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PUBLIC DISCLOSURE

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

November 22, 1995

First National Bank of Nokomis
Charter Number 14436
122 West State Street
Nokomis, Illinois 62075

<p>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.</p>

GENERAL INFORMATION

This document is an evaluation of the Community Reinvestment Act (CRA) performance of First National Bank of Nokomis, Nokomis, Illinois, prepared by the Office of the Comptroller of the Currency (OCC), the institution's supervisory agency.

The evaluation represents the OCC's current assessment and rating of the institution's CRA performance based on an examination conducted as of November 22, 1995. It does not reflect any CRA-related activities that may have been initiated or discontinued by the institution after the completion of the examination.

The purpose of the Community Reinvestment Act of 1977 (12 U.S.C. 2901), as amended, is to encourage each financial institution to help meet the credit needs of the communities in which it operates. The Act requires that in connection with its examination of a financial institution, each federal financial supervisory agency shall (1) assess the institution's record of helping to meet the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operations of the institution, and (2) take that record of performance into account when deciding whether to approve an application of the institution for a deposit facility.

The Financial Institutions Reform, Recovery and Enforcement Act of 1989, Pub. L. No. 101-73, amended the CRA to require the Agencies to make public certain portions of their CRA performance assessments of financial institutions.

Basis for the Rating

The assessment of the institution's record takes into account its financial capacity and size, legal impediments, and local economic conditions and demographics, including the competitive environment in which it operates. Assessing the CRA performance is a process that does not rely on absolute standards. Institutions are not required to adopt specific activities, nor to offer specific types or amounts of credit. Each institution has considerable flexibility in determining how it can best help to meet the credit needs of its entire community. In that light, evaluations are based on a review of 12 assessment factors, which are grouped together under 5 performance categories, as detailed in the following section of this evaluation.

ASSIGNMENT OF RATING

Identification of Ratings

In connection with the assessment of each insured depository institution's CRA performance, a rating is assigned from the following groups:

Outstanding record of meeting community credit needs.

An institution in this group has an outstanding record of, and is a leader in, ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Satisfactory record of meeting community credit needs.

An institution in this group has a satisfactory record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Needs to improve record of meeting community credit needs.

An institution in this group needs to improve its overall record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Substantial noncompliance in meeting community credit needs.

An institution in this group has a substantially deficient record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

DISCUSSION OF INSTITUTION'S PERFORMANCE

Institution's Rating:

Based on the findings presented below, this institution is rated: "Satisfactory Record of Meeting Community Credit Needs."

BACKGROUND

Community Profile:

Nokomis is a rural community located in south central Illinois about 50 miles southeast of Springfield, Illinois, and 80 miles northeast of St. Louis, Missouri. Nokomis is in Montgomery County and has a population of approximately 2,500. The local economy is static and is primarily supported by agriculture and small local businesses. The two largest employers in the area are the Community Unit School District and Ronk Electric Industries, Inc. Also, several residents commute to Springfield, Illinois, for various employment.

Bank Profile:

The bank's assets total \$46 million as of September 30, 1995. The bank operates one office located in Nokomis and recently installed an automated teller machine at that office. The bank is wholly owned by First Nokomis Bancorp, Inc., a one-bank holding company. The bank's primary market is agricultural lending. Local competitors are Nokomis Savings Bank and Security National Bank in Witt. Strongest competition comes primarily from larger financial institutions, 15 or more miles away, located in Pana, Taylorville, Hillsboro and Raymond.

Reasonableness of Delineated Community:

The bank's delineated community is reasonable and meets the purpose of CRA. As noted in the bank's CRA Statement, the lending community, known as the bank's trade area, consists of the Nokomis Community Unit School District and adjacent townships, except Raymond and East Fork townships. The bank has also defined a primary lending area, which is a five-mile radius around Nokomis. The delineation is a contiguous area which does not arbitrarily exclude any low- and moderate-income areas.

To support the bank's delineated community, a zip code analysis of the bank's outstanding credit extensions was prepared and reviewed by management and the board. As of August 1995, the zip code analysis showed that 80% of all credit extensions outstanding were in the bank's trade area and 56% were in the primary area.

I. ASCERTAINMENT OF COMMUNITY CREDIT NEEDS

Assessment Factor A - Activities conducted by the institution to ascertain the credit needs of its community, including the extent of the institution's efforts to communicate with members of its community regarding the credit services being provided by the institution.

Methods utilized by the bank to ascertain the credit needs of its community are acceptable and are considered effective. Bank management maintains contact with members of its community through officer calling efforts, market surveys, and membership participation in organizations. Management has established regular contacts with a variety of individuals, public officials, groups and organizations. These contacts represent civic, religious, small business, agricultural, commercial, real estate and economic development throughout the Nokomis area. Bank officers and the directorate are active in groups such as the Nokomis Chamber of Commerce, Montgomery County Farmers Institute, Illinois Beef Council, Farm Bureau and Nokomis Economic Development Corporation. This involvement allows the bank to maintain effective channels of communication with the local community and enables the bank to remain aware of the community's credit needs. Reliance is also placed on the board's knowledge of the bank's trade area as seven out of nine directors reside in the Nokomis area.

