



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

June 30, 2008

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The First National Bank of Arcola
Charter Number 2204

127 South Oak
Arcola, IL 61910-0000

Office of the Comptroller of the Currency

CENTRAL ILLINOIS & CENTRAL IND
3001 Research Road Suite E2
Champaign, IL 61822-0000

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 Satisfactory.

The major factors that support this rating include:

- The First National Bank of Arcola's (FNBA) distribution of loans represents reasonable penetration among businesses and farms of different sizes.
- A substantial majority of FNBA's primary loan products were made within the bank's assessment area.
- FNBA's loan to deposit ratio is reasonable based upon low local loan demand and a unique deposit structure.

SCOPE OF EXAMINATION

FNBA was evaluated under the Small Bank examination procedures, which evaluates the bank's record of meeting the credit needs of its assessment area (AA) through its lending activities.

The lending test for FNBA covers its performance from January 1, 2006 through June 29, 2008, as this is representative of its lending strategy since the last CRA examination. Based on both number and dollar of loan origination information supplied by the bank, FNBA's primary loan products are farm and business loans. To evaluate the bank's farm and business lending performance, we selected a sample of business and farm loans made during this time period.

DESCRIPTION OF INSTITUTION

FNBA is an intrastate bank headquartered in Arcola, Illinois. Arcola is a community of approximately 2,700 located in Douglas County. The east central Illinois community is located on Interstate 57, Illinois Route 45, and Illinois Route 133. As of March 31, 2008, FNBA had total assets of \$99 million and tier one capital of \$12 million. In addition to the main office, FNBA operates full-service branches out of both Tuscola and Arthur. ATMs are located at each office for customer service and convenience. The ATMs located in Arcola and Arthur are deposit-taking ATMs. FNBA has not opened or closed any branches since the previous examination. There have not been any significant changes to FNBA's corporate structure, including merger or acquisition activities, since the last CRA examination.

The bank offers a range of deposit and loan products and services. Net loans were \$21 million as of March 30, 2008, and equaled twenty-one percent of total assets. Within the residential mortgage portfolio, the bank originates long-term mortgage loans for sale on the secondary market.

Loan Portfolio Summary by Loan Product March 31, 2008	
Loan Category	% of Outstanding Dollars
Business Loans	36.39%
Home Loans	35.24%
Farm Loans	20.87%
Consumer Loans	7.47%
Other Loans	0.03%

Source: March 31, 2008 Call Report Data

There are no legal or financial impediments to FNBA’s ability to meet the credit needs of its AA. The bank was rated Satisfactory at its last CRA examination dated November 17, 2003.

DESCRIPTION OF ASSESSMENT AREA(S)

The AA is comprised of Douglas County and two contiguous census tracts in each of Coles and Moultrie Counties. The additional census tracts are due to the proximity of Arcola and Arthur offices to county lines. All nine census tracts are middle-income census tracts and are not located within a metropolitan statistical area. Population of the AA is 36,554. Ninety-six percent of the housing stock is 1-4 family units and seventy-three percent is owner occupied housing. This AA meets the requirements of the regulation and does not arbitrarily exclude any low-or moderate-income areas.

Here is a summary of some demographic information for this AA:

Demographic Information for the AA					
	#	% Low	% Moderate	% Middle	% Upper
Families by Income Level	10,157	13%	20%	25%	42%
Households by Income Level	13,678	15%	15%	23%	47%
Census Median Family Income (MFI)		\$43,531	Median Housing Value		\$72,997
HUD- Adjusted MFI: 2008		\$51,900	Families Below the Poverty		8%
HUD- Adjusted MFI: 2007		\$50,600	Unemployment Rate		4.5% - 5.5%
HUD - Adjusted MFI 2006		\$52,200			

Source: 2000 U.S. Census Data; Unemployment Information is from the Department of Labor as of May 2008; Adjusted MFI is from HUD.

The current local economy for the AA is characterized as stable. The local economy is heavily influenced by agriculture, which has experienced a couple of strong years. The strong agriculture economy is helping the local economy respond to the decline in the national economy. The area does see some tourism, as it includes the only Amish settlement in Illinois.

