



INTERMEDIATE SMALL BANK

Comptroller of the Currency
Administrator of National Banks
Washington, DC 20219

PUBLIC DISCLOSURE

July 13, 2009

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The Farmers National Bank of Prophetstown
Charter Number 6375**

**114 West Third Street
Prophetstown, Illinois 61277**

**Comptroller of the Currency
Assistant Deputy Comptroller-Chicago South Field Office
2001 Butterfield Road, Suite 400
Downers Grove, Illinois 60515**

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 Lending Test is rated: **Satisfactory**.

The Community Development Test is rated: **Satisfactory**.

The Farmers National Bank of Prophetstown (FNBP) has a Satisfactory record of meeting community credit needs. This conclusion is based on the following:

- The bank's loan-to-deposit ratio is more than reasonable and averaged 79.64 percent during the evaluation period.
- A majority (88.89 percent) of FNBP loans were originated within the bank's assessment area (AA).
- FNBP's borrower distribution of small farm loans is Satisfactory.
- The bank's geographic distribution of small farm loans is Satisfactory.
- FNBP's community development performance demonstrates a Satisfactory response to the available community development activity and credit needs of its AA.

Scope of Examination

This evaluation is based on 2000 U.S. Census demographic information. Conclusions regarding the Lending Test are based on the origination of agricultural loan products from January 1, 2007, through July 13, 2009. Conclusions regarding the Community Development Test are based on community development activities from January 1, 2007 through July 13, 2009. This is The Farmers National Bank of Prophetstown's (FNBP) first evaluation as an Intermediate Small Bank for CRA purposes.

Description of Institution

FNBP is based in Prophetstown, Illinois, approximately 120 miles west of Chicago, Illinois. FNBP is a wholly owned subsidiary of Prophetstown Banking Corp (PBC). Neither FNBP nor PBC have any additional subsidiaries. As of June 30, 2009, FNBP is a \$406 million intrastate financial institution with three facilities: the main office is in Prophetstown, Illinois, a branch in Geneseo, Illinois, and one new branch opened in July of 2007 in Morrison, Illinois. FNBP has served the Prophetstown community for over 100 years.

The bank operates three full service offices that have drive-up services with extended hours on Fridays and automated teller machines. The bank's locations offer a full range of traditional banking products and services, along with trust services. There are no legal, financial, or other factors impeding the bank's ability to help meet the credit needs in the bank's assessment area. There has been no change in the bank's corporate structure since the last CRA evaluation. The bank's last CRA rating as a Small Bank was "Satisfactory Record of Meeting Community Credit Needs," as detailed in the performance evaluation dated July 5, 2006.

As of June 30, 2009, the loan portfolio represents 49.62 percent of the bank's total assets. FNBP's major focus has always been agricultural lending and that continues to be the bank's focus. During the evaluation period, residential real estate lending increased slightly; the majority of these loans were sold to the Federal Home Loan Bank. Loans originated or purchased during the evaluation period consisted of approximately \$82 million in agricultural loans (59 percent), \$43 million in residential loans (29 percent), \$13 million in commercial loans (9 percent), and \$4 million in loans to individuals (3 percent).

Description of Assessment Areas

FNBP has one assessment area (AA) consisting of Henry County, which is a part of Metropolitan Statistical Area (MSA) 19343, and Whiteside County, which is in a non-MSA. Each county will be analyzed separately, as each county has a different median income.

Henry County, MSA 19340

The Henry County AA meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income geographies. Henry County has 13 geographies. This AA does not have any low-income geographies; it does have two moderate-income geographies (15.38 percent); nine middle-income geographies (69.23 percent); and two upper-income geographies

(15.38 percent). Competition in the AA is strong with 24 financial institutions providing loans and other bank services. The updated median family income as of 2008 for Henry County is \$57,200.

The total population of this county is 51,020 persons. Main industries in the area are agriculture, retail services, and construction. Eight percent of the population lives below the poverty level and thirty-two percent of the population lives on social security income. As of June 9, 2009, the unemployment rate for Henry County is 8.2 percent. Seventy-four percent of housing is owner occupied.

