



PUBLIC DISCLOSURE

January 16, 2015

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The First National Bank
Charter Number 7379

511 Lake Land Boulevard
Mattoon, IL 61938

Office of the Comptroller of the Currency

Harris Center
3001 Research Road
Champaign, IL 61822-1089

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 Outstanding.

The major factors that support this rating include:

- The First National Bank's (FNB) loan to deposit ratio is more than reasonable, based on the institution's size, financial condition, assessment area (AA) credit needs, and competition.
- The bank originated a substantial majority of primary product loans within the AA.
- FNB's distribution of loans represents excellent penetration among businesses of different sizes and borrowers of different income levels, given the demographics of the AA.
- The geographic distribution of loans reflects reasonable dispersion in all income levels of census tracts located in the bank's AA.

SCOPE OF EXAMINATION

This Performance Evaluation assesses FNB's record of meeting the credit needs of the communities in which it operates. We evaluated FNB under the Small Bank performance criterion, which includes a lending test. The lending test evaluates a bank's record of helping to meet the credit needs of its AA through its lending activities. The evaluation period for this review is from July 14, 2009, to January 16, 2015.

The lending test is based on FNB's primary loan products. An analysis of the number and dollar volume of loan origination information supplied by the bank identified the bank's primary loan products for this evaluation period to be commercial loans and residential real estate loans. As the primary loan products have not changed since the prior examination, our analysis utilized a sample of business and residential real estate loans originated or purchased between January 1, 2013, and December 31, 2014. Changes in census tracts since the last examination based on 2010 census data did not affect our loan sample. In both 2013 and 2014, the AA had the same two tracts designated as moderate-income. Therefore, we performed only one analysis for 2013 and 2014 combined data.

The bank is not located in a Metropolitan Statistical Area (MSA) and is not subject to the requirements of the Home Mortgage Disclosure Act (HMDA). FNB is not required to maintain revenue information on commercial loans or to collect HMDA data on residential real estate loans. Therefore, we selected a sample of 20 business loans and 20 residential real estate loans originated during the loan sample period. We also utilized 2010 U.S. Census data, updated FFIEC Median Family Income, 2014 Dun & Bradstreet Business Geo-demographic Data, and FDIC deposit market share data as of June 30, 2014, in assessing FNB's lending performance. There is no affiliate activity considered in this evaluation.

DESCRIPTION OF INSTITUTION

FNB is an intrastate bank headquartered in Mattoon, Illinois. Mattoon is a community of approximately 18,000 people located in Coles County. Mattoon is located on Interstate 57, approximately 184 miles south of Chicago, Illinois, and 130 northeast of St. Louis, Missouri.

As of September 30, 2014, FNB had total assets of \$72 million and tier one capital of \$7.6 million. FNB is fully owned by MGB Bancshares, Incorporated, a one-bank holding company. In addition to the main office, FNB operates a branch located on the east side of Mattoon in a moderate-income census tract. FNB has one depository ATM located at the main facility. The bank closed two non-depository ATMs located in the AA and one non-depository ATM located outside the AA during this evaluation period. One of the ATMs (located at the bank’s branch facility) was sold to a convenience store, which is located in the same building as the bank’s branch.

The bank offers a full range of retail and commercial banking products normally associated with a community bank. This includes commercial, mortgage, agricultural, and consumer loans, as well as deposit accounts, savings accounts, and certificates of deposit. The bank also operates a trust department. Gross loans were \$41 million as of September 30, 2014, and equaled 57 percent of total assets. The following represents the bank’s loan and lease portfolio mix as of September 30, 2014:

Loan Portfolio Summary by Loan Product, as of September 30, 2014	
Loan Category	% of Outstanding Dollars
Business Loans	68%
Home Loans	24%
Consumer Loans	5%
Farm Loans	1%
Other Loans	1%

Source: September 30, 2014 Call Report Data

FNB’s business strategy is to provide friendly, high-quality service that meets or exceeds the expectations of its customers and to serve the needs of the Mattoon community by remaining an independent institution and a responsible corporate citizen.

There are no legal or financial impediments to FNB’s ability to meet the credit needs of its AA. The bank was rated Outstanding at its last CRA examination dated July 13, 2009.

DESCRIPTION OF ASSESSMENT AREA

The AA consists of all 12 census tracts in Coles County. Coles County is not located within a MSA. The AA includes two moderate-income census tracts (#4 and #5), nine middle-income census tracts (#s 1, 2, 3, 6, 7, 8, 10, 11, and 12), and one upper-income census tract (#9). Population of the AA is 53,873. Seventy-nine percent of the housing

stock is 1-4 family units and 56 percent is owner occupied housing. Beginning in 2013, the FFIEC identified Coles County as a distressed community, due to poverty levels. The determination is based on results from the U.S. Census Bureau Small Area Income and Poverty Estimates (SAIPE) completed in 2012. The key variable identified in the study is the “estimated percent of people of all ages in poverty”. The results of the five-year study showed Coles County had a 19.8 percent poverty rate for persons of all ages, compared to 14.6 percent and 15.8 percent at the state and national levels respectively.

