



**SMALL BANK**

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

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## **PUBLIC DISCLOSURE**

**December 5, 2006**

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**The First National Bank of Mt. Pulaski  
Charter Number 3839**

**205 E. Jefferson Street  
Mt. Pulaski, IL 62548**

**Comptroller of the Currency  
North Central Illinois & Eastern Iowa Field Office  
111 West Washington Street Suite 300  
East Peoria, IL 61611**

**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:**

**The First National Bank of Mt. Pulaski (FNB) is rated Satisfactory.**

- FNB's distribution of loans to businesses and farms of different sizes is satisfactory.
- FNB's lending to borrowers of different income levels regarding residential real estate is excellent.
- The geographic distribution of loans reflects satisfactory penetration among the census tracts (CT) in the assessment area (AA), including moderate-income census tracts.
- FNB's average loan-to-deposit ratio is reasonable given the bank's size, financial condition, and AA credit needs.
- A majority of the loans originated by FNB are to customers from within its AA.

## **SCOPE OF EXAMINATION**

This Performance Evaluation assesses The First National Bank of Mt. Pulaski's record of meeting the credit needs of the communities in which it operates. We evaluated FNB under the Small Bank performance criterion, which includes a lending test. The lending test evaluates a bank's record of helping to meet the credit needs of its assessment area through its lending activities.

- The evaluation period covers loans originated or purchased from May 14, 2001 through December 5, 2006.
- FNB has two AAs, generating a majority of the bank's loans and deposits. The Springfield AA and the Mt. Pulaski AA will receive full-scope reviews, except the Springfield branch office does not generate a material amount of agricultural loans. The lending test is based on FNB's primary loan products.
- Conclusions regarding the bank's lending performance are based on residential real estate loans, agricultural loans, and commercial loans originated or purchased from January 1, 2004 through September 30, 2006, utilizing 2000 census data.
- We reviewed residential related loans reported under the Home Mortgage Disclosure Act (HMDA) for the years 2004, 2005, and through September 30, 2006.
- We conducted a Data Integrity review of the HMDA data by comparing information from the bank's loan application registers to actual loan files. We found the HMDA data to be accurate and reliable for use in this examination.

- FNB does not maintain revenue information on commercial and agricultural loan customers outside of the individual credit files. Thus, a sample of 25 agricultural and 26 commercial loans from the Logan County AA and 30 commercial loans from the Sangamon County AA originated during the evaluation period were used in accessing the level of lending to commercial and agricultural borrowers of different sizes.

## DESCRIPTION OF INSTITUTION

FNB is a \$41 million intrastate financial institution located in rural Logan County in Central Illinois, approximately thirty miles northeast of Springfield and fifteen miles southeast of Lincoln. The main office is located in Mt. Pulaski, Illinois, and a branch office is located in Springfield, Illinois. Each office is equipped with drive-up facilities and an Automated Teller Machine (ATM).

The bank is a wholly owned subsidiary of First National Financial Corporation, a one-bank holding company headquartered in Mt. Pulaski, Illinois. As of September 30, 2006, the holding company had total assets of \$41 million. The holding company does not own any other subsidiaries and it does not negatively impact the bank's ability to meet the credit needs of the community.

FNB's strategy is to provide financial products and services to meet the needs of the customers in the communities they serve, with an emphasis on the Mt. Pulaski and Springfield areas.

FNB's three primary lending products are residential real estate loans, agricultural loans, and commercial loans. These three lending categories account for ninety-one percent of all loan originations during the evaluation period and ninety percent of the outstanding loan balances as of September 30, 2006. Thus, these three lending products were used for the analysis of this evaluation. Consumer lending is not a primary loan product accounting for the remaining nine percent of all loan originations during the evaluation period and the remaining ten percent of the outstanding loan balances as of September 30, 2006.

