



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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## **PUBLIC DISCLOSURE**

**February 12, 2004**

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**First National Bank in Pinckneyville  
Charter Number 13975**

**210 S. Main Street, Box 208  
Pinckneyville, IL 62274**

**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 Needs to Improve.**

The major reason for this rating is because the bank's level of lending is not reasonable. The average loan-to-deposit ratio since the prior CRA examination is 33%. The bank began the evaluation period with a loan-to-deposit ratio of 40% as of June 30, 1998. This ratio has steadily declined to 22% as of December 31, 2002. The loan-to-deposit ratio does not meet the standards for satisfactory performance given the bank's size, financial condition, and assessment area (AA) credit needs.

## **DESCRIPTION OF INSTITUTION**

The First National Bank in Pinckneyville (FNB) is an intrastate bank wholly owned by First Perry Bancorp, Inc., a one-bank holding company, located in the city of Pinckneyville, Illinois. In addition to FNB, First Perry Bancorp, Inc. also owns FNB affiliates, First National Investments, Inc. and First National Insurance Services, Inc. There have been no changes in the bank's corporate structure since the last CRA evaluation.

As of December 31, 2002, FNB had total assets of \$95 million, net loans of \$16 million, total deposits of \$73 million, and total risk based capital of \$9 million. FNB offers traditional bank services and loan products normally associated with a community bank. As of December 31, 2002, net loans totaled \$16 million, representing 20% of total assets. The loan portfolio consisted of 55% residential real estate, 22% commercial real estate/business, 14% consumer loans, and 9% farm real estate/agriculture production. Residential real estate loans represent the majority of the loans originated during this evaluation period.

FNB operates two offices and two depository automated teller machines (ATMs). The main office is located in downtown Pinckneyville, Illinois in Perry County; the branch is located in Steeleville, Illinois in Randolph County. The depository ATMs are located at each of the branches. During the evaluation period, FNB purchased two branches. The Pinckneyville branch of Chester National Bank was purchased November 15, 1999. Deposits totaling \$9 million were purchased, along with the building. No loans were purchased. Because of the close proximity of this branch (across the street) and the need for additional space, the building was converted into FNB's Investment/Insurance Center. The Steeleville branch of Union Planters, N.A. was purchased September 17, 2001. Deposits totaling \$8 million and loans totaling \$2 million were purchased, along with the building. The combined effect of the branch purchases on the bank's total deposit base was an \$18 million increase, which represents 24% of total deposits. No branches were closed during this time.

During the rating period, two long-standing loan officers left FNB Pinckneyville to work for local banking competitors. FNB bank management estimates that a significant dollar amount of lending relationships exited the bank with these two predominant lenders.

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 AA. The type and amount of CRA activities are not 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 August 4, 1998, and we rated the bank Satisfactory.

## **DESCRIPTION OF ASSESSMENT AREA**

Management has designated three BNAs, 301, 302, and 303, on the western edge of Perry County and three BNAs, 9505, 9510, and 9511, on the eastern edge of Randolph 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. Based on the 1990 MSA median family income, all six BNAs or 100% are classified as middle-income.

The 1990 census data shows that the total population of the AA was 20,715, which included 5,965 families. Of these families, 1,054 or 18% were classified as low-income, 1,124 or 19% as moderate-income, 1,435 or 24% as middle-income, and 2,352 or 39% as upper-income. The non-MSA median family income as of the 1990 Census was \$29,693. The 2002-updated figure, adjusted for inflation by the Department of Housing and Urban Development, is \$46,700. We used the 2002-updated figure in our analysis to determine the borrower income levels.

Based on the 1990 census data for the AA, 16% of the population is age 65 and over, 17% of households are in retirement, and 13% of households live below the poverty level. In 1990, the median housing value for the AA was \$40,633 and the median age of the housing stock was 41 years. Local housing for the AA was 80% 1-4 family units, with 74% being owner-occupied.

Economic conditions in Perry and Randolph Counties are stable. Unemployment in Perry County exceeds the unemployment rate for the state of Illinois. Unemployment in Randolph County is slightly lower than the state unemployment rate. The December 2003 seasonally unadjusted unemployment rates for Perry County, Randolph County, and Illinois are 8.8%, 5.4%, and 6.3%, respectively. The Perry County unemployment rate also compares unfavorably to the national rate of 5.4%, but the Randolph County rate is identical to it. Economic conditions in Perry County are still adversely impacted by the demise of the local coal mining industry several years ago. Major employers in Perry County are Pinckneyville Community Hospital, Technicolor Universal Media Services (T.U.M.S.), Pinckneyville Correctional Center, and G.S. Metals. Major employers in Randolph County are Gilster-Mary Lee and Spartan Light Metals.

