



PUBLIC DISCLOSURE

May 18, 1998

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First National Bank in Newton
Charter #14074**

**204 West Washington Street
Newton, Illinois 62448**

Office of the Comptroller of the Currency

**2009 Fox Drive, Suite B
Champaign, IL 61820**

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 CRA performance of **First National Bank in Newton** prepared by Office of the Comptroller of the Currency, the institution's supervisory agency, as of May 18, 1998. Our assessment of the bank's performance covers the period since February 2, 1995. The rating received at that time was "Satisfactory Record of Meeting Community Credit Needs". 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 **Satisfactory Record of Meeting Community Credit Needs**.

This rating is based on analyses of the bank's lending performance during 1996, 1997, and through March 31, 1998. We focused on this period, as loan volume increased significantly from out-of-territory lending to car rental franchises, leasing companies, and resort funding. The lending performance test includes analysis of the bank's average loan-to-deposit ratio, the volume of total lending within the bank's assessment area, the distribution of credit to borrowers of different incomes and to businesses of different sizes, the distribution of credit among low- and moderate-income geographies within the assessment area, and the bank's level of compliance with Fair Lending laws and regulations.

The bank's Satisfactory Record of Meeting Community Credit Needs rating is supported by the following:

- The bank's loan-to-deposit ratio is reasonable given the assessment area's credit needs.
- The bank's level of lending inside the assessment area does not meet the standards for satisfactory performance. A substantial majority of the dollar volume of loans originated during the evaluation period was outside the assessment area. This results from the bank's business strategy to market commercial loans out-of-territory. However, this is compensated by the fact that the bank continues to service the credit needs of the local community at levels similar to those prior to making out-of-territory loans.

- The distribution of loans inside the assessment area to individuals of different income levels and businesses and farms is reasonable.
- The distribution of credit among different geographies within the assessment area is reasonable.

DESCRIPTION OF INSTITUTION

The First National Bank in Newton is a \$57 million institution in Newton, Illinois. Newton is a rural community of approximately 3,100 residents, and located in Jasper County. Newton is located on State Highway 33, approximately 25 miles southeast of Effingham, Illinois and 60 miles southwest of Terra Haute, Indiana. The bank has no branches or ATM facilities. The institution is 80.14% owned by First National Bancshares in Newton, Inc., a one bank holding company.

The table below shows the changes in the composition and growth of the loan portfolio from March 31, 1995 to March 31, 1998.

LOAN PORTFOLIO MIX					
Table 1					
	<i>March 31, 1995</i>		<i>March 31, 1998</i>		
<i>Loan Category</i>	<i>\$000's</i>	<i>% Loans</i>	<i>\$000's</i>	<i>% Loans</i>	<i>Dollar Loan Growth</i>
Real Estate	6,946	43%	14,453	30%	+108%
Commercial & Other	3,941	24%	29,596	62%	+651%
Consumer Installment	2,806	17%	1,136	2%	-60%
Agricultural	2,514	16%	2,539	5%	+1%
Total Gross Loans	16,207	100%	47,724	100%	+194%

Source: Call report data submitted for quarter end March 31, 1995 and March 31, 1998.

From 1992 to 1994, the bank's loan volume was declining, with net loans dropping as low as \$15,750 million as of December 31, 1994. Management attributed the drop to declining local loan demand. To increase loan volume, the bank in 1995 began funding out-of-territory loans to car rental franchises, leasing companies, and resort funding. This out-of-territory lending resulted in significant growth in of commercial loans during the assessment period.

Initial funding for the out-of-territory loans came from bank investments. To further increase out-of-territory lending, and to ensure that local deposit funding was available for local loans, management in 1995 sought additional funding through brokered deposits. In early 1996, the bank began marketing deposits through the Internet, and as of March 31, 1998, the bank has purchased approximately \$17 million in out-of-territory deposits. As noted in *Table 2*, the funding for the increase in net loans during the assessment period came from the bank's investment portfolio and increased deposits. The dollar volume of lending inside the assessment area has remained approximately the same.

MAJOR BALANCE SHEET CATEGORIES			
Table 2			
	<i>December 31, 1994</i>	<i>March 31, 1998</i>	
<i>Category</i>	<i>\$000's</i>	<i>\$000's</i>	<i>Dollar Change</i>
Investments and Federal Funds Sold	22,098	6,087	-16,011
Net Loans	15,570	47,149	+31,579
Total Deposits	35,425	50,509	+15,084

Our discussion with two local business leaders revealed that extensive local banking services and credit availability are available, given the area's population. Credit demand is centered in small business, consumer, and home loans. The bank serves the credit needs of the community by offering a variety of loan products: balloon notes for residential real estate with terms from one to three years, home improvement loans, installment loans for consumers, small business loans, commercial real estate loans, farm real estate loans, farm equipment loans, and farm operating loans.

