



PUBLIC DISCLOSURE

January 17, 2017

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The Fairfield National Bank
Charter Number 6609

220 East Main Street
Fairfield, IL 62837

Office of the Comptroller of the Currency

8777 Purdue Road
Indianapolis, IN 46268

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 Lending Test is rated: Outstanding

The Community Development Test is rated: Satisfactory

The Fairfield National Bank's (FNB) lending performance and community development activities reflect an outstanding response to the community credit and community development needs of the bank's AA. This conclusion is based on the following results from our review:

- The loan-to-deposit ratio is considered reasonable.
- The bank originated a substantial majority of loans inside the assessment area.
- The distribution of loans to individuals of different income levels and to farms of different sizes reflects excellent penetration.
- Geographic distribution of loans reflects reasonable dispersion.
- Community development loans, investments, and services provide adequate responsiveness to the community development needs of the bank's assessment area.

Scope of Examination

The Fairfield National Bank (FNB) was evaluated under the Intermediate Small Bank examination procedures, which include a lending test and a community development (CD) test. The lending test evaluates the bank's record of meeting the credit needs of its assessment area (AA) through its lending activities. The CD test evaluates the bank's responsiveness to CD needs in its AA through CD lending, qualified investments, and CD services. For CD activities, we also considered donations made by the bank's affiliate, Fairfield National Bank Community Foundation.

Conclusions regarding the bank's lending performance are based on the bank's primary loan products of consumer and agricultural loans. The lending test for FNB covers its performance from January 1, 2014 through December 31, 2016, as this is representative of its lending strategy since the last CRA evaluation. We reviewed 20 consumer and 20 agricultural loans from this time period for our review. The evaluation period for the CD test is from November 5, 2013 through January 17, 2017.

Description of Institution

FNB is an intrastate bank headquartered in Fairfield, Illinois. As of September 30, 2016, FNB had total assets of \$496 million and tier one capital of \$52 million. FNB is wholly owned by Fairfield Bankshares, Inc., a one-bank holding company. FNB's assets represent substantially all of the holding company's assets; however, the bank has an affiliate whose primary purpose is philanthropic activities (Fairfield National Bank Community Foundation).

In addition to the main office, FNB operates two full-service branches, four deposit taking ATMs and four ATMs that do not take deposits. One branch, located in Bridgeport, Illinois was sold since the prior CRA evaluation. There have not been any significant changes to FNB's corporate structure, including merger or acquisition activities, since the last CRA evaluation.

The bank provides its customers with a full range of banking products and services. Lending products are mainly focused on consumer and agricultural lending in the assessment area (AA). The table below shows a summary of FNB's loan portfolio as of September 30, 2016.

FNB's Investment in Loans			
(9/30/16 Uniform Bank Performance Report)			
Loan Category	Amount (\$000's)	Percent of Total Loans	Percent of Total Assets
Real Estate	\$114,795	40%	23.1%
Commercial Loans	125,363	45%	25.3%
Individual Loans	13,698	5%	2.8%
Agricultural Loans	27,150	10%	5.5%
Total	\$281,006	100%	56.7%

The bank's ability to meet the credit needs of its AA is not impaired by its financial condition or other impediments. FNB was assigned a satisfactory rating in its prior CRA performance evaluation dated November 4, 2013.

Description of Assessment Area(S)

FNB has one AA consisting of eleven census tracts (CTs) in Illinois. Management designated all of Wayne County (CTs 9549, 9550, 9551, 9552, and 9553), two CTs in Edwards County (9570, and 9571), two CTs in Jefferson County (502 and 504), one CT in White County (9582), and one CT in Wabash County (9572) as their AA. The AA consists of one moderate-income CT (9552). The remaining CTs are middle-income.

Since the prior CRA Evaluation, the Bridgeport, Illinois branch, located in Lawrence County was sold; therefore, the bank removed CT 9809, located in Lawrence County, from the AA. All CTs are located within non-Metropolitan Statistical Areas (non-MSA).

Local competition in the area is strong. There are 17 banks within the five county area with local deposits totaling \$1.885 billion. Fourteen of these are community banks and three are larger regional banks. As of June 30, 2016, FNB’s deposit market share within the area is 17.2 percent and ranks first among the 17 banks.

