loan to Deposit Ratio
FNB of Illinois	\$388	68.67%
Beverly Bank and Trust	\$356	78.47%
First United Bank	\$400	81.13%
First Savings Bank of Hegewich	\$532	56.39%
Archer Bank	\$582	66.95%

Source: FFIEC Call Report Data as of September 30, 2010

Lending in Assessment Area

FNBI's lending in its AA's is reasonable and meets the standard for satisfactory performance. FNBI originates the majority of the number and dollar amount of small business loans inside the bank's AA's. As depicted in the table below, the bank originated 65 percent of small business loans within the bank's AA's, while only 35 percent were originated outside the AA's. This analysis includes both the Illinois and Indiana AA's.

Lending in FINB's AA's										
Loan Type	Number of Loans					Dollars of Loans (000's)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Small Business**	261	65.09	140	34.91	100%	61,986	63.50	35624	36.50	100%
Totals	261	65.00%	140	35.00%	401	\$61,986	63.50	\$35,624	36.50	\$97,610

* Based on all Small Business loans. Bank collected data.

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.

Multistate Area Rating

State of Illinois

CRA Rating for Illinois: Satisfactory.

The Lending test is rated: Satisfactory.

The Community development test is rated: Satisfactory.

- FNBI’s lending to businesses of different sizes in its AA is reasonable.
- The bank’s geographic distribution of loans needs improvement
- FNBI’s performance under the Community Development Test is reasonable.

DESCRIPTION OF INSTITUTION’S OPERATIONS IN ILLINOIS

FNBI operates seven bank offices in Illinois located in the far southeast portion of Cook County and the northeast portion of Will County. Both counties are part of the Chicago-Naperville-Joliet MD. The bank’s offices are in the following locations: Lansing, Lynwood, South Holland, Joliet, Mokena, Shorewood, and Plainfield. The bank’s IL AA meets the requirements of the CRA regulation and does not arbitrarily exclude any low- or moderate-income geographies.

All of the bank’s offices are full-service facilities offering a full range of traditional banking products. The Illinois AA is composed of 2 low-income, 22 moderate-income, 40 middle-income, and 16 upper-income geographies. FNBI has fifteen automated teller machines (ATMs), all located within the Illinois AA. Eight of these ATMs are full service while seven only dispense cash. Other alternative banking delivery systems include telephone banking, bank by mail, internet banking, and a 24-hour automated bank by computer service. Office hours vary between branches; however, hours have no significant impact on low- or moderate-income individuals.

FNB Illinois – Chicago-Joliet-Naperville (Illinois)

Demographic Information for Full Scope Area: FNB Illinois Chicago Joliet Naperville						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	80	2.50	27.50	50.00	20.00	0.00
Population by Geography	479,471	1.35	20.25	47.58	30.82	0.00
Owner-Occupied Housing by Geography	130,012	0.57	15.36	50.52	33.55	0.00
Business by Geography	28,726	0.89	16.79	38.48	43.85	0.00
Farms by Geography	655	0.15	13.28	38.63	47.94	0.00
Family Distribution by Income Level	124,111	16.21	18.04	25.28	40.46	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	42,510	2.57	31.31	51.88	14.24	0.00
Median Family Income HUD Adjusted Median Family Income for 2010 Households Below Poverty Level		60,166 71,100 7%	Median Housing Value Unemployment Rate (12/2010 US Department of Labor)		134,319 9%	

(*) The NA category consists of geographies that have not been assigned an income classification.

Source: 2000 US Census and 2010 HUD updated MFI

SCOPE OF EVALUATION IN ILLINOIS

FNBI's AA in Illinois is made up of two contiguous counties in the same MD; therefore, we were able to combine the counties into one AA for our analysis. The Illinois AA received a full scope review.