The bank's efforts to make local loans is reasonable. Our review of denial notices found the bank approving a high percentage of local residential and consumer loan applications. In addition, the bank advertises loan products on the local radio station and periodically in the local newspaper.

The bank has no financial or legal impediments that restrict it from meeting the credit needs of its local community.

DESCRIPTION OF ASSESSMENT AREA

The bank's assessment area is Jasper County, population 10,609. Jasper County consists of three Block Numbering Areas (BNAs). Based on 1990 census data, one BNA, generally congruous with the Town of Newton's boundaries, is designated moderate-income. The other two BNAs

cover the rest of rural Jasper County and are designated middle-income. The following demographic information for Jasper County is based on 1990 census data:

Housing Stock:	84% of the housing units are 1-4 family.
Occupancy:	76% are owner occupied, 16% are renter occupied, and 7% are vacant.
Home Values:	Median home value is \$41,142.
Age of Homes:	Median year of homes built is 1962.
Income:	Median family income is \$26,590.
Income Levels:	22% of families are considered low-income, 22% are moderate income, 26% middle-income, and 30% are upper-income.

The local economy has showed downward trends. Unemployment statistics from the Illinois Department of Commerce and Community Affairs show that Jasper County has an unemployment rate of 11.8% for 1997; the second highest in Illinois. This is over double the 1995 Jasper County rate of 5.2%. The increase in the unemployment rate can almost be entirely attributed to the closing of the United Technologies factory in Newton. Approximately 400 employees lost their jobs when production in the plant was moved to Mexico. Due to the low employment rate in neighboring Effingham County at 4.9%, many residents commute to Effingham for employment.

The Peoples State Bank of Newton and Sainte Marie State Bank are the only other banks that are headquartered in Jasper County. Two branches from banks headquartered outside of Jasper County are also located in Newton. Other competition comes from financial institutions in Oblong and Greenup, Illinois.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

LOAN-TO-DEPOSIT RATIO

The First National Bank of Newton's loan-to-deposit ratio is reasonable. During the assessment period, the bank's net loan-to-deposit ratio ranged from 48% to 93%, and averaged 83%. This average ratio is higher than the 56% average net loan-to-deposit ratio of five competing banks in Jasper, Crawford, Effingham, and Cumberland Counties. The increase in the loan-to-deposit ratio resulted from the bank's significant growth in out-of-territory loans. Total assets of the five competing banks range from \$23 million to \$117 million.

LENDING IN THE ASSESSMENT AREA

The bank's lending inside the assessment area does not meet the standards for satisfactory performance as a significant level of loans are originated outside the assessment area. As previously mentioned, in order to increase loan volume, the bank in 1995 began funding out-of-territory commercial loans. As illustrated on *Table 3*, our analysis of bank prepared reports

revealed that 89% of the dollar amount, and approximately 31% of the number of loans, were made outside the bank's assessment area. The high dollar volume of commercial loans originated outside the assessment area can, in part, be attributed to the short term and revolving nature of loans made to car rental franchises for automobile acquisition. An analysis performed by the bank indicates that at March 31, 1998, \$13 million of the \$48 million loan portfolio was extended inside the assessment area.

LOAN PENETRATION ANALYSIS				
Table 3				
<i>Type of Loan</i>	<i>Within Assessment Area</i>		<i>Outside Assessment Area</i>	
Residential Real Estate	\$1,746,642	82%	\$381,003	18%
	73	82%	16	18%
Commercial Loans	\$1,162,308	2%	\$55,925,685	98%
	90	29%	219	71%
Agricultural Loans	\$2,162,291	79%	\$572,136	21%
	137	82%	31	18%
Consumer Loans	\$1,904,493	77%	\$572,694	23%
	566	83%	115	17%
Total	\$6,975,734	11%	\$57,451,518	89%
	866	69%	381	31%

This table is based off a report generated by the bank. This report contained origination amounts for all loans on the bank's books that had an origination date between 1/1/96 and 3/31/98. For this report, the multiple number of loans made to commercial customers outside the assessment area were counted as one loan. Commercial loans include what the bank has designated as business loans and commercial loans secured by real estate. Agricultural loans include farm operating lines and farm loans secured by real estate.

LENDING TO BORROWERS OF DIFFERENT INCOMES AND TO BUSINESSES OF DIFFERENT SIZES

First National Bank in Newton satisfactorily extends credit to consumers of all income levels, and satisfactorily extends credit to the smaller-sized commercial and agricultural borrowers within its assessment area. Twenty-two percent of the population of Jasper County is considered low-income, with an additional twenty-two percent classified as moderate-income. Income levels used in our analysis are based on the 1998 nonmetropolitan median family income for Illinois, which is \$39,500.

Consumer Loan Analysis

First National Bank in Newton originates loans to individuals of different income levels in reasonable proportion to the area's income characteristics. As illustrated on *Table 4*, our analysis

of a residential real estate loan sample indicated that 58% of the number, and 24% of the dollars, of residential real estate loans were made to low- and moderate-income borrowers. As shown on *Table 5*, analysis of an installment loan sample indicates that 87% of the number, and 68% of the dollars, of installment loans were made to low- and moderate-income borrowers.