The local economy is currently stable. Economic activity in the area is relatively diverse, with agriculture, services, and health care facilities being the primary economic activities. Major employers include Fairfield Memorial Hospital, Horizon Healthcare and the Fairfield public school system. Many residents in the AA also commute to the Mt. Vernon, IL area for employment. Mt. Vernon’s largest employers are Continental Tire, and a Walgreens distribution center. Average unemployment for the area is higher than the statewide rate. The September 2016 unemployment rate for Wayne County was 8.5 percent, compared to the statewide rate of 5.4 percent.

The following is demographic data for the AA.

Demographic Information for Fairfield National Bank’s AA – 2010 Census					
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #
Geographies (Census Tracts/BNAs)	11	0.00%	9.09%	90.91%	0.00%
Population by Geography	36,502	0.00%	8.42%	91.58%	0.00%
Owner-Occupied Housing by Geography	11,424	0.00%	7.84%	92.16%	0.00%
Business by Geography	1,716	0.00%	23.83%	76.17%	0.00%
Farms by Geography	394	0.00%	8.12%	91.88%	0.00%
Family Distribution by Income Level	10,003	19.82%	21.30%	24.25%	34.63%
Distribution of Low and Moderate Income Families throughout AA Geographies	4,114	0.00%	11.08%	88.92%	0.00%
Median Family Income		\$51,568	Median Housing Value		\$68,981
FFIEC Updated Median Family Income (MFI) for 2016		\$58,600	Unemployment Rate (2010 US Census)		3.73%
Households Below Poverty Level		12.78%			

Source: 2010 US Census; and 2016 FFIEC updated MFI.

In conducting the assessment of the bank’s performance, we performed two community contacts. We contacted representatives from one grassroots community group, and one business and labor group. The contacts noted the economy is weak but stable. Our contacts stated the local economy would benefit from basic financial literacy classes and small business lending. The community contacts noted local financial institutions are responsive to the needs of the community.

Conclusions with Respect to Performance Tests

LENDING TEST

FNB’s performance in helping meet the needs of its AAs through lending is excellent, given the demographics, economic factors, competitive pressures, credit needs of the community, and other lending related activity.

Loan-to-Deposit Ratio

FNB’s loan-to-deposit (LTD) ratio is reasonable given the bank’s size, financial condition, and assessment area credit needs. The bank’s LTD ratio averaged 77.2 percent over the 12 quarters since the last CRA evaluation, with a quarterly low of 66.0 percent and a quarterly high of 91 percent.

The bank’s LTD ratio compares favorably with other community banks of similar size, location, and product offerings. FNB ranks third out of a total of seven similarly situated banks serving its assessment area. The other six banks had LTD ratios averaging 73.0 percent and ranging from 61.0 percent to 92.0 percent.

Lending in Assessment Area

A substantial majority of the primary loan products originated by FNB are to customers within the AA. Based on our sample of 40 loans, 80.0 percent by number and 83.6 percent by dollar amount were made within the AA.

Lending in the Assessment Area										
Type of Loan	Number of Loans					Dollars of Loans (000's)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Consumer Loans	16	80.00%	4	20.00%	20	\$194	93.69%	\$13	6.31%	\$207
Agricultural Loans	16	80.00%	4	20.00%	20	\$1,243	73.46%	\$449	26.54%	\$1,691
Totals	32	80.00%	8	20.00%	40	\$1,436	83.58%	\$462	16.42%	\$1,898

Source: Sample of 20 agricultural and 20 consumer loans originated between January 1, 2014 and December 31, 2016.

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

FNB’s lending distribution to borrowers of different income levels and farms of different sizes reflects excellent penetration.

Farm Loans

The distribution of loans to farms of different sizes is excellent. The percentage of loans extended to farms with gross annual revenues of \$1 million or less is higher than the percentage of small farms within the AA.

Borrower Distribution of loans to Farms in the Assessment Area				
Farm Revenues	<= \$1,000,000	> \$1,000,000	Unavailable	Total
% of AA Farms	98.22%	0.51%	1.27%	100.00%
% of Bank Loans in AA by #	100.00%	0.00%	0.00%	100.00%
% of Bank Loans in AA by \$	100.00%	0.00%	0.00%	100.00%

Source: Sample of 20 farm loans; 2014 Business Demographics Data

Consumer Loans

The distribution of loans to borrowers of different incomes is excellent. The percentage of consumer loans extended to consumers with low-income exceeds the percentage of low-income households within the AA. In addition, the percentage of consumer loans extended to consumers with moderate-income is near to the percentage of moderate-income households within the AA.