FNB’s AA was not impacted by 2014 MSA changes. Therefore, the information in the following table was used in our borrower distribution and geographic distribution analysis for both 2013 and 2014. Any differences are so noted. The following demographic information for the AA is based on 2010 census data:

Demographic Information for the AA					
	#	% Low	% Moderate	% Middle	% Upper
Families by Income Level	12,194	20%	20%	20%	40%
Households by Income Level – (owner occupied)	13,061	0%	16%	74%	10%
Census Median Family Income (MFI)		2013 - \$54,549 2014 - \$54,449	Median Housing Value Weighted Average of Median Year Built		\$93,502 1965
FFIEC Updated MSA MFI:		2013 – \$56,200 2014 – \$58,600	Households Below the Poverty Level		21.81%
			2010 Business Data		
Businesses: % of small businesses in the AA		70%	Percent of businesses not reporting revenue figures		25%

Economic Data

The local economy and that of the surrounding area is stable. The local economy is heavily influenced by agriculture, which experienced a very good year in 2013. The diversification of industries within the AA is a contributing factor to the local economy. Major employers include: Sarah Bush Lincoln Health Center; Eastern Illinois University; R R Donnelly and Sons; Mattoon School District; Lake Land Community College; Consolidated Communications; Charleston School District; First Mid Illinois Bank; Coles County, and General Electric. Other local businesses (Pinnacle Foods, Justright Mfg, Mars Inc., Vesuvius Mfg, Precision Mfg, Blue Cross Blue Shield, Anamet, and United Graphics) also contribute to the local economy. The November 2014 unemployment rate for Coles County (6.0 percent) was slightly better than the state rate (6.2 percent) for the same time-period. The national unemployment rate for November 2014 was 5.8 percent.

FNB faces competition from eight community banks with locations in Coles County, as well as two large regional banks and two savings banks. As of June 30, 2014, FNB Mattoon owned approximately 6 percent of the deposit market share.

In assessing the bank's performance, we performed one community contact with a local community development corporation (CDC). The contact noted that FNB is actively involved in community development not only with their organization, but also with other local organizations that help to raise funds for development projects. FNB participated with the CDC to save a local decades old construction company by funding the new owner's acquisition loan. In peak season, this has preserved over 200 jobs in the county. The contact noted that there are many projects and organizations in Coles County that local banks can become involved with to assist and provide funding for community development. The contact noted that FNB is one of the most active banks in the community.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank's performance under the lending test is excellent. The bank's loan-to-deposit ratio is more than reasonable based on the institution's size, financial condition, AA's credit needs, and local competition. The bank originated a substantial majority of primary loan products within the bank's AA. The borrower distribution of loans reflects excellent penetration among businesses of different sizes and borrowers of different income levels. The geographic distribution of loans reflects reasonable dispersion in all levels of census tracts, including the moderate-income census tracts. For our overall conclusion, we placed the highest weight on the conclusion for lending to borrowers of different incomes and businesses of different sizes, particularly given the distressed community designation of the AA and high poverty rates.

Loan-to-Deposit Ratio

FNB's loan-to-deposit ratio is more than reasonable based on the institution's size, financial condition, AA's credit needs, and local competition. The bank's quarterly average loan-to-deposit ratio for the period September 30, 2009, through September 30, 2014, was 61.61 percent, with a low of 56.38 percent and a high of 69.75 percent on September 30, 2014. The quarterly average loan-to-deposit ratio for other similarly situated financial institutions over the same time-period was 54.00 percent, ranging from a low of 14.97 percent to a high of 81.91 percent. FNB's average loan-to-deposit ratio is higher than seven of the similarly situated banks. The similarly situated banks utilized for comparison purposes are 10 community banks, with assets ranging from \$49 million to \$116 million, located in Coles, Moultrie, Shelby, and Douglas Counties. FNB's assets at September 30, 2014, were approximately \$72 million.

FNB renewed a five-year \$3.5 million letter of credit in January 2014 to back revenue bonds under the Illinois Housing Development Authority. These bonds were used to acquire and rehabilitate an 81-unit low-income, senior housing project located within the

bank's AA. FNB also serves as the issuing bank on this project. This letter of credit has a positive impact on the bank's performance.