RESIDENTIAL MORTGAGE LOANS					
Table 4					
<i>Income Level</i>	<i># of Loans</i>	<i>%</i>	<i>\$ of Loans</i>	<i>%</i>	<i>% of Families in Each Category</i>
Low - Income Less than 50% of Median	3	25%	\$39,304	8%	22%
Moderate - Income 50% - 79% of Median	4	33%	\$84,125	16%	22%
Middle - Income 80%-119% of Median	3	25%	\$168,000	32%	26%
Upper - Income 120% or more of Median	2	17%	\$228,000	44%	30%
Totals	12	100%	\$519,429	100%	100%

Source: This table is based on a sample of 12 residential real estate loans from loans that were made in the bank's assessment area between 1/1/97 and 3/31/98.

INSTALLMENT LOANS					
Table 5					
<i>Income Level</i>	<i># of Loans</i>	<i>%</i>	<i>\$ of Loans</i>	<i>%</i>	<i>% of Families in Each Category</i>
Low - Income Less than 50% of Median	21	70%	\$43,986	53%	22%
Moderate - Income 50% - 79% of Median	5	17%	\$12,905	15%	22%
Middle - Income 80%-119% of Median	1	3%	\$2,985	4%	26%
Upper - Income 120% or more of Median	3	10%	\$23,350	28%	30%
Totals	30	100%	\$83,226	100%	100%

Source: This table is based on a sample of 30 consumer installment loans from loans that were made in the bank's assessment area between 1/1/97 and 3/31/98.

Commercial Loan Analysis

The bank's record of lending to businesses and small farms within the assessment area is good. The bank adequately provides small loans to businesses, as all the commercial loans made in the assessment area between January 1, 1997 and March 31, 1998 had origination amounts less than \$100 thousand. Also, the following commercial loan table shows that all of the commercial loans reviewed were extended to businesses with gross revenues below \$1 million. As shown on *Table 7*, the bank satisfactorily provides small dollar agricultural financing to area farmers. All of the farm loans except one, made by the bank within the assessment area between January 1, 1997 and March 31, 1998, had origination amounts less than \$100 thousand.

COMMERCIAL LOANS				
Table 6				
<i>Gross Revenues</i>	<i># of Loans</i>	<i>%</i>	<i>\$ of Loans</i>	<i>%</i>
Less than \$100,000	13	81%	\$82,255	39%
\$100,000 - 250,000	1	6%	\$14,000	6%
\$250,000 - 500,000	0	0%	\$0	0%
\$500,000 - 1,000,000	2	13%	\$117,000	55%
More than \$1,000,000	0	0%	\$0	0%
Totals	16	100%	\$213,255	100%

Source: This table is based on a sample of 16 commercial loans made to businesses located inside the bank's assessment area between 1/1/97 and 3/31/98.

AGRICULTURAL LOANS				
Table 7				
<i>Loan Size</i>	<i># of Loans</i>	<i>%</i>	<i>\$ of Loans</i>	<i>%</i>
Less than \$50,000	82	95%	\$766,368	69%
\$50,000 - 100,000	3	3%	\$204,650	19%
\$100,000 - 500,000	1	1%	\$135,260	12%
More than \$500,000	0	0%	\$0	0%
Totals	86	100%	\$1,106,278	100%

Source: This table is based on the 86 agricultural loans made to farmers located inside the bank's assessment area between 1/1/97 and 3/31/98.

GEOGRAPHIC DISTRIBUTION OF LOANS

Within its assessment area, the bank does a good job of lending in all types of geographies. As previously mentioned, the Town of Newton is designated as moderate-income, and the remaining areas of the county are designated middle-income. As the next table illustrates, local loans are well disbursed throughout the assessment area.

Type of Loans	Residential Real Estate		Consumer Loans		Commercial Loans		Total	
	Loans in moderate-income BNAs	\$694,937	32%	\$930,143	42%	\$562,537	26%	\$2,187,617
	31	9%	266	79%	40	12%	337	100%
Loans in middle-income BNAs	\$1,050,899	41%	\$934,996	36%	\$599,772	23%	\$2,585,667	100%
	42	10%	338	78%	50	12%	430	100%

This table is based off a report generated by the bank. This report contains origination amounts of all loans made between 1/1/96 and 3/31/98.

COMPLIANCE WITH FAIR LENDING LAWS

The First National Bank in Newton is in compliance with the substantive provisions of the anti-discriminatory laws and regulations. There is no evidence of practices to discourage individuals from applying for credit. The bank generally solicits credit from all segments of its assessment area, including the moderate-income area.

WRITTEN COMPLAINTS

The First National Bank in Newton has not received any written complaints about its performance in helping to meet credit needs within its assessment area.