Our community contact indicated that the local economy is poor with many real estate foreclosures and small business closings. There is a need for home mortgage loan modifications that would benefit the homeowner. The community contact also cited a need for small business loans that would allow currently operating small businesses to remain up and running until the economy recovers. There are opportunities for banks to partner with local government as well as with private developers to increase availability of affordable housing. Our contact stated that local community banks were involved with projects and programs for low- and moderate-income individuals and families in the past; however, they are not as involved since the economic downturn.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS – ILLINOIS

LENDING TEST

The bank's performance under the lending test in State of Illinois is rated Satisfactory.

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

FNBI's lending to businesses of different sizes in its AA is poor and needs to improve. The distribution of loans reflects a poor penetration among businesses of different sizes given the bank's product offerings and local economic conditions. Loans to businesses with revenues of \$1 million or less represent 44 percent of FNBI's small business loans. This figure is well below the 79 percent of the area's businesses reporting revenues less than \$1 million. Competition for small business loans is strong within the Illinois AA.

2008-2010 Borrower Distribution of Loans to Businesses in FNBI's AA			
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	NA
% of AA Businesses	78.76%	21.24	
% of Bank Loans in AA by #	44.39%	55.61	

Geographic Distribution of Loans

FNBI's geographic distribution of small business loans is reasonable. The distribution of loans reflects adequate dispersion throughout geographies of different income levels.

The bank originated less than one percent of small business loans to borrowers located in low-income geographies. However, less than one percent of businesses in the Illinois AA are located in low-income geographies, limiting the opportunity to make loans in

those geographies. The bank’s distribution of small business loans in moderate-income geographies is 16.79 percent and considered adequate compared to the 18.8 percent of small businesses located in moderate-income geographies. Competition from larger institutions in the area makes it difficult for FNBI to make small business loans. FNBI ranks 57 out of 204 lenders with an overall market share of 4 percent. The three largest competitors have a combined market share of 65%. The table below summarizes FNBI’s small business lending.

2008-2010 Geographic Distribution of Loans to Small Business in Illinois AA								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Businesses	0.95		18.80		40.69		39.56	
LOANS	% of Number	% of Amount						
Small Business Loans	0.89%	0.00	16.79%	11.22%	38.48%	75.61%	43.85%	13.17%

Responses to Complaints

FNBI has not received any complaints about its performance in helping to meet the credit needs within the Illinois AA during this evaluation period.

COMMUNITY DEVELOPMENT TEST

The bank’s performance under the CD test in Illinois is rated Satisfactory. FNBI displays adequate responsiveness to CD needs within the Illinois AA.

Number and Amount of Community Development Loans

During the evaluation period, FNBI extended a reasonable amount CD loans. The five CD loans, totaling approximately \$7.3 million, are listed below:

- Four loans to a non-profit health facility which provides services to mentally/physically disabled individuals. The majority of these individuals are homeless and low or moderate income individuals.
- One loan to fund construction of a chapel, office, and administrative building. This is the first phase of a two-phase project for a women’s recovery center constructed by a non-profit organization that helps low- and moderate-income individuals.

Number and Amount of Qualified Investments

During the evaluation period, FNBI made a reasonable amount of CD investments. The bank’s qualified CD investments are adequate.

- FNBI purchased \$1.9 million municipal school bonds, benefiting ten school districts within the bank's assessment area where the majority of students are from low- or moderate-income households. All ten school districts are in low- or moderate-income areas and are comprised primarily (between 67 percent and 90 percent) of students who are eligible for free or reduced-price lunch programs.

During the evaluation period, FNBI provided donations totaling approximately \$5 thousand to various organizations in the Illinois AA that qualify as community development investments.

Extent to Which the Bank Provides Community Development Services

The bank's CD Services are satisfactory.

The bank's retail services are adequate. FNBI has seven banking locations of which two are located in moderate-income geographies, two are located in middle-income geographies, and three are located in upper-income geographies. Lobby hours and services provide good accessibility for all bank customers. Four of the bank's locations are accessible by public transportation.