Borrower Distribution of Consumer Loans in the Assessment Area								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
% of Total	23.75%	40.00%	17.35%	15.00%	19.58%	30.00%	39.32%	15.00%

Source: Sample of 20 consumer loans; 2010 U.S. Census data.

Geographic Distribution of Loans

FNB’s geographic distribution of loans reflects reasonable dispersion within the AA. There are no low-income geographies and one moderate-income geography in the AA.

Farm Loans

The geographic distribution of farm loans reflects reasonable dispersion in the AA, even though our sample did not identify any farm loans extended in the moderate-income CT. In evaluating the geographic distribution of farm loans, we considered the low number of farms (32) located in the moderate-income CT, and the high competition for those loans.

Geographic Distribution of Agricultural Loans in the Assessment Area								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% 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
% of Total	0.00%	0.00%	8.12%	0.00%	91.88%	100.00%	0.00%	0.00%

Source: Sample of 20 farm loans; 2016 Dunn and Bradstreet Data.

Consumer Loans

The geographic distribution of consumer loans is reasonable in the AA. The percentage of consumer loans made to borrowers in the moderate-income CT exceeds the percentage of households located in the moderate-income CT.

Geographic Distribution of Consumer Loans in the Assessment Area								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans						
% of Total	0.00%	0.00%	11.04%	20.00%	88.96%	80.00%	0.00%	0.00%

Source: Sample of 20 consumer loans; 2010 U.S. Census data

Responses to Complaints

There were no consumer complaints related to the bank’s CRA performance during the evaluation period.

COMMUNITY DEVELOPMENT TEST

FNB’s performance under the community development (CD) test is satisfactory. FNB demonstrates adequate responsiveness to the community development needs of its AA, considering its performance context and the needs and opportunities within its AA.

Number and Amount of Community Development Loans

FNB originated eighteen CD loans during the evaluation period totaling approximately \$1.81 million. CD loans included:

- Seven loans totaling \$304,000, to a small business, employing seven people, located in a moderate-income CT.
- Three loans, totaling \$988,000, to relocate a business to a moderate-income CT, employing 45 people.
- Three loans, totaling \$324,000, to a small business located in a moderate-income CT.

Number and Amount of Qualified Investments

FNB made \$12.74 million in qualified investments and donations. The Fairfield National Bank Foundation made an additional \$52,000 in qualified donations. Some of these investments and donations include:

- Investments for capital improvements to schools located in distressed or undeserved CTs.
- Multiple donations to organizations providing services to LMI individuals.

- Donations to organizations revitalizing distressed or underserved CTs.

Extent to Which the Bank Provides Community Development Services

FNB's CD services performance of its AA, considering the bank's capacity and the need and availability of such opportunities in the AA, is summarized below:

- A FNB representative provided CD services to the Fairfield Chamber of Commerce. The Chamber of Commerce promotes new business opportunities and existing businesses within the city. CD services include reviewing financial information and performing outreach events.
- A bank representative provided CD services to the Fairfield Memorial Hospital Foundation. The foundation performs the primary fundraising for the hospital. CD services provided by the foundation include coordinating, assisting with, and attending fundraising activities.
- A FNB representative provides CD services as a trustee of the Fairfield Community Industrial Trust organization. The organization provides CD services to businesses looking to locate or expand their business operations in Fairfield.
- FNB representatives provided CD services to two Wayne County schools by teaching elementary school student the use of money and finances in a real world setting through Junior Achievement. The majority of students in this school district are from LMI families. A bank representative also sits on the advisory board for Junior Achievement.
- A FNB representative provided CD services to Fairfield Memorial Hospital. The representative is a board member at the hospital, which is located within the bank's AA.
- A FNB representative provided CD services to the Fairfield Industrial Development Committee. The organization provides CD services to businesses looking to locate or expand their business operations in Fairfield.
- A FNB representative provided CD services to The Greater Wabash Regional Planning Commission. The Commission serves Edwards, Lawrence, Richland, Wabash, and Wayne Counties. Both Wabash and Edwards counties are designated as underserved. The Commission provides services, such as planning, technical assistance, and project development in the communities.
- A FNB representative provided CD services to a business development corporation in the AA. The corporation builds homes and sells them to LMI individuals at cost. Small business owners are employed to build the homes. CD

services include serving as a board member, reviewing financial information, and approving purchase requests.

Responsiveness to Community Development Needs

FNBs community development performance demonstrates adequate responsiveness to the community development needs of its AA, given the identified needs of small business lending and financial literacy education.

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