

PUBLIC DISCLOSURE

April 26, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First National Bank of Sandoval
Charter # 9786**

**302 Main Street
Sandoval, Illinois 62418**

Office of the Comptroller of the Currency

**Fairview Heights Field Office
13 Executive Drive, Suite 7
Fairview Heights, Illinois 62208**

NOTE: 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.

GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the 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. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

*This document is an evaluation of the Community Reinvestment Act (CRA) performance of the **First National Bank of Sandoval, Sandoval, Illinois**, prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of April 26, 1999. This assessment covers the time periods from September 30, 1996, to April 26, 1999. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.*

INSTITUTION'S CRA RATING: This institution is rated Needs to Improve.

The First National Bank of Sandoval's lending performance is below that of other area banks with similar characteristics and reflects a lack of adequate responsiveness to community credit needs. The following describes the bank's performance:

- C The loan-to-deposit ratio does not meet the standard for satisfactory performance given the bank's size, financial condition, and assessment area credit needs. The bank's ratio is substantially below similarly situated banks in the surrounding area.
- C A substantial majority of the residential real estate and consumer loans are made in the bank's assessment area.
- C The bank's lending to borrowers of different income levels is adequate based on a review of residential real estate and consumer loans.
- C The geographic distribution of loans reflects a reasonable dispersion throughout the assessment area.
- C The bank received no consumer complaints concerning its CRA performance since the October 9, 1996, examination.

DESCRIPTION OF INSTITUTION

The First National Bank of Sandoval is a subsidiary of First Sandoval Bancorp, Inc., a one-bank holding company located in Marion County. The bank operates one office in Sandoval, Illinois, and has total assets of \$27.7 million. There are no branch offices or automated teller machines (ATMs). The bank's primary emphasis is to provide local banking services to the town of Sandoval and surrounding areas. Lending focuses on 1-4 family residential real estate and consumer loans.

The bank's earning asset mix consists of 35% loans and 65% investments. As of December 31, 1998, the loan portfolio consisted of \$3,844,000 or 40% in 1-4 family residential real estate loans, \$3,205,000 or 33% in consumer loans, \$1,341,000 or 14% in commercial loans, and \$1,213,000 or 13% in agricultural loans. This distribution is consistent with the bank's main business strategy and expertise.

The bank's financial condition is favorable, and there are no financial or legal impediments that interfere with its ability to make credit available in its assessment area. The bank received a Satisfactory CRA rating during its last assessment dated October 9, 1996.

DESCRIPTION OF ASSESSMENT AREA

The First National Bank of Sandoval has designated the eastern portion of Marion County and the western portion of Clinton County as its assessment area. The town of Sandoval is located in the southwestern portion of Marion County. Clinton County is located inside the St. Louis Metropolitan Statistical Area (MSA); however, Marion County is not. The assessment area meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income geographies. The assessment area consists of 8 Block Numbering Areas (BNAs), 9517-9519 and 9523-9527, in Marion County and 2 Census Tracts, 9004-9005, in Clinton County. Four or 40% are designated as moderate-income tracts, five or 50% as middle-income tracts, and one or 10% as an upper-income tract. There are no low-income tracts in the assessment area.

The population of the bank's assessment area as of the 1990 census was 39,917. Housing units total 17,122 with an 88% occupancy rate; 76% are 1-4 family residences, and 66% are owner-occupied. The median housing value is \$38,339 and the median year built is 1961. The 1998 Illinois state-wide non-MSA median family income is \$39,500. The St. Louis MSA median family income is \$51,000. Census information on family incomes aggregated for all census tracts and BNAs in the assessment area indicates that 25.68% of the families have low income, 18.81% moderate income, 23.49% middle income, and 32.03% upper income.

The economic condition of the area is described as stable. Major employers include Cambridge Manufacturer, North American Lighting, World Color Press, and the Centralia Corrections Center,

none of which are located in Sandoval. Sandoval is a small town of 1,500 people that has experienced little to no growth over the last few years and serves as a “bedroom” community for larger cities in the area. The unemployment rate for Marion County as of February 1999 was 7.9%, significantly higher than the State of Illinois’ unemployment rate of 4.5% for the same time period.

