



PUBLIC DISCLOSURE

November 23, 2015

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The First National Bank in Carlyle
Charter Number 14268

891 Fairfax Street
Carlyle, IL 62231

Office of the Comptroller of the Currency

500 N. Broadway
Suite 1700
St. Louis, MO 63102

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

- The bank's distribution of loans in the assessment area (AA) reflects reasonable penetration among individuals of different income levels and farms of different sizes.
- The geographic distribution of the bank's loans reflects a reasonable dispersion throughout the AA.
- A majority of the bank's loans, 75% by number, are made inside the AA.
- The level of lending is reasonable with an average quarterly loan-to-deposit ratio of 64%.

SCOPE OF EVALUATION

This Performance Evaluation of the First National Bank in Carlyle (FNB) assesses FNB's record of meeting the credit needs of the communities in which it operates. We evaluated FNB under the Small Bank performance criteria, which includes only the lending test. The evaluation period is April 8, 2009 through November 23, 2015. FNB has one AA, which received a full-scope review.

For our analysis, we used loans originated or purchased from January 1, 2012 through December 31, 2014. Conclusions regarding the bank's lending performance are based on FNB's primary loan products, which include residential real estate and agricultural loans. We conducted a data integrity review of the residential mortgage loans reported under the Home Mortgage Disclosure Act (HMDA) for the years 2012, 2013, and 2014. We found the HMDA data to be accurate and reliable for use in this evaluation. We also sampled 30 agricultural loans originated from January 1, 2012 through December 31, 2014.

DESCRIPTION OF INSTITUTION

The First National Bank in Carlyle is an intrastate bank, wholly owned by First National Bancorporation, a one-bank holding company located in the city of Carlyle, Illinois. As of September 30, 2015, FNB had total assets of \$149 million, net loans of \$82 million, total deposits of \$110 million, and total risk-based capital of \$22 million. FNB's assets represent substantially all of the holding company's assets; there are no subsidiaries or affiliates. There have been no changes in the bank's corporate structure since the last CRA evaluation.

FNB is primarily an agricultural, commercial and residential real estate lender. FNB operates three offices and three non-depository automated teller machines (ATMs) in Clinton County. The main office is located in downtown Carlyle, IL, with a branch at the north edge of town. Both offices are situated in a middle-income census tract (CT), CT 9004.02. The third office is in Aviston, IL, and is located in middle-income CT 9001. Each branch is a full-service facility with a non-depository ATM.

FNB offers traditional bank services and loan products normally associated with a community bank. As of September 30, 2015, net loans totaled \$82.4 million, representing 55% of total assets. The loan portfolio consisted of 42% farm real estate/agricultural production, 31% commercial real estate/business, 22% residential real estate, 3% consumer loans, and 2% state and local obligations.

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 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 dated April 7, 2009, and assigned the bank a Satisfactory rating.

DESCRIPTION OF ASSESSMENT AREA

Management designated all of Clinton 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.

Clinton County, Illinois, is on the eastern edge of the St. Louis MO-IL Metropolitan Statistical Area (MSA). Per the 2010 U.S. Census, this county is comprised of eight CTs: six (75%) are middle-income geographies and two (25%) are moderate-income geographies (CTs 9004.01 and 9005). There are no low- or upper-income CTs in Clinton County.

As of the 2010 Census, the population in Clinton County was 37,762. Five percent of families live below the poverty level and 22% of households are in retirement. In 2010, the median housing value was \$125,153, and the average age of the housing stock was 38 years. Owner-occupied units represent 74% of the housing stock. Eighteen percent (18%) of the owner-occupied housing units are within the two moderate-income CTs.

Based on the 2010 Census demographic data, 10,000 families live in Clinton County. The 2010 MSA median family income was \$66,798. Of these families, 1,719 or 17% were classified as low-income, 1,996 or 20% as moderate-income, 2,381 or 24% as middle-income, and 3,904 or 39% as upper-income. For our analysis of lending to borrowers of different incomes, we used the Federal Financial Institutions Examination

Council (FFIEC) updated MSA median family income for each year under review. For 2014, that income figure was \$71,000.

Business data as of 2014 indicates there are 410 farms in Clinton County. Only 5 or 1.2% of these farms had revenues over \$1 million, 403 or 98.3% reported revenues of \$1 million or less, and 2 or 0.5% did not report income. Nineteen percent (19%) or 79 of the farms are located in the moderate-income CTs.

Economic conditions in Clinton County are stable. The December 2014 unemployment rate for Clinton County is 4.4%, lower than the State of Illinois rate of 5.8%, the St. Louis MO-IL MSA rate of 5.3%, and the national unemployment rate of 5.6%. Since December 2009, the local unemployment, state and national averages all experienced significant decreases. Major employers in or near Clinton County are St. Joseph's Hospital in Breese, Arrow Group Industries, Scott Air Force Base, and the Correctional Center in Centralia, IL.

Competition for financial services in the AA is strong. Nine local banks and two large regional banks with 18 offices also operate in Clinton County. According to June 30, 2015 information from the Federal Deposit Insurance Corporation (FDIC), FNB ranks third amongst the 13 banks within the county, with a 12% deposit market share.