The distribution of ATMs is good. FNBI operates fifteen ATMs in the Illinois assessment area, eight of which are full service. FNBI offers other alternate delivery systems, which include telephone banking, bank by mail and internet banking, a 24-hour automated bank by computer service. However, FNBI does not monitor the usage of these alternative delivery services by low- and moderate-income individuals. Therefore, we did not place any weight on these alternative systems when drawing our CRA performance conclusions.

FNBI's performance in providing community development services in the assessment area is adequate. Eight officers of FNBI serve on the boards of directors or as officers of various community development service organizations and community development outreach programs. These programs include providing financial expertise, through assistance in approving loan requests to qualified small business development corporations and organizations, and providing input in fundraising initiatives. These services are provided to corporations and organizations targeting low- and moderate-income individuals.

Service by FNBI Officers

- One FNBI officer is a board member for a senior housing complex and provides expertise as Treasurer. This senior housing complex provides low-income housing to qualified seniors.

- Another officer serves as a director for an organization that serves low- and moderate-income developmentally disabled individuals. This officer provides expertise by serving on the finance committee.
- Another officer serves as president of a local community development corporation. This corporation provides alternative sources of funding for small business that banks would otherwise not be able to fund. This officer also serves as a member of a 504 loan committee providing expertise in the decision making process for loan submissions.
- Another FNBI officer is a chairman of a not-for-profit organization whose primary purpose is to provide behavioral health care services to primarily low- and moderate-income individuals and families.
- One FNBI officer is on the Board of the South Suburban College Foundation. The foundation members solicit donations and grants that provide scholarships to individuals from low- and moderate-income communities within the district.

Responsiveness to Community Development Needs

The bank adequately responds to the community development needs in the Illinois AA.

State of Indiana

CRA Rating for Indiana: Needs to Improve.

The Lending test is rated: Needs to Improve.

The Community development test is rated: Substantial Non-compliance.

- FNBI's lending to businesses of different sizes in its AA is poor.
- FNBI's performance under the Community Development Test is very poor.

DESCRIPTION OF INSTITUTION'S OPERATIONS IN INDIANA

FNBI operates one branch in the northwest portion of Lake County, Indiana. The branch is a full-service facility located in an upper-income geography. The branch offers a full range of traditional banking products. There is one middle-income geography in the bank's Indiana AA and nine upper-income geographies. There are no low- or moderate-income geographies in the bank's Indiana AA. FNBI offers alternative banking delivery systems that include telephone banking, bank by mail, internet banking, and a 24-hour automated bank by computer service. Office hours are standard, with some evening and Saturday hours. Hours have no significant impact on low- or moderate-income individuals.

FNB Illinois – Lake County (Indiana)

Demographic Information for Full Scope Area: FNB Illinois Indiana Lake County						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	10	0.00	0.00	10.00	90.00	0.00
Population by Geography	60,528	0.00	0.00	10.81	89.19	0.00
Owner-Occupied Housing by Geography	19,280	0.00	0.00	11.59	88.41	0.00
Business by Geography	5,296	0.00	0.00	12.50	87.50	0.00
Farms by Geography	79	0.00	0.00	10.13	89.87	0.00
Family Distribution by Income Level	17,182	8.93	12.11	20.81	58.14	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	3,616	0.00	0.00	13.83	86.17	0.00
Median Family Income HUD Adjusted Median Family Income for 2010 Households Below Poverty Level		52,518 64,500 3%	Median Housing Value Unemployment Rate (12/2010 US Department of Labor)		161,434 10.00%	

(*) The NA category consists of geographies that have not been assigned an income classification.

Source: 2000 US Census and 2010 HUD updated MFI

SCOPE OF EVALUATION IN INDIANA

FNBI has one AA in the State of Indiana. The bank's AA in Indiana is made up of ten geographies in Lake County. The Indiana AA received a full scope review.