Henry County has 599 farms of which 592 have reported revenues less than \$1 million. There are 3,415 non-farm businesses in this county of which 2,131 have revenues less than \$1 million. See chart below for details.

Henry County						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	13	0.00	15.38	69.23	15.38	0.00
Population by Geography	51,020	0.00	12.75	70.64	16.61	0.00
Owner-Occupied Housing by Geography	15,797	0.00	12.09	70.56	17.35	0.00
Business by Geography	3,415	0.00	8.49	77.54	13.97	0.00
Farms by Geography	599	0.00	2.67	83.31	14.02	0.00
Family Distribution by Income Level	14,358	18.10	20.44	26.15	35.30	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	5,534	0.00	19.12	71.54	9.34	0.00
Median Family Income HUD Adjusted Median Family Income for 2008 Households Below Poverty Level		49,922 57,200 8%	Median Housing Value Unemployment Rate (2009 US Dept of Labor)		77,304 8.2%	

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

Source: 2000 US Census and 2008 HUD updated MFI; Unemployment source; US Department of Labor

Whiteside County, Non-MSA

The Whiteside County AA meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income geographies. Whiteside County has 18 geographies. This AA does not have any low-income geographies; it does have two moderate- income geographies (11.11 percent); 13 middle- income geographies (72.22 percent); and three upper- income geographies (16.67 percent). Competition in the AA is strong with 24 financial institutions providing loans and other bank services. The updated median family income as of 2008 for Whiteside County is \$50,600.

The total population of this county is 60,653 persons. Main industries in the area are agriculture, retail services, and construction. Eight-percent of the population lives below the poverty level and 32 percent of the population live on social security income. As of June 1, 2009, the unemployment rate for Whiteside County is 10.1 percent. Seventy percent of housing is owner occupied.

Whiteside County has 468 farms of which 458 have reported revenues less than \$1 million. There are 3,718 non-farm businesses in this county of which 2,179 have revenues less than \$1 million. See chart below for details.

Whiteside County						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	18	0.00	11.11	72.22	16.67	0.00
Population by Geography	60,653	0.00	10.91	74.66	14.43	0.00
Owner-Occupied Housing by Geography	17,635	0.00	10.35	74.03	15.62	0.00
Business by Geography	3,718	0.00	7.77	75.52	16.70	0.00
Farms by Geography	468	0.00	2.78	74.36	22.86	0.00
Family Distribution by Income Level	16,960	14.00	18.47	24.76	42.77	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	5,506	0.00	16.85	72.23	10.92	0.00
Median Family Income HUD Adjusted Median Family Income for 2008 Households Below Poverty Level		43,531 50,600 8%	Median Housing Value Unemployment Rate (2009 US Dept of Labor)	77,641 10.1%		

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

Source: 2000 US Census and 2008 HUD updated MFI; Source; Unemployment rates are from the US Department of Labor.

Community Contacts

We contacted a local real estate agent to help assess the credit needs of the AA. Our contact stated that two local banks come to mind. One is primarily an agricultural bank and the other concentrates on residential real estate. Both institutions are very active in the surrounding communities. Our contact also stated that the community banks are much easier for consumers to deal with than the larger regional banks. There is a need for affordable housing in the area as well as for small business loans. Economic conditions for the agricultural industry are strong while conditions for individuals, schools, cities, and towns are deteriorating, indicative of the current economic conditions. The contact noted that there is one project that may come to the Rock Falls area that would provide a number of jobs for individuals with medical backgrounds, such as doctors, nurses, and technicians. Our contact stated that banks should be able to get involved.

A second contact was made to a local government councilman. He stated that economically things were darker in January and February; some city employees were laid off then, but recently many were hired back at part-time status. Several small businesses have closed; however, there has been some interest from businesses outside of the area to move to town. There is a small business incubator started and it is full with several start-up businesses. As for banks in the area, all have been very active with families and small business by originating new loans as well as refinancing of existing debts.