Bank officers contact various individuals and community leaders to identify ways that the bank may better serve its customers and to determine what new products may be needed in the community. A questionnaire is utilized to establish and document a dialogue with these individuals. The results of the survey are reviewed at the board meetings apprising all directors of CRA activities.

The board and senior management maintain an affirmative attitude in responding to local input. As a result, the bank developed new products and services such as (list not all inclusive): Adjustable Rate Mortgages, Home

Improvement Program for low- and moderate-income persons, Personal Line of Credit, Small Business Administration (SBA) "Low Doc" Loan Program, Farm Operating Discount Rate Program, extended drive-up hours, and installation of an automated teller machine.

Officers have identified credit needs as residential housing, agricultural including small business loans, and consumer loans. Additionally, the bank has made credit more affordable through more flexible lending by granting numerous loans for under \$1,000. The bank offers conventional credit products that are generally well-suited to the community's identified credit needs.

Assessment Factor C - The extent of participation by the institution's board of directors in formulating the institution's policies and reviewing its performance with respect to the purposes of the Community Reinvestment Act.

The board of directors is routinely involved with and participates in the formulation of bank policies and the review of performance under CRA. Primarily the board acts as an oversight monitoring system for management regarding CRA activities. The board discusses CRA-related issues regularly at its meetings.

Members of the board are involved and aware of CRA activities through their ongoing contact with leaders of the community, participation in local organizations and employment outside the bank. Their involvement provides the bank with insight into community activities and credit needs.

The board of directors appointed a CRA Committee to review the bank's CRA activities, oversee CRA training, and discuss CRA-related issues. This committee is comprised of two board members and all bank officers; they discuss CRA-related issues at the weekly loan discount meetings. Quarterly compliance reports are presented and reviewed at the board meetings apprising all directors of CRA activities.

The board, through the internal audit function, reviews the annual self-assessment of its CRA activities. In addition, CRA training is adequately supported. Regular training is provided to lenders and public contact staff. New employees receive exposure to CRA during orientation.

The bank's CRA Statement is reviewed and approved annually by the board. The most current CRA Statement was approved on March 2, 1995. The CRA Statement includes expanded language to describe some of the CRA activities of the bank.

II. MARKETING AND TYPES OF CREDIT OFFERED AND EXTENDED

Assessment Factor B - The extent of the institution's marketing and special credit-related programs to make members of the community aware of the credit services offered by the institution.

The bank has implemented an adequate marketing and advertising program which primarily functions outside the formal oversight of the board. Marketing and advertising media used by the bank include radio, newspaper, direct mailers and inserts in monthly statements mailed to deposit customers. The advertising program appropriately informs the local community of credit-related products and services offered and any products that have been developed to address identified community credit needs. The bank has marketed all types of loans and services such as home improvement, real estate mortgage, agricultural related and various consumer loans. The bank maintains adequate records of its advertising and these are occasionally reviewed for effectiveness. Additionally, the bank uses its periodic meetings with local realtors to promote new mortgage products.

Bank personnel are available to assist individuals and groups in understanding and applying for credit. A bank officer periodically meets with high school students to discuss and explain credit services.

Assessment Factor I - The institution's origination of residential mortgage loans, housing rehabilitation loans, home improvement loans, and small business or small farm loans within its community, or the purchase of such loans originated in its community.

The bank has made positive efforts to address identified credit needs by originating residential mortgage, home improvement, small business and small farm loans within its community. The majority of the bank's loans are within its

delineated trade area and adequately address the most prominent needs of the community. Lending levels reflect responsiveness to the community's credit needs. On September 30, 1995, the bank's loan-to-deposit ratio was 56%.

The September 30, 1995 Report of Condition indicates that loans secured by 1-4 family residential properties total 25% of the loan portfolio; loans to individuals represent 16%; loans for agricultural production and secured by farmland represent 41%; and small business loans equal 18% of the loan portfolio.

The bank routinely participates in residential mortgage, home improvement, and small business loans; it is actively involved in agricultural lending. It often originates such loans without government guarantees. A vast majority of the bank's commercial loans are to small businesses, and a substantial portion of the loans originated are in agricultural lending. Additionally, the bank frequently makes very small installment loans to members of its community. Strong demand exists for these loans and the bank has responded effectively to this need.

As of November 1995, the bank's loan portfolio included 319 residential mortgage and home improvement loans totaling \$5,365,000; 284 small business loans totaling \$3,407,000; and 599 agriculturally related loans totaling \$8,459,000. The bank also makes housing rehabilitation loans; however, bank management has not compiled data on these loans. See Assessment Factor J for government-guaranteed or subsidized loan programs included in these totals.

