



SMALL BANK

Comptroller of the Currency
Administrator of National Banks
Washington, DC 20219

PUBLIC DISCLOSURE

January 05, 2004

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The First National Bank of Fremont
Charter Number 10718**

**106 E. Toledo Street
Fremont, IN 46737**

**Comptroller of the Currency
Detroit Field Office
26877 Northwestern Highway, Omni Officentre, Suite 411
Southfield, MI 48034**

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 First National Bank of Fremont (FNB of Fremont) has demonstrated an excellent record of originating loans to individuals of different income levels, particularly low- and moderate-income borrowers.
- A substantial majority of the bank's loans were made within its designated assessment areas (AA).
- The geographic distribution of loans reflects a reasonable dispersion throughout the AAs. Additionally, the geographic distribution of loans is similar to the demographic composition of the bank's AAs.
- The First National Bank of Fremont's loan-to-deposit ratio is reasonable. This ratio has been slightly lower than the bank's state peer group in 2003, which includes banks of similar size.
- FNB of Fremont has actively addressed the community's needs through community development services, community development lending, and qualified investments.

DESCRIPTION OF INSTITUTION

The First National Bank of Fremont is a full-service community bank headquartered in Fremont, Indiana. The bank has no subsidiaries. FNB of Fremont is a wholly owned subsidiary of a holding company, American Heritage Banco, Inc. with assets of \$122.5 million as of September 30, 2003. This holding company also owns 92 percent of San Jose Tri-County Bank, which provides financial services to customers located in San Jose and Green Valley, Illinois. The FNB of Fremont represented over 90 percent of the total assets and gross income of the holding company year-to-date ending September 30, 2003.

FNB of Fremont is a six-branch, intrastate bank with branches in Ashley, Orland, Waterloo, Hamilton, and two in Angola, Indiana. FNB of Fremont also has its main office in Fremont as well as a drive-through service window. Five of the six branches operate drive-through service windows in Ashley, Orland, Waterloo, Angola, and Hamilton. There are also ATMs connected to five of the six branches in Ashley, Orland, Angola, Hamilton, and Waterloo. There is also a stand-alone ATM in Fremont.

As of September 30, 2003, FNB of Fremont had total assets of \$115.5 million. FNB of Fremont's loan portfolio represented 64.3 percent of total assets as of September 30, 2003 and Tier One capital was \$8.3 million. FNB of Fremont's policy is to be sensitive and responsive to the changing financial services needs of the community. The bank's primary focus is residential mortgage lending, consumer, and business lending. Consideration was given to the bank's record of performance from the previous evaluation period of February 17, 1999 through January 5, 2004. Lending data from January 1, 2001 through September 30, 2003 was primarily used. The loan portfolio is summarized in Table 1.

Table 1		
FNB of Fremont Loan Portfolio as of September 30, 2003		
Residential Mortgage Loans	\$27,562,058	37.09%
Commercial Loans	\$23,150,159	31.15%
Consumer Loans	\$17,277,356	23.25%
Agricultural	\$ 5,170,399	6.96%
Home Equity Lines	\$ 1,154,598	1.55%
Total Loans Outstanding 9/30/03	\$74,314,570	100.00%

Data Source: FNB of Fremont

As of the date of this evaluation, FNB of Fremont does not have any financial, legal, or other impediments restricting its capacity to serve the community. FNB of Fremont was rated satisfactory during the last CRA evaluation, which was conducted on February 17, 1999.

DESCRIPTION OF ASSESSMENT AREA

FNB of Fremont has two AAs, one of which is the county of Steuben and the other is the county of DeKalb. Most of the bank's lending is in Steuben County, where five of the bank's six branches are located. The Steuben County AA consists primarily of small towns and rural communities. The AA that consists of Steuben County is comprised of nine tracts, two of which are designated as upper income and the remainder as middle income. The AA that consists of DeKalb County is comprised of eight geographies that are all designated as middle-income. There are no moderate- or low-income geographies in either AA and none are arbitrarily excluded. The two AAs meet the requirements of the regulation.

The Indiana state unemployment rate as of September 30, 2003 was 4.8 percent, which is lower than the unemployment rate for Steuben County of 6.2 percent and DeKalb County of 5.3 percent. Major employers include manufacturing companies, school systems, and a hospital. The higher unemployment rates are primarily due to the higher level of auto-related, manufacturing companies either closing or reducing workforce due to unfavorable economic conditions.

Several financial institutions provide competition in the AAs. Currently there are two large commercial banks, two federal savings and loan banks, one midsize bank, two community banks, and one credit union servicing Steuben County. Two large commercial banks, one federal savings and loan bank, and five community banks service DeKalb County. Other institutions and mortgage brokers not located in the bank's AAs also provide home lending services.