Lending in Assessment Area

The bank originated a substantial majority of primary loan products (80 percent) within the bank's AA. The following table illustrates loans made inside and outside of the bank's AA during the evaluation period:

Lending in the AA										
Type of Loans	Number of Loans					Dollar of Loans (000's)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Residential Real Estate	15	75%	5	25%	20	\$1,328	71%	\$534	29%	\$1,862
Business	17	85%	3	15%	20	\$597	79%	\$156	21%	\$753
Totals	32	80%	8	20%	40	\$1,925	74%	\$690	26%	\$2,615

Source: Sample of 20 business and 20 real estate loans originated from January 1, 2013, through December 31, 2014.

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

The overall distribution of loans reflects excellent penetration among businesses of different sizes and borrowers of different incomes, given the demographics of the AA.

Business Loans

The distribution of loans to businesses reflects excellent penetration among businesses of different sizes. The bank originated 85 percent of the number of business loans sampled and 82 percent of the dollars of business loans sampled in the AA to small businesses, as compared to 70 percent of small businesses located in the AA. Small businesses are businesses with gross annual revenues of one million dollars or less. It is important to recognize that some of the businesses that did not report revenues in the demographic data are likely also small businesses. It should be noted that the three loans originated to businesses with revenues above one million dollars in our sample are to businesses located in a distressed community. The following table illustrates the borrower distribution of business loan originations in the AA by revenues:

Borrower Distribution for Business Loans within AA				
Business Revenues (or Sales)	<= \$1,000,000	> \$1,000,000	Unavailable	Total
% of AA businesses	70%	4%	26%	100.00%
% of bank loans in AA by #	85%	10%	5%	100.00%
% of bank loans in AA by \$	82%	5%	13%	100.00%

Sources: Sample of 20 business loans originated from January 1, 2013, through December 31, 2014 made within the AA, 2010 census data, and 2013 and 2014 Business Geo-demographic Data. One loan for \$90,000 in the sample did not have revenue information available in the file.

Residential Real Estate Loans

The distribution of residential real estate loans reflects excellent penetration among borrowers of different income levels, especially in light of the area’s high level of poverty. FNB made 20 percent of residential real estate loans sampled to low-income borrowers and an additional 20 percent of loans sampled to moderate-income borrowers. This compares favorably to the demographic comparators of 20 percent each for low- and moderate-income families in the AA. The following table illustrates the percentage of residential real estate loan originations in the AA by borrower income level as compared to the percent of AA families at each level:

Borrower Distribution for Residential Real Estate Loans within AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% 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 Loans	20%	20%	20%	20%	20%	25%	40%	35%

Sources: Sample of 20 residential real estate loans originated from January 1, 2013, through December 31, 2014 made within the AA and 2010 U.S. Census data.

Geographic Distribution of Loans

The geographic distribution of loans reflects reasonable dispersion in census tracts of all income levels, including the moderate-income census tracts. There are no conspicuous gaps in lending within the AA. For this test, we placed more weight on business loans due to the volume of loans originated during our evaluation period. The AA has no low–income census tracts and only two moderate-income census tracts. One moderate-income census tract (#5) is located in Charleston, IL and is primarily comprised of Eastern Illinois University campus. There are very few owner occupied housing units or businesses located within this tract.

Business Loans

The bank’s geographic distribution of business loans reflects reasonable dispersion throughout the census tracts of different income levels, including the moderate-income census tracts. FNB made 15 percent of business loans sampled in moderate-income census tracts, as compared to 28 percent of AA businesses located in those tracts. The following table illustrates the bank’s business loan originations within the various census tracts by income levels as compared to the percentage of businesses within each census tract by income level:

Geographic Distribution for Business Loans within AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Business	0%	0%	28%	15%	65%	85%	7%	0%

Sources: Sample of 20 business loans originated from January 1, 2013, through December 31, 2014 originated within the AA and 2010 Business Geo-Demographic data.

Residential Real Estate

The bank’s geographic distribution of residential real estate loans reflects excellent dispersion throughout the census tracts of different income levels, including the moderate-income levels. FNB made 25 percent of residential real estate loans sampled in moderate-income census tracts. This number exceeds the percent of AA owner occupied housing (16 percent) located in those moderate-income census tracts.

The following table illustrates the bank’s real estate loan originations within the various census tracts by income levels as compared to the percentage of owner-occupied housing units within each census tract by income level:

Geographic Distribution for Residential Real Estate Loans within AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Real Estate Loans	0%	0%	16%	25%	74%	75%	10%	0%

Sources: Sample of 20 residential real estate loans originated from January 1, 2013, through December 31, 2014 originated within the AA and 2010 Business Geo-Demographic data.

Responses to Complaints

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

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 CFR 25.28(c), in determining a national bank’s CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank, or in any assessment area by an affiliate whose loans have been considered as part of the bank’s lending performance. We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.