



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

December 10, 2007

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The First National Bank of Ava
Charter Number: 10911

304 West Main Street
Ava, IL 62907

Office of the 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.

INSTITUTION'S CRA RATING: This institution is rated Satisfactory.

All of the lending performance criteria meet or exceed the standards for satisfactory performance. The major factors that support this rating are:

- The bank's distribution of lending to borrowers of different income levels is excellent. Our sample shows the bank made 20% of its residential real estate loans to low-income borrowers; this percentage exceeds the 16% of low-income families in the assessment area (AA). The percentage of residential real estate loans made to moderate-income borrowers (20%) mirrors the percentage of moderate-income families (19%) in the AA.
- The bank's distribution of lending to small businesses, at 51%, meets the market demographic of 50%.
- The bank's quarterly average loan-to-deposit ratio, at 75%, is well above all similarly situated area banks, whose quarterly average ranged from 18% to 59%.
- A majority of the bank's loans, 65% by number and 59% by dollar volume, extended during this evaluation period were made in the AA.

SCOPE OF EXAMINATION

We used small bank procedures to evaluate the performance of the First National Bank of Ava (FNB) under the Community Reinvestment Act. We sampled residential real estate, small business and small farms loans originated between January 1, 2005 and June 30, 2007 for our analysis of the bank's lending activity.

DESCRIPTION OF INSTITUTION

FNB is an intrastate bank located in Ava, a small town in Jackson County, in southern Illinois. The bank had assets of approximately \$48 million as of September 30, 2007. The bank operates its only office in downtown Ava, Illinois. FNB has three cash-dispensing ATMs: one at the Kwik Shop in Willisville, Illinois; one at the Bottoms Up Bar & Grill in Jacob, Illinois; and one at Casey's General Store in Elkville, Illinois. FNB closed its only branch, located in Gorham, Illinois, on March 31, 2006. No new branches were opened since the last examination.

FNB is wholly owned by Headquarters Holding Company, Inc., a one-bank holding company also located in Ava, Illinois. There have been no changes in the bank's corporate structure since the last CRA evaluation.

FNB offers a full range of retail and commercial banking products normally associated with a small community bank. FNB is primarily a residential real estate, commercial and farm lender. As of September 30, 2007, net loans totaled approximately \$32 million,

representing 66% of total assets. Also on this date, total deposits were approximately \$42 million, and Tier One Capital was \$5.7 million. The composition of the loan portfolio included 40% residential real estate, 23% commercial, 22% agriculture, 11% consumer, and 4% other loans.

There are no legal or financial impediments to the bank's ability to meet community credit needs. The bank has adequate resources to provide for the credit needs of its AA. 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 July 8, 2002, and its performance was rated Satisfactory.

DESCRIPTION OF ASSESSMENT AREA

Management has designated the western portion of Jackson County as its AA. The AA includes three census tracts (CTs) in Jackson County: 101, 103 and 104. This is a contiguous area, meets the requirements of the regulation, and does not arbitrarily exclude low- or moderate-income geographies. Jackson County is a non-Metropolitan Statistical Area (non-MSA). Based on the non-MSA median family income of \$43,531 in 2000, all three CTs in the AA are middle-income.

As of the 2000 census, the population in the bank's AA totaled 11,135, which included 3,130 families. Based on the Department of Housing and Urban Development (HUD) 2007 updated median family income of \$50,600, 16% of the families were classified as low-income, 19% as moderate-income, 26% as middle-income, and 39% as upper-income.

The 2000 census demographic data for the AA shows that 15% of the population is 65 years old and over, 20% of households are in retirement, and 11% of households live below the poverty level. The median housing value was \$61,283 and the median age of the housing stock was 34 years. Owner-occupied units represent 75% of the housing stock.

Business data as of 2007 indicates that the AA has 617 businesses: 312 (51%) have revenues less than \$1 million, 20 (3%) have revenues over \$1 million, and 285 (46%) did not report their revenues.

Farm data as of 2007 shows 110 farms in the AA: 107 (97%) have revenues less than \$1 million, 1 (1%) has revenues over \$1 million, and 2 (2%) did not report revenues.