The bank is most active in lending and deposit gathering in Steuben County. The bank had 26.81 percent of the deposit market share in this county as of June 30, 2003, second behind First Federal Savings Bank of Angola that had 28.69 percent. In DeKalb County, the bank has one branch and has only .89 percent of the deposit market share as of June 30, 2003.

Three community contacts were made during this evaluation. The community contacts included an interview with two government officials and one former town board president in the Steuben County AA. According to two of the community contacts, the biggest challenge facing the AA, particularly Angola, is finding enough affordable land for manufacturers to buy and move into the community, as well as providing other inducements. Also, some of the contacts noted there is a significant amount of renter-occupied dwellings in the Angola area. According to the contacts, there may be

additional opportunities to provide home purchase financing if the demand shifts to owner-occupied dwellings. These community contacts thought demand might shift toward owner-occupancy if there was more education on credit qualifications and available terms.

In the Fremont area, one contact concluded that the banks in the area were meeting the needs of the community. The contact indicated the town does not presently have a higher-end housing development. The contact said that if higher-income individuals decided to live in town, this might then increase the demand for retail business in the downtown area. He said that some retailers have difficulty operating profitably due to the stiff competition from large retailers in the surrounding areas.

The 2002 HUD estimated non-metropolitan area median family income level for Indiana counties not within a metropolitan area (MA), based on 2000 US census data, was \$52,000 for Steuben County. The 2002 HUD estimated median family income was \$58,500 for DeKalb County, which was part of the Fort Wayne MA for the majority of the evaluation period. The average price of housing, based on average selling price for nine months ended September 30, 2003, was \$177,041 in Steuben County and \$99,925 in DeKalb County.

The Tables 2-1 and 2-2 show demographic data for the Steuben County and DeKalb County AAs based on 2000 census data.

Table 2-1 Demographic data for FNB of Fremont-Steuben Co. AA based on 2000 U.S. Census Data	
2000 Population Information	
Population (16 & older)	25,641
Number of Families	3,936
Percentage of Families by Income	
• Low Income Families	12.97%
• Moderate Income Families	16.35%
• Middle Income Families	26.40%
• Upper Income Families	44.28%
Unemployment	6.20%

BNA Characteristics (Based on HUD Median Family Income)		
• Low (below 50% of median)	0	0.00%
• Moderate (50-80% of median)	0	0.00%
• Middle (80-120% of median)	7	78.00%
• Upper (over 120% of median)	2	22.00%
Housing Information		
• Owner Occupied Units	9,968	57.49%
• Rental Occupied Units	2,770	15.98%
• Vacant Housing	4,599	26.53%

Data Source: Used for determining level of income and type of tract for loans originated year-to-date ending September 30, 2003. 1990 Census data was used for determining the level of income and type of tract for loans originated 2001 and 2002.

Table 2-2		
Demographic data for FNB of Fremont-DeKalb Co. AA based on 2000 U.S. Census Data		
2000 Population Information		
Population (16 & older)	30,196	
Number of Families	10,986	
Percentage of Families by Income		
• Low Income Families	13.82%	
• Moderate Income Families	20.33%	
• Middle Income Families	30.34%	
• Upper Income Families	35.51%	
Unemployment	5.30%	
BNA Characteristics (Based on HUD Median Family Income)		
• Low (below 50% of median)	0	0.00%
• Moderate (50-80% of median)	0	0.00%
• Middle (80-120% of median)	8	100.00%
• Upper (over 120% of median)	0	0.00%
Housing Information		
• Owner Occupied Units	12,341	76.44%
• Rental Occupied Units	2,793	17.30%
• Vacant Housing	1,010	6.26%

Data Source: Used for determining level of income and type of tract for loans originated year-to-date ending September 30, 2003. 1990 census data was used for determining the level of income and type of tract for loans originated in 2001 and 2002.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The bank's loan-to-deposit ratio is reasonable and demonstrates a willingness to provide financial services to the communities it serves. FNB of Fremont meets the criteria for satisfactory performance. FNB of Fremont's average quarterly loan-to-deposit ratio for the 19 quarters ending September 30, 2003 was 75.53 percent.

Based on a review of uniform bank performance report information going back twelve months to September 30, 2002, FNB of Fremont's loan-to-deposit ratio was slightly lower than the average peer, which showed an average net loan-to-deposit ratio of 82.28 percent. FNB of Fremont's peer group includes commercial banks in Indiana with total assets between \$100 million to \$300 million.

Lending in Assessment Area

A substantial majority of loans are in the bank's AAs. This meets the standard for satisfactory performance. During the evaluation we sampled loans from each of the bank's primary loan types. The loans were originated during the time period of January 2001 through September 2003. Table 3 below indicates that 80.4 percent of the loan dollars sampled and 81.1 percent of the number of loans sampled during our evaluation were within the bank's AAs. The FNB of Fremont does provide 100 percent financing in cases where the credit warrants taking the risk.