We contacted a city government agency located in Carlyle, IL. Our contact identified no unmet credit needs in the AA.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

FNB's performance is satisfactory in meeting the credit needs of its AA, including those of low- and moderate-income borrowers, 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 reasonable given the institution's size, its financial condition, and AA credit needs. As of September 30, 2015, the bank's LTD ratio is 75%. The quarterly average LTD ratio since the last evaluation is 64%. This ratio is higher than two comparable banks and below three other banks in the AA. The average LTD ratio of the other banks, which are comparable in size and location, ranges from 49% to 101% over the same time period.

Lending in Assessment Area

A majority of loans are made within the AA. Based on HMDA data and a sample of farm loans made from 2012 to 2014, 75% by number of loans and 68% by dollar volume were originated within the bank's AA.

Lending in Clinton County										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Purchase	47	66%	24	34%	71	4,639	47%	5,130	53%	9,769
Home Improvement	34	89%	4	11%	38	1,160	90%	130	10%	1,290
Refinancing	94	79%	25	21%	119	13,958	78%	3,959	22%	17,917
Agricultural	18	60%	12	40%	30	1,672	63%	966	37%	2,638
Total	193	75%	65	25%	258	21,429	68%	10,185	32%	31,614

Source: Residential real estate loan data reported under HMDA for the years 2012-2014, and a sample of 30 farm loans.

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

The bank’s lending distribution reflects reasonable penetration to borrowers of different income levels and farms of different sizes.

Residential Real Estate

The borrower distribution of residential real estate loans made in 2012, 2013, and 2014 meets the standard for satisfactory performance. The percentage of total residential real estate loans made to moderate-income borrowers (24%) exceeds the percentage of moderate-income families in the AA (20%). While the overall percentage of residential real estate loans made to low-income borrowers (10%) is lower than the percentage of low-income families in the AA (17%), it is considered reasonable because 5% of families in the AA live below the poverty level.

Borrower Distribution of Residential Real Estate Loans in Clinton County								
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
Home Purchase	17%	22%	20%	18%	24%	27%	39%	33%
Home Improvement	17%	12%	20%	30%	24%	27%	39%	30%
Refinancing	17%	2%	20%	24%	24%	23%	39%	51%
Total	17%	10%	20%	24%	24%	25%	39%	42%

Source: Residential real estate loan data reported under HMDA for the years 2012-2014; 2010 U.S. Census data.

Farm Loans

The distribution of loans to farms of different sizes is reasonable. Based on our sample of 20 farm-related loans, the distribution of such loans in the AA meets the standard for satisfactory performance. The ratio of the bank’s loans to farms with revenues of less than \$1 million (90%) is near the ratio of small farms in the AA (98.3%).

Borrower Distribution of Loans to Farms in Clinton County				
Farm Revenues	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Farms	98.3%	1.2%	0.5%	100%
% of Bank Loans in AA by #	90.0%	10.0%	N/A	100%
% of Bank Loans in AA by \$	79.4%	20.6%	N/A	100%

Source: 2014 Business Geodemographic Data; sample of 20 agricultural loans.

Geographic Distribution of Loans

The geographic distribution of the bank’s residential real estate and farm loans reflects reasonable dispersion throughout the AA. There were no conspicuous lending gaps noted in the AA.

Residential Real Estate

The geographic distribution of residential real estate loans made in the AA is reasonable. The percentage of residential real estate loans made in the moderate-income CTs (10%) is lower than the ratio of owner-occupied housing in this CT (18%). We note that one of the two moderate-income CTs (CT 9005) has a correctional center that houses 24% of the population in that CT, which limits the bank’s opportunity to lend to individuals in this CT. Within that CT, 14% of families live below the poverty level, further limiting the bank’s opportunities for lending in this area.

Geographic Distribution of Residential Real Estate Loans in Clinton County								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans						
Home Purchase	NA	NA	18%	11%	82%	89%	NA	NA
Home Improvement	NA	NA	18%	15%	82%	85%	NA	NA
Refinancing	NA	NA	18%	9%	82%	83%	NA	NA
Total	NA	NA	18%	10%	82%	90%	NA	NA

Source: Residential real estate loan data reported under HMDA for the years 2012-2014; 2010 U.S. Census data.

Farm Loans

The geographic distribution of farm loans made in the AA exceeds the standard and exhibits excellent performance. The ratio of farm loans made in the moderate-income CTs (45%) is significantly above the ratio of farms located in these CTs (19%).

Geographic Distribution of Loans to Farms in Clinton County								
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
Agricultural	NA	NA	19%	45%	81%	55%	NA	NA

Source: 2014 Business Geodemographic Data; sample of 20 agricultural loans.

Responses to Complaints

No CRA-related complaints have been received by the bank or the OCC since the prior CRA evaluation.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. 25.28(c), or 12 C.F.R. 195.28(c), in determining a national bank’s (bank) or Federal savings association’s (FSA) CRA rating, respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or FSA, or in any assessment area by an affiliate whose loans have been considered as part of the bank’s or FSA’s lending performance.

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