<b>Table 1 – Loan Originations by Loan Type from January 1, 2004 through September 30, 2006</b>		
<b>Loan Category</b>	<b>\$ (000)</b>	<b>%</b>
Commercial Loans	\$ 26,632	38%
Residential Loans	\$ 19,485	28%
Agricultural Loans	\$ 17,380	25%
Consumer Loans	\$ 5,893	9%
<b>Total Originations</b>	<b>\$ 69,389</b>	<b>100%</b>

*Source: HMDA and Bank Records from January 1, 2004 – September 30, 2006*

As of September 30, 2006, the bank reported \$26 million in outstanding loans and had a net loans and leases to total assets ratio of sixty-two percent. The loan portfolio consists of the following:

<b>Table 2 – Loan Portfolio Summary by Loan Type September 30, 2006</b>		
<b>Loan Category</b>	<b>\$(000)</b>	<b>%</b>
Commercial Loans	\$ 5,355	21%
Residential Loans	\$ 13,371	52%
Agricultural Loans	\$ 4,427	17%
Consumer Loans	\$ 2,509	10%
<b>Total Loans</b>	<b>\$ 25,662</b>	<b>100%</b>

Source: Call Report September 30, 2006

There are no financial conditions, legal constraints or other factors that would hinder the bank's ability in helping to meet the credit needs of the communities within its assessment areas. Tier 1 capital was reported at \$3.5 million as of September 30, 2006. The bank's previous CRA rating as of May 14, 2001 was Satisfactory.

## **DESCRIPTION OF ASSESSMENT AREAS**

FNB's AAs meet the requirements of the regulation and do not arbitrarily exclude any low- or moderate-income areas. FNB has two AAs, no change from the prior evaluation: the Logan County AA and the Sangamon County AA.

### **Logan County AA**

The Logan County AA covers two CTs not located in an MSA. One CT is designated as middle-income and the other CT is designated as upper-income. The following is demographic information for the assessment area:

<b>Table 3 - Demographic Information for the Logan County Assessment Area</b>					
<b>Demographic Characteristics</b>	<b>#</b>	<b>Low % of #</b>	<b>Moderate % of #</b>	<b>Middle % of #</b>	<b>Upper % of #</b>
Geographies (Census Tracts)	2	0%	0%	50%	50%
Population by Geography	8,707	0%	0%	40%	60%
Owner-Occupied Housing by Geography	1,907	0%	0%	57%	43%
Businesses by Geography	3,510	0%	0%	58%	42%
Farms by Geography	623	0%	0%	42%	58%
Family Distribution by Income Level	1,822	12%	15%	24%	49%
Distribution of Low- and Moderate- Income Families throughout the AA	501	0%	0%	62%	38%
Median Family Income	\$50,677	Median Housing Value			\$73,700

2006 HUD Adjusted Median Family Income for Illinois Non-MSA	\$52,200	Median Year Built	1947
Families Below the Poverty Level	4%	Average Monthly Gross Rent	\$ 455

Source: 2000 U.S. Census Data

### Sangamon County AA

The Sangamon County AA covers eighteen CTs all located in the Sangamon County MSA. There are no CTs in the Sangamon County AA designated low-income; four CTs are designated moderate-income (22%), while the remaining fourteen CTs are designated as middle- or upper-income (78%). The following is demographic information for the assessment area:

<b>Table 4 – Demographic Information for the Sangamon County Assessment Area</b>					
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #
Geographies (Census Tracts)	18	0%	22%	39%	39%
Population by Geography	77,353	0%	11%	55%	34%
Owner-Occupied Housing by Geography	22,924	0%	13%	42%	45%
Businesses by Geography	4,503	0%	18%	42%	40%
Farms by Geography	317	0%	7%	48%	45%
Family Distribution by Income Level	21,504	16%	17%	24%	43%
Distribution of Low- and Moderate-Income Families throughout the AA	6,989	0%	30%	44%	26%
Median Family Income	\$59,288	Median Housing Value		\$100,822	
2006 HUD Adjusted Median Family Income for the MSA	\$64,600	Median Year Built		1972	
Families Below the Poverty Level	5%	Average Monthly Gross Rent		\$ 553	

Source: 2000 U.S. Census Data

### Economic Data

The local economy is considered stable. The October 2006 unemployment rates for Sangamon and Logan Counties compare favorably to the 4.4% national average and to the 4.1% State of Illinois average rate. The October 2006 unemployment rates for Sangamon County (3.5%) and Logan County (3.7%) are below the national and state average rates. The economy of the AA is diversified among agriculture, governmental, education, and medical industries. Major employers include; State of Illinois government and governmental agencies, Memorial Hospital, St. Johns Hospital, the SIU School of Medicine, Horace Mann Insurance, and Franklin Life Insurance company.

We contacted a local public official during the examination. The official indicated the primary credit needs in the assessment area are residential, car, small business and agricultural loan products. He felt FNB and other local financial institutions were actively meeting the credit needs of the area.

The contact stated the economy in the assessment area is stable. He said agriculture dominates the local economy, especially in Logan County. The Springfield area economy remains relatively stable because of all of the jobs associated with state government and the medical industry.