Loan Product	Number of Loans in Sample #	Dollar Value of Loans Sampled Inside AA \$	Dollar Value of Loans Sampled Outside AA \$	Loans in AAs		Loans outside of AAs	
				#	%	#	%
Residential Mortgage	738	\$38,505,000	\$7,902,000	596	80.76%	142	19.24%
Consumer	30	334,930	41,453	25	83.33%	5	16.67%
Commercial	20	901,762	1,289,961	13	65.00%	7	35.00%
Total Sample	788	\$39,741,692	\$9,233,414	634	80.46%	154	19.54%

Data Source: Random sample of loans from the bank's consumer and commercial portfolios and 100% of residential mortgages originated from 2001, 2002, and year-to-date as of 9/30/03 per the HMDA-LAR.

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

The bank's lending to borrowers of different incomes is excellent and exceeds the standard for satisfactory performance. Lending to businesses of different sizes is reasonable. FNB of Fremont's primary product lines include residential mortgage loans, consumer loans, and commercial loans. The largest dollar volume of originations for the review period was residential mortgage loans; therefore, this segment of lending was given the largest weight. We evaluated 100 percent of the residential mortgage loans originated during the period January 1, 2000 through September 30, 2003 using Home Mortgage Disclosure Act (HMDA) data for those periods. Random samples from the consumer and commercial loan portfolios were also taken. The consumer and commercial loans sampled were originated during the period of January 1, 2000 through September 30, 2003. In drawing our conclusions, we assessed the bank's 2001 and 2002 lending activity based on 1990 U.S.

Census data, and assessed 2003 lending activity based on 2000 U.S. Census data, which is consistent with the manner in which lending data is reported for CRA purposes.

The bank's distribution of residential mortgage loans to borrowers of different income levels is excellent as shown in the four tables below. Lending to low- and moderate-income borrowers is much higher than the percentage of families in each of these categories in both DeKalb and Steuben Counties as shown in the four tables below.

Table 4-1
Lending Distribution in **DeKalb County** Based on Income Level of Residential Mortgage Borrowers for 2001 & 2002

Borrower Income Level	Bank Residential Real Estate Lending Distribution by Number of Mortgage Loans		Percentage of Families in Each Income Category 1990 Census Data
	#	%	%
Low	19	39.58%	15.64%
Moderate	11	22.92%	21.09%
Middle	6	12.50%	31.60%
Upper	12	25.00%	31.67%
Total	48	100.00%	100.00%

Data Source: HMDA-LAR Reports for 2001 and 2002 using 1990 US Census Data.

Table 4-2
Lending Distribution in **DeKalb County** Based on Income Level of Residential Mortgage Borrowers for the year-to-date ending September 30, 2003

Borrower Income Level	Bank Residential Real Estate Lending Distribution by Number of Mortgage Loans		Percentage of Families in Each Income Category 2000 Census Data
	#	%	%
Low	4	17.39%	13.82%
Moderate	12	52.17%	20.33%
Middle	4	17.39%	30.34%
Upper	3	13.05%	35.51%
Total	23	100.00%	100.00%

Data Source: HMDA-LAR Report for 2003 YTD ending 9/30/03 using 2000 US Census Data.

Table 4-3
Lending Distribution in **Steuben County** Based on Income Level of Residential Mortgage Borrowers for 2001 & 2002

Borrower Income Level	Bank Residential Real Estate Lending Distribution by Number of Mortgage Loans		Percentage of Families in Each Income Category 1990 Census Data
	#	%	%
Low	62	16.80%	11.39%
Moderate	111	30.08%	16.76%
Middle	81	21.95%	28.61%
Upper	115	31.17%	43.24%
Total	369	100.00%	100.00%

Data Source: HMDA-LAR Reports for 2001 and 2002 using 1990 US Census Data.

Table 4-4Lending Distribution in **Steuben County** Based on Income Level of Residential Mortgage Borrowers for the year-to-date ending September 30, 2003

Borrower Income Level	Bank Residential Real Estate Lending Distribution by Number of Mortgage Loans		Percentage of Families in Each Income Category 2000 Census Data
	#	%	%
Low	21	13.46%	12.97%
Moderate	38	24.36%	16.35%
Middle	51	32.69%	26.40%
Upper	46	29.49%	44.28%
Total	156	100.00%	100.00%

Data Source: HMDA-LAR Report for 2003 YTD ending 9/30/03 using 2000 US Census Data.

The bank's distribution of consumer loans to borrowers of different income levels is excellent compared to the percentage of households in each income category, as shown in the three tables below. Lending to low- and moderate-income borrowers is greater overall than the percentage of families in these combined categories for both Steuben and DeKalb Counties. The random consumer loan sample did not include any consumer loans for DeKalb County for the period year to date as of September 30, 2003 due to the lesser volume of originations in this county, commensurate with the bank's deposit market share.