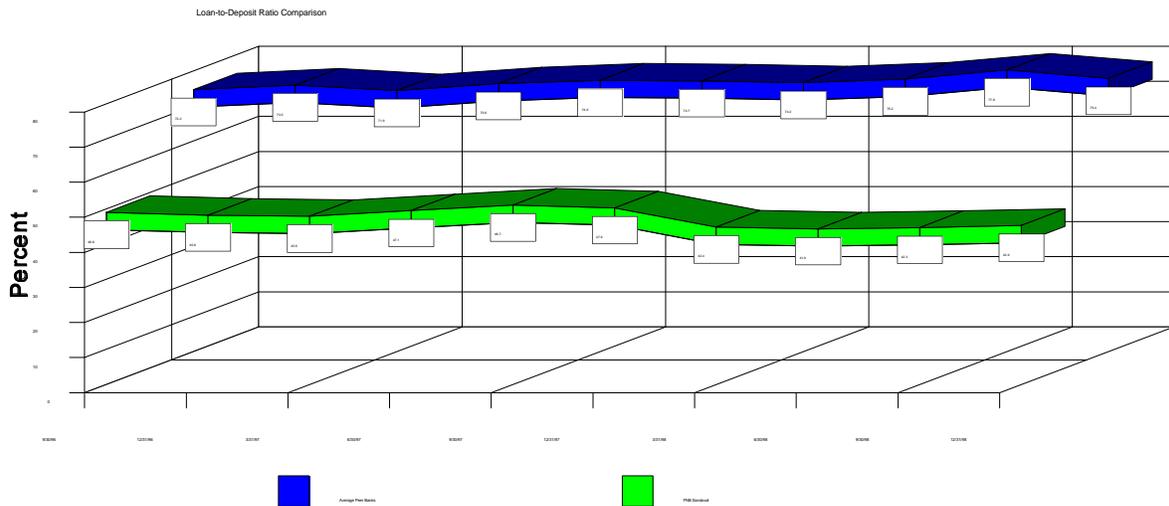
Competition is provided by 11 other financial institutions in Marion and Clinton Counties as well as by branches of larger regional banks. Management believes 5 of these banks located in Centralia, Salem, Hoffman, Irvington, and Carlyle offer the most direct competition.

Community contacts indicated primary credit needs of the area include residential real estate and small business lending to bring new business to the area. First National Bank of Sandoval’s main lending focus is residential real estate; however, one contact stated the bank is not aggressively seeking to make loans and has developed an “ultra conservative” reputation.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Loan-to-Deposit Ratio

The bank’s loan-to-deposit ratio is less than reasonable given the bank’s size, financial condition, and assessment area credit needs. The bank’s quarterly loan-to-deposit ratio has averaged 45% since the last CRA examination dated October 9, 1996. As of December 31, 1998, the ratio was 43% with no sign of improvement. The bank’s loan-to-deposit ratio is substantially lower than other banks in the surrounding area. Five similarly situated area banks have an average quarterly loan-to-deposit ratio of 74% during the same time period. As of December 31, 1998, their average ratio was 75%, ranging from 60% to 93%.



There were no factors identified which would prohibit the bank from expanding their lending activities. Management’s lending culture and conservative nature are the primary reasons for the low loan-to-deposit ratio. Financial institutions located in nearby Centralia and Salem meet other community credit and banking needs. These needs present an opportunity for the bank to increase its lending presence within its assessment area. The major employers are also located in Centralia and Salem.

Lending in the Assessment Area

A substantial majority of the bank’s loans are made within the assessment area. A review of all real estate loans made since September 30, 1996, showed 82% of the dollar amount and 93% of the number were in the assessment area. A review of 30 consumer loans made during the same time period showed 88% of the dollar amount and 90% of the number were in the assessment area. The following tables illustrate the bank’s performance.

