



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

January 31, 2011

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First Neighbor Bank, National Association
Charter Number 13682

101 North Meridian
Toledo, IL 62468

Office of the Comptroller of the Currency

Champaign Field Office
Harris Center
3001 Research Road, Suite E-2
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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 major factors supporting this rating include:

- First Neighbor Bank's (FNB) distribution of loans represents reasonable penetration to borrowers of different income levels and businesses of different sizes.
- FNB's loan-to-deposit ratio is more than reasonable.
- A substantial majority of the primary product loans originated by FNB are within the assessment area (AA).

SCOPE OF EXAMINATION

FNB was evaluated under the Small Bank examination procedures, which evaluates the bank's record of meeting the credit needs of its AA through its lending activities. The evaluation period for this review is from October 4, 2004 to January 31, 2011.

To evaluate the bank's lending performance, we utilized loans originated by FNB from January 1, 2009 to January 31, 2011. The loan sampling period is representative of the evaluation period as the bank's strategic plan has not changed significantly. Based on both number and dollar volume of loan origination information supplied by the bank, FNB's primary loan products are residential real estate mortgages and business loans. To evaluate the bank's lending performance within these primary products, we selected a sample of residential real estate and business loans made during this time period.

DESCRIPTION OF INSTITUTION

First Neighbor Bank, NA., (FNB) is a \$253 million intrastate institution headquartered in Toledo, Illinois. Toledo is in Cumberland County, which is located in East Central Illinois. FNB is owned by First Neighbor Bancshares, a one-bank holding company.

In addition to the main location, FNB has branches in Casey, Charleston, Greenup, Neoga, and Newman, Illinois. All bank locations also have deposit-taking ATMs at their locations offering 24-hour access. FNB offers a full range of retail and commercial banking products normally associated with a community bank. FNB offers non-retail deposit sales; accounting, payroll, and tax preparation services; crop insurance sales; and, remote banking services. While FNB offers standard loan products, it also offers Farm Service Administration guaranteed loans, Small Business Administration loans, and Rural Development Loans (USDA guaranteed) to help meet the needs of the community. The bank also participates in the Downpayment Plus program through the Federal Home Loan Bank of Chicago.

As of September 30, 2010, net loans were \$167 million, or 72 percent, of total assets, while Tier 1 Capital was \$28 million. The following represents the institution's loan and lease portfolio mix as of September 30, 2010:

Loan Portfolio Summary by Loan Product	
Loan Category	% of Outstanding Dollars
Business Loans	50.26%
Home Loans	29.25%
Farm Loans	11.55%
Consumer Loans	8.12%
Other Loans	.82%

Source: September 30, 2010 CALL Report data

The bank acquired George Corrie, Inc. and Dillion Accounting in 2009. These are two public accounting firms located in Charleston, IL. There have been no other acquisitions or mergers during this evaluation period.

There are no financial, legal, or other impediments hindering the bank's ability to meet the credit needs of its assessment area. Bank activities are consistent with its size, local economic conditions, and credit needs of its community. The bank was rated Outstanding at its last CRA examination, October 4, 2004.

DESCRIPTION OF ASSESSMENT AREA(S)

FNB has one Assessment Area (AA) that is comprised of twenty-five census tracts. All of Cumberland, Coles, Clark, and Douglas counties are included in the AA. In addition, census tract # 0702.00 of Edgar County is included in the AA. This census tract was added due to the close proximity of the branch in Newman, IL. All geographies are in non-metropolitan areas within the state of Illinois. This AA meets the requirements of the regulation and does not arbitrarily exclude any low-or moderate-income areas.

The population of the AA is 103,576. The four census tracts in Clark County and the census tract in Edgar County are considered distressed middle-income census tracts due to population loss. Eighty-one percent of the housing stock is 1-4 family units and 64 percent of the housing stock is owner occupied housing. The following demographic information for the AA is based on 2000 census data:

Demographic Information for the AA					
	#	% Low	% Moderate	% Middle	% Upper
Geographies (Census Tracts)	25	0.00	4.00	92.00	4.00
Owner-Occupied Housing by Geography	44,473	0.00	0.50	95.28	4.22
Businesses by Geography	7,238	0.00	1.01	96.24	2.75
Family Distribution by Income Level	26,343	16.40	19.03	24.15	40.42
Families below poverty level	6.62%				
2010 Median Family Income (MFI)	\$54,600				
2009 Median Family Income	\$54,400				

Source: 2000 U.S. Census Data and 2009/2010 HUD data

The local economy is stable and driven by agriculture and small businesses. Small businesses are defined as those with annual gross revenues of \$1 million or less, and make up 74 percent of

the businesses in the AA.

Within the AA, the Mattoon-Charleston area has the largest employment opportunities. Major employers in the area are Eastern Illinois University, Sarah Bush Lincoln Health Center, Lake Land College, Consolidated Communications, RR Donnelley, General Electric Lamp Plant, and Mars Petcare. Local governments and public school systems also comprise a significant portion of local employment. Additionally, some residents from this AA commute to Champaign-Urbana, IL; Effingham, IL; and, Terre Haute, IN for employment. December 2010 unemployment rates are 10.8 percent for Clark County, 8.0 percent for Coles County, 9.3 percent for Cumberland County, and 8.3 percent for Douglas County. The state of Illinois had an unemployment rate of 9.3 percent, compared to the national rate of 9.4 percent.