The contact indicated there are no credit needs or banking services not provided for by the local financial institutions. He believes all are offering Internet Banking and debit cards. He said all local banks and their employees remain actively involved in the community.

## **CONCLUSIONS ABOUT PERFORMANCE CRITERIA**

FNB meets the standards for satisfactory performance.

- The distribution of loans to businesses and farms of different sizes is satisfactory.
- The distribution of loans to individuals of different income levels is excellent.
- The geographic distribution of loans reflects satisfactory penetration among the census tracts in the AA, including moderate-income census tracts.
- A majority of the loans originated by FNB are to customers from within its AA.
- FNB's average loan-to-deposit ratio is reasonable given the bank's size, financial condition, and AA credit needs.

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

The distribution of loans reflects a reasonable penetration among individuals of different income levels (including low-, and moderate-income) and businesses and farms of different sizes.

### **Commercial Loans**

The distribution of loans to businesses reflects, given the demographics of the AAs, reasonable penetration among businesses of different sizes. Based on our sample of commercial loans originated by FNB, eighty-seven percent from the Sangamon County AA and ninety-two percent from the Logan County AA were to small businesses. Small businesses are businesses with gross annual revenues of one million dollars or less. The demographic data shows sixty-four percent of the businesses in the Sangamon County AA and sixty-one percent of the businesses in the Logan County AA reporting revenue data have annual gross revenues equal to or less than one million dollars.

The following table shows the distribution of commercial loans among businesses of different sizes within the AAs:

**Table 5 – Borrower Distribution of Loans to Businesses of Different Sizes in the Sangamon County AA**

Business Revenues	Number of Loans		% Businesses in AA**	Dollars of Loans	
	#	%		\$(000)	%
≤\$1,000,000	26	87%	64%	\$ 2,767	62%
>\$1,000,000	4	13%	5%	\$ 1,714	38%
Total	30	100%	69%	\$ 4,481	100%

Source: Bank records on new loans originated during 2004 through 2006; 2000 Census Data.

\*\* 31 percent of AA businesses did not report revenue data.

**Table 6 – Borrower Distribution of Loans to Businesses of Different Sizes in the Logan County AA**

Business Revenues	Number of Loans		% Businesses in AA**	Dollars of Loans	
	#	%		\$(000)	%
≤\$1,000,000	24	92%	61%	\$ 617	97%
>\$1,000,000	2	8%	4%	\$ 20	3%
Total	26	100%	65%	\$ 637	100%

Source: Bank records on new loans originated during 2004 through 2006; 2000 Census Data.

\*\* 35 percent of AA businesses did not report revenue data.

**Residential Real Estate Loans**

The distribution of borrowers reflects, given the demographics of the AAs, excellent penetration among individuals of different income levels. The distribution of HMDA loans exceeds the level of satisfactory performance. FNB’s lending to moderate-income borrowers is excellent as it exceeds the percentage of moderate-income families in Sangamon County and is significantly above the percentage of moderate-income families in Logan County. FNB’s lending to low-income borrowers exceeds the percentage of low-income families in the Logan County AA and is near the percentage of low-income families in the Sangamon County AA; this is considered good given a family poverty rate of four percent in Sangamon County and five percent in Logan County.

**Table 7 – Borrower Distribution of Residential Real Estate Loans in the Sangamon County AA**

Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Families	% of Number	% of AA Families	% of Number	% of AA Families	% of Number	% of AA Families	% of Number
Residential	16%	14%	17%	23%	24%	29%	43%	34%

Source: HMDA records from January 1, 2004 to September 30, 2006; 2000 Census Data.

**Table 8 – Borrower Distribution of Residential Real Estate Loans in the Logan County AA**

Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number	% of AA Families	% of Number	% of AA Families	% of Number	% of AA Families	% of Number
Residential	12%	13%	15%	34%	24%	24%	49%	29%

Source: HMDA records from January 1, 2004 to September 30, 2006; 2000 Census Data.

### **Agricultural Loans**

The distribution of agricultural loans reflects, given the demographics of the AAs, reasonable penetration among farms of different sizes. Ninety-six percent of agricultural loans originated by FNB from the Logan County AA were to small farms. Small farms are farms with gross annual revenues of one million dollars or less. The demographic data shows ninety-nine percent of the farms in the Logan County AA reporting revenue data, have annual gross revenues equal to or less than one million dollars. FNB did not originate any agricultural loans in the Sangamon County AA, which is reasonable as the branch is located in the city of Springfield.