Real Estate Loans	Number	Percent	Dollar Amount (000's)	Percent
Inside Assessment Area	180	92.78%	\$4,629	81.92%
Outside Assessment Area	14	7.22%	\$1,022	18.08%

Consumer Loans	Number	Percent	Dollar Amount (000's)	Percent
Inside Assessment Area	27	90.00%	\$127	88.12%
Outside Assessment Area	3	10.00%	\$ 17	11.88%

Lending to Borrowers of Different Income Levels

The distribution of borrowers reflects a reasonable penetration among individuals of different income levels including low- and moderate-income. The bank’s primary product lines are 1-4 family residential loans and consumer loans which make up 40% and 33% of the loan portfolio respectively. A sample of 33 residential real estate loans and 27 consumer loans made within the assessment area and originated since September 30, 1996, were reviewed to determine the level of distribution.

The following table represents the income distribution of the sampled loans made within the bank’s assessment area.

Distribution By Borrower Income								
Demographic Characteristics	Low Income		Moderate Income		Middle Income		Upper Income	
Family Income	25.68%		18.81%		23.49%		32.03%	
Loan Sample	#	\$ Amt	#	\$ Amt	#	\$ Amt	#	\$ Amt
Residential Loans	6.06%	8.19%	21.21%	22.95%	27.27%	25.80%	45.45%	43.07%
Consumer Loans	29.63%	18.83%	29.63%	27.29%	33.33%	40.70%	7.41%	13.18%

The distribution of consumer loans reflects a good penetration among individuals of different income levels exceeding the demographic make-up of the assessment area at all income levels except upper-income. The distribution of residential real estate loans is reasonable; however, there is low penetration at the low-income level. Increased competition exists outside the bank's immediate trade area of Sandoval. Also, there is not much demand for residential mortgages to low-income individuals in the Sandoval area. The Marion County Housing Authority indicated in 1996 that 1 in 6 Sandoval residents resides in public housing provided by the Housing Authority. The assessment area contains a substantial amount of households with income below the poverty level, 16%. Residential real estate loans are not a primary need for households with income at that level.

An analysis of the distribution of business and farm loans of different sizes would not add any meaningful information to this review. According to the 1990 U.S. Census, 92.4% of the businesses in the assessment area had total revenues under \$1 million, and all farms in the assessment area had total revenues under \$1 million. A review of 11 loans or 67% of the bank's commercial and agricultural loan portfolio did not identify any loans in the assessment area to businesses or farms with revenues over \$1 million.

Geographic Distribution of Loans

The geographic distribution of loans reflects a reasonable dispersion throughout the assessment area. A review of all real estate loans made since September 30, 1996, shows 56% of the dollar amount and number of these loans were made in moderate-income tracts, 37% of the dollar amount and 38% of the number in middle-income tracts, and 7% of the dollar and 6% of the number in upper-income tracts. A review of 27 consumer loans made since September 30, 1996, shows 64% of the dollar amount and 59% of the number of these loans were made in moderate-income tracts, 30% of the dollar amount and 33% of the number in middle-income tracts, and 6% of the dollar amount and 7% of the number in upper-income tracts.

The following table illustrates this dispersion.

Distribution of Loans by Income Level of Tract								
Geography Characteristics	Low Income		Moderate Income		Middle Income		Upper Income	
Tract Percentage	0%		40%		50%		10%	
Loan Sample	#	\$ Amt	#	\$ Amt	#	\$ Amt	#	\$ Amt
Residential Loans	0%	0%	55.56%	56.07%	38.33%	37.10%	6.11%	6.84%
Consumer Loans	0%	0%	59.26%	63.98%	33.33%	30.14%	5.89%	7.41%

Response to Complaints

No complaints were received since the prior CRA evaluation.

Compliance with Antidiscrimination Laws

In conjunction with the CRA evaluation, we performed a Fair Lending examination which included a review of the bank's compliance with the Equal Credit Opportunity Act and the Fair Housing Act. No substantive violations of these antidiscrimination laws and regulations were identified.