Our community contact is involved with an organization that provides meals to needy seniors, disabled individuals, home-bound individuals, and day care centers and senior care centers located in poor areas. She indicated that the economy has adversely affected many individuals in Lake County, Indiana. The need for this organization's service increased greatly during the previous three years. Donations from the private sector remained fairly steady while funding from government decreased. Banks do participate with this organization and there are several bankers on the board. The organization had a need to expand their kitchen some years back and several bankers came up with creative financing that benefitted the organization and the people they serve. This organization does not have a current need for loans, but donations are always helpful. Our contact stated that there are many organizations in the area that could use assistance with fundraising, as government funding for many of the non-profits from has declined.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS – INDIANA

LENDING TEST

The bank's performance under the lending test in Indiana is rated Needs to Improve.

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

FNBI's lending to businesses of different sizes in its AA is less than reasonable and needs to improve. The distribution of loans reflects a poor penetration among businesses of different sizes given the bank's product offerings and local economic conditions. Loans to businesses with revenues of \$1 million or less represent 57 percent of FNBI's small business loans. This figure is below the 79 percent of the area's businesses reporting revenues less than \$1 million. Competition for small business loans is strong and the bank's weakened earnings during this evaluation period have made it difficult for FNBI to lend.

2008-2010 Borrower Distribution of Loans to Businesses in FNBI's AA			
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	NA
% of AA Businesses	79.32%*	28.68	0
% of Bank Loans in AA by #	57.14%	42.86	

Geographic Distribution of Loans

There are no low- or moderate-income geographies in the bank's Indiana AA; therefore, an analysis of the geographic distribution of loans in this AA is not meaningful.

Responses to Complaints

FNBI has not received any complaints about its performance in helping to meet the credit needs within the Indiana AA during this evaluation period.

COMMUNITY DEVELOPMENT TEST

The bank's performance under the CD test in Indiana is rated Substantial Non-compliance.

Number and Amount of Community Development Loans

During the evaluation period, FNBI did not extend any CD loans in the State of Indiana.

Number and Amount of Qualified Investments

The bank's qualified CD investments Needs to Improve. During the evaluation period, FNBI did not make any CD investments in the State of Indiana.

Extent to Which the Bank Provides Community Development Services

The bank's CD Services Needs to Improve.

The bank's retail services are reasonable. The bank has one branch in an upper-income geography. Hours of availability at the branch do not negatively impact low- or moderate-income individuals.

FNBI's performance in providing CD services in the assessment area is less than reasonable. Although bank officers are involved with the community as good citizens, there were no CD Services provided by bank staff in the Indiana AA.

Responsiveness to Community Development Needs

FNBI has not been responsive to CD needs in the Indiana AA.

Appendix A: Scope of Examination

The following table identifies the time period covered in this evaluation, affiliate activities that were reviewed, and loan products considered. The table also reflects the metropolitan and nonmetropolitan areas that received comprehensive examination review (designated by the term “full-scope”) and those that received a less comprehensive review (designated by the term “limited-scope”).

Time Period Reviewed	Lending Test: January 1, 2008 through December 31, 2010 Community Development Test: October 2, 2007 through February, 22, 2011	
Financial Institution	Products Reviewed	
FNB Illinois Lansing, Illinois	Small Business Loans and Community Development Loans	
Affiliate(s)	Affiliate Relationship	Products Reviewed
Home State Bank NA	Common Ownership	None
List of Assessment Areas and Type of Examination		
Assessment Area	Type of Exam	Other Information
State of Illinois MD #16974 Chicago/Naperville/Joliet	Full Scope	
State of Indiana MA #23844 Gary, Indiana, Lake County	Full Scope	

Appendix B: Summary of Multistate Metropolitan Area and State Ratings

Overall Bank:	Lending Test Rating	Community Development Test Rating	Overall Bank/ State Rating
FNB Illinois	Satisfactory	Satisfactory	Satisfactory
State of Illinois	Satisfactory	Satisfactory	Satisfactory
State of Indiana	Needs to Improve	Substantial Non-compliance	Needs to Improve