Conclusions with Respect to Performance Tests

LENDING TEST

The bank's performance under the Lending Test is rated **"Satisfactory"**

Agricultural loans were chosen for this analysis, as this loan type makes up a majority of the bank's lending.

Loan-to-Deposit Ratio

FNBP's loan-to-deposit ratio is reasonable and meets the standard for satisfactory performance. The average quarterly loan-to-deposit ratio from January 2006 through June 2009 is 79.64 percent. The bank's loan-to-deposit ratio as of June 30, 2009, is 68.99 percent. This was compared to two similar institutions in FNBP's AA with total assets between \$198 million and \$204 million, for the same time period. The two institutions had average quarterly loan to deposit ratios for the same time period of 73.34 percent and 92.67 percent, respectively.

Lending in Assessment Area

FNBP's lending in its AA meets the standard for satisfactory performance. A majority of the number and dollar amount of small farm loans were originated within the bank's AA. As depicted in the table below, 89 percent of the number and 91 percent of the dollar amount of loans were originated in FNBP's AA. There is only one in and out ratio. The bank's assessment

areas are combined for purposes of this analysis.

Lending in Henry and Whiteside Counties AA										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Small Farm Loans	56	89	7	11	63	3,543,925	91	333,031	9	\$3,876,956
Totals	56	89	7	11	100%	3,543,925	91	333,031	9	100%

Source: Sample of 21 loans from each year of the evaluation period (2007,2008, ytd. 2009). The bank's assessment areas are combined for the in/out ratio analysis.

Lending to Farms of Different Sizes

FNBP has two counties in the AA; Henry County is part of the MSA 19340 and Whiteside County is in a non-MSA. Each County is analyzed separately, as each county has a different median income.

Henry County, MSA 19340

FNBP's borrower distribution of small farm loans is good in Henry County and meets the standard for satisfactory performance.

FNBP's overall distribution of farm loans to farms with annual revenues less than \$1 million is good. The percentage of the bank's number of loans to farms with revenues less than \$1 million (89 percent) is near the percentage of the number of farms with revenues below that threshold (99 percent). The percentage of the bank's dollar amount of loans to farms with revenues less than \$1 million (98 percent) meets the percentage of the number of farms with these revenues (99 percent).

Borrower Distribution of Loans to Farms – Henry County				
Farm Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Farms	99	1	0	100%
% of Bank Loans in AA by #	89	4	7	100%
% of Bank Loans in AA by \$	98	1	1	100%

Source: Loan sample of 27 bank originations from 2007, 2008, and year to date 2009

Whiteside County, non-MSA

FNBP's borrower distribution of small farm loans is good in Whiteside County and meets the standard for satisfactory performance.

FNBP's overall distribution of farm loans to farms with annual revenues less than \$1 million is excellent. The percentage of the bank's number of loans to farms with revenues less than \$1

million (97 percent) meets the percentage of the number of farms with these revenues (98 percent). The percentage of the bank's dollar amount of loans to farms with revenues less than \$1 million (99 percent) meets the percentage of the number of farms with revenues below that threshold (98 percent).

Borrower Distribution of Loans to Farms – Whiteside County				
Farm Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Farms	98	2	0	100%
% of Bank Loans in AA by #	97	0	3	100%
% of Bank Loans in AA by \$	99	0	1	100%

Source: Loan sample of 29 bank originations from 2007, 2008, and year to date 2009

Geographic Distribution of Loans

FNBP has two counties in the AA; Henry County is part of the Metropolitan Statistical Area 19340 and Whiteside County is a non-MSA area. Each County will be analyzed separately, as each county has a different median income.

Henry County

FNBP's geographic distribution of small farm loans is good in Henry County and meets the standard for satisfactory performance.

The geographic distribution of loans to small farms is good. The bank does not have any low-income geographies in their AA. The bank did not originate any loans to farms in the two moderate-income geographies in their AA; there are a very small percentage of farms in the moderate-income geographies (2.67 percent or 16 farms). A large majority of farms (83.31 percent or 499 farms) are located in the middle-income geographies where the bank originated 100 percent of its farm loans.