Table 5-1Lending Distribution in **DeKalb County** Based on Income Level of Consumer Loan Borrowers for 2001 and 2002

Borrower Income Level	Bank Consumer Lending Distribution Based on Loan Sample		Percentage of Households in Each Income Category 1990 Census Data
	#	%	%
Low	1	20.00%	19.12%
Moderate	1	20.00%	19.57%
Middle	2	40.00%	24.68%
Upper	1	20.00%	36.63%
Total	5	100.00%	100.00%

*Data Source: Random Loan Sampling; 1990 US Census Data used for 2001 and 2002 originations.***Table 5-2**Lending Distribution in **Steuben County** Based on Income Level of Consumer Loan Borrowers for 2001 and 2002

Borrower Income Level	Bank Consumer Lending Distribution Based on Loan Sample		Percentage of Households in Each Income Category 1990 Census Data
	#	%	%
Low	1	8.33%	16.68%
Moderate	5	41.67%	16.07%
Middle	1	8.33%	22.51%
Upper	5	41.67%	44.74%
Total	12	100.00%	100.00%

Data Source: Random Loan Sampling; 1990 US Census Data used for 2001 and 2002 originations.

Table 5-3
Lending Distribution in **Steuben County** Based on Income Level of Consumer Loan Borrowers for the year-to-date ending September 30, 2003

Borrower Income Level	Bank Consumer Lending Distribution Based on Loan Sample		Percentage of Households in Each Income Category 2000 Census Data
	#	%	%
Low	3	37.50%	15.61%
Moderate	2	25.00%	16.43%
Middle	3	37.50%	21.87%
Upper	0	0.00%	46.09%
Total	8	100.00%	100.00%

Data Source: Random Loan Sampling; 2000 US Census Data used for 2003 originations.

FNB of Fremont’s percentage of lending to small businesses is reasonable compared to the percentage of small businesses within the bank’s AA. A majority of the bank’s commercial loans are made to businesses with revenues less than \$1 million. This is demonstrated in Tables 6-1 and 6-2 below. The random commercial loan sample included only one loan in DeKalb County due to the low level of lending in that AA, commensurate with the bank’s deposit market share in this AA. The primary factor affecting the bank’s lending to small businesses is competition within the AA.

Table 6-1 Lending Distribution Based on Revenue Size of Businesses in **DeKalb County**

Revenue Size of Businesses Sampled One loan	Bank Distribution of Commercial Loans by Number of Loans Sampled	Percentage of Businesses in Each Revenue Category
Under \$1 million	100.00%	92.28%
\$1 million and above	0.00%	7.72%
Totals	100.00%	100.00%

Data Source: Random sample of commercial loans originated in 2001, 2002, and year-to-date 9/30/03; 2000 US Census Data.

Table 6-2 Lending Distribution Based on Revenue Size of Businesses in **Steuben County**

Revenue Size of Businesses Sampled 12 loans	Bank Distribution of Commercial Loans by Number of Loans Sampled	Percentage of Businesses in Each Revenue Category
Under \$1 million	66.67%	92.93%
\$1 million and above	33.33%	7.07%
Totals	100.00%	100.00%

Data Source: Random sample of commercial loans originated in 2001, 2002, and year-to-date 9/30/03; 2000 US Census Data.

Geographic Distribution of Loans

A meaningful geographic distribution analysis based on demographics could not be performed, as there are no low- or moderate-income geographies in the AA. Regardless, we observed that FNB of Fremont’s geographic distribution of loans reflects a reasonable dispersion throughout the AAs. During the evaluation we sampled 634 loans that were made in the bank’s AAs. FNB of Fremont’s

lending is more favorably dispersed throughout Steuben County due to a greater presence in that AA. Lending in DeKalb is reasonable based on the one branch located in that AA.

Community Development Activities

During our evaluation, we determined that the bank participates in many community support activities. The bank made qualified investments in the form of donations totaling about \$98,000 in 2001, 2002, and year-to-date ending September 30, 2003 that supported community development programs for low- and moderate-income individuals.

Bank employees and board members volunteered their time to participate in many organizations that provide community development services to low- and moderate-income people. Some of the organizations provide services such as free dinners, payment of utilities such as heat and electricity, significant daycare discounts for low- and moderate-income individuals, payment of hospital bills, scholarships, eye glasses, and books for low- to moderate income individuals.

The bank made a \$400,000 community development loan to finance the new Fremont Youth Outreach and Community Center, which services primarily low- and moderate-income families. The community center provides programs for infants, children and teenagers to aid in the safety and social/educational development.

Responses to Complaints

FNB of Fremont has not received any complaints that affect the bank's Community Reinvestment Act rating.

Fair Lending Review

We found no evidence of illegal discrimination or other illegal credit practices.