The following table shows the distribution of agricultural loans among farms of different sizes within the AAs:

<b>Table 9 – Borrower Distribution of Loans to Farms of Different Sizes in the Logan County AA</b>					
Farm Revenues	Number of Loans		% Farms in AA**	Dollars of Loans	
	#	%		\$(000)	%
≤\$1,000,000	24	96%	99%	\$ 2,862	95%
>\$1,000,000	1	4%	1%	\$ 150	5%
Total	25	100%	100%	\$ 3,012	100%

Source: Bank records on new loans originated during 2004 through 2006; 2000 Census Data.

### **GEOGRAPHIC DISTRIBUTION OF LOANS**

The geographic distribution of loans reflects reasonable dispersion throughout the Sangamon County AA. There are no low- and moderate-income CTs in the Logan County AA. The geographic distribution for agricultural loans was not performed as it would not be meaningful since all of the agricultural loans originated within the AAs are in Logan County, where there are no low- and moderate-income CTs.

### **Commercial Loans**



FNB’s geographic distribution of commercial lending reflects a reasonable dispersion in CTs of different income levels, including low- and moderate-income CTs. Based on the commercial loans originated in the evaluation period, the percentage of commercial loans originated in moderate-income CTs is near the level of commercial businesses located in moderate-income CTs within the Sangamon County AA.

<b>Table 10 – Geographic Distribution of Loans to Businesses in the Sangamon County AA</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number	% of AA Businesses	% of Number	% of AA Businesses	% of Number	% of AA Businesses	% of Number
Commercial	0%	0%	18%	16%	42%	42%	40%	60%

Source: Bank records on new loans originated during 2004 through 2006; 2000 Census Data.

**Residential Real Estate Loans**

FNB’s geographic distribution of residential lending reflects a reasonable dispersion throughout the CTs of different income levels, including moderate-income CTs. The percentage of residential loans originated in moderate-income CTs is above the level of owner occupied housing located in the moderate-income CTs within the AA. The geographic distribution for residential loans in the Logan County AA was not performed as it would not be meaningful since there are no low- and moderate-income CTs.

<b>Table 11 – Geographic Distribution of Residential Real Estate Loans in the Sangamon County AA</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Owner Occupied Housing	% of Number	% of AA Owner Occupied Housing	% of Number	% of AA Owner Occupied Housing	% of Number	% of AA Owner Occupied Housing	% of Number
Residential	0%	0%	13%	16%	42%	42%	45%	42%

Source: HMDA records from January 1, 2004 to September 30, 2006; 2000 Census Data.

**LENDING IN THE ASSESSMENT AREA**

A majority of the loans originated by FNB are to customers within its AA. FNB's lending to customers within the AA for all loan types is reasonable. The following table details the bank's lending within the AA by number of loan originations and dollar volume during the evaluation period.

<b>Table 12 – Loans Originated within the Assessment Area</b>										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total \$(000)
	#	%	#	%		\$(000)	%	\$(000)	%	
Commercial	162	64%	93	36%	255	\$ 17,225	80%	\$ 4,235	20%	\$ 21,460
Residential	150	56%	120	44%	270	\$ 11,571	59%	\$ 7,914	41%	\$ 19,485
Agriculture	183	79%	50	21%	233	\$ 14,537	84%	\$ 2,843	16%	\$ 17,380
Totals	495	65%	263	35%	758	\$ 43,333	74%	\$ 14,992	26%	\$ 58,325

Source: Bank HMDA-LAR and records on new loans originated in 2004, 2005, and through September 30, 2006.

### **LOAN-TO-DEPOSIT RATIO**

FNB's average loan-to-deposit ratio is reasonable given the bank's size, financial condition, and AA credit needs. FNB's quarterly average loan-to-deposit ratio for the period April 1, 2001, to September 30, 2006, was sixty-seven percent. The quarterly average loan-to-deposit ratio for other similarly situated financial institutions over the same time period ranged from forty-two percent to eighty-seven percent. FNB's average loan-to-deposit ratio is comparable with the other five similarly situated banks, which range in asset size from \$38 million to \$72 million. The similarly situated banks utilized for comparison purposes are community banks located in Sangamon and Logan counties.

### **RESPONSES TO COMPLAINTS**

FNB has not received any complaints about its performance in helping to meet the credit needs within its AA 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.