Competitive pressures are strong and primarily come from nine local banks and one large regional bank, which has two branches in the AA. Together, the competitors have thirteen branches located in the AA. 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 need of Perry and Randolph Counties is residential real

estate 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 the area is moderately depressed with fairly high unemployment. He concurred that residential real estate is the primary credit need of the community and stated that local banks are committed to meeting this need.

## **CONCLUSIONS ABOUT PERFORMANCE CRITERIA**

### **Loan-to-Deposit Ratio**

FNB's loan-to-deposit (LTD) ratio is not reasonable. As of December 31, 2002, FNB's quarterly average LTD ratio since the 1998 CRA examination was 33%. This falls below six similarly situated banks in the area whose quarterly average LTD ratios for the same period ranged from 60% to 70%, with an average ratio of 66%. These banks are considered similarly situated because of their size, lending opportunities, and location.

FNB's LTD ratio has experienced a downward trend since the prior CRA examination. The bank began the evaluation period with a LTD ratio of 40% as of June 30, 1998. This ratio has steadily declined to 22% as of December 31, 2002.

Contributing to FNB's below average LTD ratio is strong rate competition in the market. In 1995, FNB began originating and selling long-term fixed-rate residential real estate loans to the secondary market. Since the last CRA examination, FNB has originated and sold a total of \$6 million long-term fixed-rate residential real estate loans to the Federal Home Loan Bank and the Federal National Mortgage Association. As of December 31, 2002, FNB was servicing a total of \$11 million in long-term fixed-rate residential real estate loans sold in the secondary market. Because these loans are sold, they are not reflected in the bank's LTD ratio. However, considering these loans in our analysis would not have increased the LTD ratio significantly.

As noted in the "Description of Institution" section of the evaluation, FNB has purchased a significant amount of deposits. Approximately half of these deposits were at the bank three years prior to our examination cut-off date of December 31, 2002. The remaining deposits were at the bank one year prior to December 31, 2002. The LTD ratio does not reflect effective utilization of these deposits.

### **Lending to Borrowers of Different Incomes**

The bank's lending distribution to borrowers of different income levels is reasonable.

During this evaluation period, FNB's primary loan product was residential real estate loans by dollar and number. Using only loans made in the AA, we sampled 30 residential real estate loans. Based on this sample, the bank's residential lending reflected adequate penetration to borrowers of different income levels compared to the AA family income demographic data.

The bank's lending pattern to low-income borrowers is below the percentage of low-income families according to the demographic composition of the AA. Because it can be difficult for a

household with income below the poverty level to afford home ownership, the bank could fall below the demographic percentage but still have a reasonable record of lending to low-income borrowers. Our review concluded that the bank’s lending pattern to low-income borrowers is adequate.

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

**Residential Real Estate Loans**

<b>Borrower Distribution of Residential Real Estate Loans in Assessment Area</b>								
<b>Borrower Income Level</b>	<b>Low</b>		<b>Moderate</b>		<b>Middle</b>		<b>Upper</b>	
	<b>% of AA Families</b>	<b>% of Number of Loans FNB</b>	<b>% of AA Families</b>	<b>% of Number of Loans FNB</b>	<b>% of AA Families</b>	<b>% of Number of Loans FNB</b>	<b>% of AA Families</b>	<b>% of Number of Loans FNB</b>
<b>Residential Real Estate Loans</b>	18%	7%	19%	17%	24%	50%	39%	26%

Source: Examiner-selected judgmental loan sample and U.S. Census data.

**Geographic Distribution of Loans**

Analysis of the geographic distribution of the bank's loans in its AA would not be meaningful. The bank’s AA consists of six BNAs, which are all classified as middle-income.

**Lending in Assessment Area**

Lending in the AA is reasonable. A substantial majority of the bank’s loans originated since the last CRA evaluation were made in the AA. We analyzed bank-prepared reports to review all loans originated since the last CRA examination. The data shows that 81% by number and 77% 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 or Other Illegal Credit Practices Review**

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