Geographic Distribution of Loans to Farms – Henry County AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Farms	% of Number of Loans	% of AA Farms	% of Number of Loans	% of AA Farms	% of Number of Loans	% of AA Farms	% of Number of Loans
Farm Loans	0.00	0.00	2.67	0.00	83.31	100.00	14.02	0.00

Source: Based on a sample of 27 farm loans (geographic demographics from 2000 US Census data)

Whiteside County

FNBP's geographic distribution of small farm loans is good in Whiteside County and meets the standard for satisfactory performance.

The geographic distribution of loans to small farms is good. The bank does not have any low-

income geographies in their AA. The bank did not originate any loans to farms in the two moderate-income geographies in their AA; there are a small percentage of farms in the moderate-income geographies (2.78 percent or 13 farms). A large majority of farms (74.36 percent or 341 farms) are located in the middle-income geographies where the bank originated 72.68 percent (very near the percentage of farms in the middle-income geographies) of its farm loans.

Geographic Distribution of Loans to Farms – Whiteside County AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Farms	% of Number of Loans	% of AA Farms	% of Number of Loans	% of AA Farms	% of Number of Loans	% of AA Farms	% of Number of Loans
Farm Loans	0.00	0.00	2.78	0.00	74.36	72.68	22.86	27.32

Source: Based on a sample of 29 small farm loans (geographic demographics from 2000 US Census data)

Responses to Complaints

There are no complaints regarding the CRA performance of FNBP.

COMMUNITY DEVELOPMENT TEST

The bank’s performance under the Community Development (CD) Test is rated “Satisfactory.”

Number and Amount of Community Development Loans

There is little opportunity within the bank’s AA to make or participate in CD loans. FNBP has two loans that meet the definition of community development.

- Two loans totaling \$245 thousand to a not-for-profit organization within the banks AA that provides affordable housing services, along with support and transportation services for disabled individuals, the greater majority of which are low- or moderate-income individuals.

Number and Amount of Qualified Investments

There is moderate opportunity within the bank’s AA to make CD investments. The bank has \$ 3.4 million in CD investments.

- \$25 thousand investment in the Geneseo Community Development Corporation (CDC). The CDC focuses on small business. The \$25 thousand is to help start the small business incubator program. The program helps start-up small businesses with business plans and provides small business expertise.
- The bank has CD investments in local school district bonds totaling \$1.4 million. School districts benefiting from the school bonds have student populations from 52 percent to 74 percent of students from low- or moderate-income households.

- The bank has a \$2 million investment in Illinois Housing Authority Affordable Housing Program Bonds. This investment benefits a broader area (state wide) outside of the banks AA within Illinois where low- or moderate-income individuals or families benefit.

Extent to Which the Bank Provides Community Development Services

Bank management provides a moderate amount of services that meet the definition of community development. Four bank officers participate in organizations that meet the definition for community development and provide services to low- or moderate-income individuals and families or small businesses. Below are examples of organizations served and the type of financial expertise provided by bank management.

FNBP's President is on the Board of an organization and provides guidance and financial expertise (budgeting, marketing, grants) to redevelop Main Street in order to strengthen the social and economic health of the community.

Another bank officer serves on the Board of a foundation and provides financial expertise in reviewing grant applications and funding. The foundation provides grants to organizations that promote small business development within Prophetstown.

The President of the Geneseo office is on the board of the Community Development Corporation of Geneseo and provides his small business loan expertise. This CDC focuses on small business start-ups.

Another officer serves, while providing his financial expertise of budgeting and funding, on the Geneseo Marriage and Family Counseling organization. Free services are provided to low- or moderate-income individuals or families.

Responsiveness to Community Development Needs

FNBP exhibits adequate responsiveness to credit and community economic development needs in its assessment area. We arrived at this conclusion based on the bank's performance and the types and volume of activities in which the bank and its officers participate.

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.