Service-related businesses provide some support for the local economy. Ava is considered a "bedroom" community; most of the local residents commute to nearby larger cities for employment. Major employers are all state-related and include Community School District 176, Southern Illinois University at Carbondale, and the Illinois Department of Corrections.

The local economy is stable. The July 2007 unemployment rate for Jackson County is 5.0%. This ratio compares favorably to the state rate of 5.4% and is in line with the national rate of 4.9%.

FNB is the only financial institution located in Ava, Illinois. Within Jackson County, the bank has a 5.13% deposit market share as of June 30, 2007. Eleven other banks have 23 offices in Jackson County; three are large regional banks and the others are smaller community banks.

To further our understanding of the community's credit needs, we contacted a local community services organization. Our contact did not identify any unmet credit needs in the bank's AA.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

FNB's performance is reasonable in meeting the credit needs of its AA, including those of low- and moderate-income people, given the performance context, demographics, economic factors and competitive pressures faced by the bank.

Loan-to-Deposit Ratio

FNB's loan-to-deposit (LTD) ratio is more than reasonable. As of September 30, 2007, the bank's LTD ratio was 77%. FNB's quarterly average LTD ratio since the July 10, 2002 examination is 75%. This is well above the quarterly average ratios of three competing community banks in Jackson County whose quarterly average ratios ranged from 18% to 59%.

Lending in Assessment Area

Lending in the AA is satisfactory. A majority of the bank's loans originated since the last CRA evaluation were made in the AA. Our analysis of originations of 20 loans, a mix of residential real estate, business and farm loans, made in 2005, 2006 and 2007 found that 65% by number and 59% by dollar amount were made within the bank's AA.

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

The bank's lending to borrowers of different incomes and to businesses and farms of different sizes is more than reasonable. Mortgage lending levels reflect excellent responsiveness to the credit needs of the AA. Small business and small farm loan activity reflects adequate responsiveness to the credit needs of the AA.

Mortgage Lending

FNB's lending to low-income borrowers for residential real estate loans (20%) exceeds the percentage of low-income families in the AA (16%). The bank's lending to moderate-income borrowers (20%) meets the percentage of moderate-income families in the AA (19%).

Borrower Distribution of Residential Real Estate Loans in AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% 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
Residential RE	16%	20%	19%	20%	26%	35%	39%	15%

Source: Sample of 20 loans originated within the AA from January 1, 2005 through June 30, 2007; and 2007 HUD updated median family income. Two loans (10%) in the sample did not have borrower income level identified.

Small Business Lending

The distribution of the bank’s loans to small businesses is reasonable. The percentage of loans to businesses with revenues of less than \$1 million (50%) meets the percentage of the market demographic (51%); however, both the market demographics and our sample have significant levels of businesses with unknown revenues.

Borrower Distribution of Loans to Businesses in AA				
Business Revenues	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	51%	3%	46%	100%
% of Bank Loans in AA by #	50%	10%	40%	100%
% of Bank Loans in AA by \$	30%	9%	63%	100%

Source: Sample of 20 loans originated within the AA from January 1, 2005 through June 30, 2007, and 2007 Business Demographic data.

Small Farm Lending

The distribution of the bank’s loans to small farms is reasonable. The percentage of loans to farms with revenues of less than \$1 million (70%) is lower than the percentage of the market demographic (97%) in the AA, but 30% of farms in our sample had unstated revenues.

Borrower Distribution of Loans to Farms in AA				
Farm Revenues	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Farms	97%	1%	2%	100%
% of Bank Loans in AA by #	70%	0%	30%	100%
% of Bank Loans in AA by \$	72%	0%	28%	100%

Source: Sample of 20 loans originated within the AA from January 1, 2005 through June 30, 2007, and 2007 Business Demographic data.

Geographic Distribution of Loans

All CTs in this AA are middle-income. As such, an analysis of the geographic distribution of loans within this AA would not provide meaningful information.

Responses to Complaints

No CRA-related complaints have been received since the prior CRA evaluation.

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.