Despite the current stable local economy, there are indications that the local poverty rate has been increasing over the last decade. Based upon the 2010 Illinois report prepared by Heartland Alliance's Mid-America Institute on Poverty, Clark, Coles, and Cumberland counties are on the Poverty Watch List. This list is based upon 2008 poverty estimates from the U.S. Census bureau, high school graduation rates, and teenage pregnancy rates. All three of these counties have over ten percent of their population living below the poverty rate. Of these three, Coles County is the highest percentage of population below poverty with 19 percent.

FNB faces average competition from community banks and larger regional and national banks within the AA. There are 25 financial institutions with offices located within the AA. FNB has the second largest deposit market share, 10.95 percent, in Clark, Coles, Cumberland, and Douglas counties.

We performed one community contact with a local real estate agent who serves in both Coles and Cumberland counties. Overall, the contact stated that real estate credit needs are being met; however, small business loans remain a credit need.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

FNB’s performance of meeting the community credit needs is satisfactory. This review concentrated on the bank’s primary loan products, which include business and residential real estate loans. FNB had a more than reasonable loan-to-deposit ratio and a substantial majority of the loans originated were within the AA.

The borrower distribution portion of the lending test is a significant part of the lending test. Thirty-five percent of AA families are low- or moderate-income. Also, a majority of the businesses in the AA are small businesses. FNB has reasonable distribution among businesses of different sizes and borrowers of different income levels.

All criteria of the lending test are documented below:

Loan-to-Deposit Ratio

FNB’s net loan-to-deposit ratio is more than reasonable given the bank’s size, financial condition, AA’s credit needs, and local competition.

The bank’s net loan-to-deposit ratio averaged 83 percent over the 25 quarters since the last CRA examination. This ratio ranged from a quarterly low of 79 percent to a quarterly high of 87 percent during the time period.

The bank’s net loan-to-deposit ratio is favorable when compared with the other ten financial institutions, with total assets between \$100 million and \$400 million, located within the AA and surrounding counties of Effingham, Edgar, Shelby, and Jasper. The average quarterly net loan-to-deposit ratio for these similarly situated banks was 67 percent over the same time period. FNB has the third highest loan-to-deposit ratio of the 11 institutions.

Lending in Assessment Area

A substantial majority of FNB’s primary loan products are made within the bank’s assessment area. Eighty-five percent of the loans sampled were made within the AA.

Lending in the AA										
Type of Loans	Number of Loans					Dollar of Loans (000's)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Residential Real Estate	17	85.00%	3	15.00%	20	\$1,594	82.33%	\$342	17.67%	\$1,936
Business	17	85.00%	3	15.00%	20	\$2,509	91.67%	\$228	8.33%	\$2,737
Totals	34	85.00%	6	15.00%	40	\$4,103	87.80%	\$570	12.20%	\$4,673

Source: Sample of 20 business and 20 real estate loans originated between 1/1/2009 and 1/31/2011.

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

FNB’s distribution of loans to borrowers of different incomes and businesses of different sizes is reasonable.

Residential Real Estate Loans

The distribution of residential real estate loans reflects reasonable penetration among borrowers of different income levels, especially in light of the area’s level of poverty. FNB has reasonable distribution to low-income borrowers. FNB made eight percent of their loans to low-income borrowers. While this is significantly lower than demographic data, it is important to note that seven percent of AA families live below poverty, making it difficult for these families to qualify for home loans. (This poverty rate is from the 2000 U.S. Census data, and recent information suggests that the poverty rate has increased.)

FNB’s distribution to moderate-income borrowers is reasonable, with 13 percent of the bank’s residential real estate loans sampled originated to moderate-income borrowers. This is lower than demographic data that shows 19 percent of families in the AA are moderate-income.

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
% of Total	16.40%	7.89%	19.03%	13.16%	24.15%	31.58%	40.42%	47.37%

Sources: Sample of 38 residential real estate loans originated between 1/1/2009 and 1/31/2011 made within the AA and 2000 US Census data.

Business Loans

The distribution of loans to businesses reflects reasonable penetration among businesses of different sizes. Sixty percent of the bank’s loans to businesses originated in the loan sampling period were made to small businesses. Small businesses are businesses with gross annual revenues of \$1 million dollars or less. This is less than demographic data that shows that 74 percent of businesses in the AA are small businesses.

The bank does make small loans to businesses, as 83 percent of the loans sampled had loan amounts of less than \$100 thousand. With the majority of credits originated being small loans, the number of larger loans reviewed adversely impacted the distribution by dollars. See table below for more information:

Borrower Distribution for Business Loans within AA				
Business Revenues (or Sales)	<= \$1,000,000	> \$1,000,000	Unavailable	Total
% of AA businesses	74.28%	3.70%	22.02%	100.00%
% of bank loans in AA by #	60.00%	30.00%	10.00%	100.00%
% of bank loans in AA by \$	32.29%	57.50%	10.21%	100.00%

Sources: Sample of 40 business loans originated between 1/1/2009 and 1/31/2011 made within the AA and 2000 Dun & Bradstreet data.

Geographic Distribution of Loans

A geographic distribution analysis was not performed. FNB's AA has no low-income geographies and one moderate-income geography. The moderate-income geography is census tract #0008 in Coles County. A majority of this tract is the campus of Eastern Illinois University. The majority of the housing is non-owner occupied due to student rental housing, with only 144 owner-occupied units located in this tract. In addition, there are only 73 businesses within this geography. We determined that the analysis would not be meaningful as lending opportunities in the moderate-income tract are minimal.

Responses to Complaints

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

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.