The bank introduced a new home improvement program on July 21, 1993. The board allocated \$100,000 to the program designed specifically for low- and moderate-income persons residing in the Nokomis trade area. The bank received limited response and discontinued the program. The CRA Statement lists the majority of the credit products available throughout its local community.

Assessment Factor J - The institution's participation in government-insured, guaranteed or subsidized loan programs for housing, small businesses, or small farms.

While the bank does participate in several guaranteed loan programs, the volume of government-guaranteed or subsidized

loans is low. Government-related lending represents \$720,000 or 3% of the institution's entire loan portfolio. Home improvement, small business and farm credits which are not government-insured or guaranteed are extended throughout the delineated community.

The bank participates in the Illinois Farm Development Authority (IFDA), Small Business Administration (SBA) and Farmers Home Administration (FmHA). Also, the bank participates in a student loan referral program with a bank in Taylorville, Illinois. As of November 1995, the bank's guaranteed loan portfolio included 7 IFDA loans originated from 1984 to June 1995 totaling \$625,000; and 1 FmHA loan originated April 1988 totaling \$95,000. Through the referral program, 28 student loans were granted in 1995. The board approved participation in the SBA "Low Doc" Loan Program on February 2, 1995. To date, the bank has had no participation in the program.

III. GEOGRAPHIC DISTRIBUTION AND RECORD OF OPENING AND CLOSING OFFICES

Assessment Factor E - The geographic distribution of the institution's credit extensions, credit applications, and credit denials.

The geographic distribution of the bank's credit extensions, credit applications and credit denials exhibits an adequate penetration in all segments of the community, including low- and moderate-income areas.

The bank has developed an effective means of monitoring credit extensions and denials. Annually, two directors review the bank's credit extensions, credit applications and credit denials within the bank's trade area to determine the reasonableness of the geographic distribution. CRA maps are maintained depicting the actual location of the applicants. Their findings along with management's responses are used by senior management and the board in establishing loan products, services and marketing strategies.

Assessment Factor G - The institution's record of opening and closing offices and providing services at offices.

The bank's record of providing services is good. Services offered and hours of operation are compatible with the community's needs.

The bank has one office with a walk-up, a drive-up and an automated teller machine that is accessible to all segments of the community. The bank has not opened or closed any offices.

IV. DISCRIMINATION AND OTHER ILLEGAL CREDIT PRACTICES

Assessment Factor D - Any practices intended to discourage applications for types of credit set forth in the institution's CRA Statements.

The bank solicits credit applications from all segments of its community, including low- and moderate-income individuals. The bank does not engage in any practices to discourage applications for the types of credit it offers.

Assessment Factor F - Evidence of prohibited discriminatory or other illegal credit practices.

The OCC performed a fair lending review during the examination. We noted one violation of the Equal Credit Opportunity Act. Until June 1995, the bank's practice required credit applicants under the age of 21 to obtain a qualifying cosigner on any loan, as bank management believed that the legal age to enter into a contract in the State of Illinois was 21. The bank's internal auditor detected the problem and the bank corrected the practice in June 1995. The bank's level of lending within the delineated community was not adversely affected by the practice.

V. COMMUNITY DEVELOPMENT

Assessment Factor H - The institution's participation, including investments, in local community development and redevelopment projects or programs.

The bank's level of participation in community development and redevelopment projects, including investments within the local community, is adequate. The bank has a good working relationship with local government officials and

representatives of the private sector which aids in the identification of community development needs.

The bank supports the local community through the purchase of municipal bond issues. As of November 1995, investments in local municipalities total \$808,000. Additionally, three loans totaling \$416,000 have been extended to local municipalities and community projects.

The bank is a viable part of the community by assisting local municipalities with their financial and housing needs. In May 1994, the bank discounted the sale of bank-owned property to the City of Nokomis to house the City Hall, City Clerk's Office, Police Department, Fire Department, City Street Department, Nokomis Chamber of Commerce Office and Nokomis Public Library. The bank purchased the municipal bonds issued by the City of Nokomis to finance the purchase of the property.

Four years ago a bank director, along with other prominent community leaders, formed the Nokomis Area Community Development Corporation. The corporation was established to stimulate economic and development growth in the Nokomis area. However, to date, no funds have been extended through the corporation.

Assessment Factor K - The institution's ability to meet various community credit needs based on its financial condition and size, legal impediments, local economic conditions and other factors.

There are no known constraints placed on the bank's ability to meet various community credit needs. The bank has adequate resources to provide for the credit needs of its delineated community. The type and amount of CRA activity are consistent with the bank's size, financial capacity, and local economic conditions.

Please refer to page three for the Community and Bank Profiles.

Assessment Factor L - Any other factors that, in the regulatory authority's judgment, reasonably bear upon the extent to which an institution is helping to meet the credit needs of its entire community.

The bank is engaged in other meaningful activities, not covered in the other performance categories, which

contribute toward its efforts to service the needs of the community.

The bank supports many of the local organizations and groups through donations, employee membership, and purchases.