Major employees include R.R. Donnelly & Sons Co., Masterfoods, MasterBrand Cabinet Factory, CHI Overhead Doors, Libman Broom Co., Cap & Gown/ Herff Jones, Cabot Corporation, The Thomas Monahan Company, Progress Tank, and Lyondell-Equistar

Chemicals. Average unemployment for the area is similar to the national average of 5.5% and below the state average of 6.4%, as of May 2008.

Competition from other financial institutions is moderate. The bank's competitors include fourteen other banks with at least one location within the AA. In addition, two credit unions, financial brokers, and insurance agencies are competition.

In conducting the assessment of the bank's performance, we performed two community contacts. A local realtor and a government official responsible for local economic development were contacted. Both contacts stated that local credit needs are being met. One contact informed us of a survey that was recently completed by seventy-five businesses within the AA that showed substantial evidence that local businesses had adequate access to capital needs from local financial institutions.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

FNBA's performance of meeting the community credit needs is satisfactory. This review concentrated on the bank's primary loan products, which include business and farm loans.

All criteria of the lending test are documented below:

Loan-to-Deposit Ratio

FNBA's net loan-to-deposit ratio is reasonable given the bank's unique deposit structure, AA's credit needs, and local competition.

The bank's net loan-to-deposit ratio averaged 25% over the eighteen quarters since the last CRA examination. This ratio ranged from a quarterly low of 19% to a quarterly high of 30% during the time period. It is important to note that FNBA's average loan-to-deposit ratio does not reflect all home mortgage lending activity, as the bank has sold about half of the residential mortgages originated to the secondary market. Since January 1, 2004, sixty mortgages totaling over \$6.8 million were sold to the Federal Home Loan Bank of Chicago. When these loans are added to current total loans, the LTD ratio is 32%.

The bank has a unique deposit structure. The bank's fifteen largest depositors make up 22% of the bank's total deposits and have no outstanding loans. When these large deposits are subtracted and the secondary market loans are added, the loan to deposit ratio is 41%.

The bank's net loan-to-deposit ratio is less than favorable when compared with other financial institutions of similar size located in Douglas County and adjacent counties. The average net loan-to-deposit ratios for the seven local banks, with total assets between \$50 million and \$150 million ranged from 45% to 83%. However, the two banks that would have AAs closest to FNBA's AA, are headquartered in communities

where FNBA has branches. These two banks had the lowest peer quarterly averages of 45% and 63% during the last 18 quarters. Both of these institutions are seeing a decline in their LTD ratios. As of March 31, 2008, these two peer institutions have LTD ratios of 37% and 58%, respectively.

Douglas County is showing lower than typical loan demand. Part of this is due to the culture of the Amish community located within the area. There is less residential real estate and consumer credit needs inherent in the Amish culture. In addition, the area is a farming community and has experienced very strong years in recent history. Because of the recent strong farm economy, farmers are experiencing less credit needs due to increased cash flows. The bank has moderate competition located within the AA, as there is one financial institution for every 2,427 individuals. Community contacts did indicate that credit needs within the area were being met by financial institutions.

FNBA has purchased loans from other institutions in an effort to increase the loan to deposit ratio.

Lending in Assessment Area

A substantial majority of FNBA’s primary loan products were made within the bank’s assessment area. Eighty-eight percent of the loans originated in these primary loan products were made within the AA. More emphasis is placed on the number of loans, as it provides a better picture of lending activity inside and outside the bank’s AA. The dollar of loans is heavily influenced by three large participation loans that were included in the sample.

Lending in the AA										
Type of Loans	Number of Loans					Dollar of Loans (000’s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Farm	20	100.00%	0	0.00%	20	\$1,465	100.00%	\$ 0	0.00%	\$1,465
Business	15	75.00%	5	25.00%	20	\$ 932	17.03%	\$4,542	82.97%	\$5,474
Totals	35	87.50%	5	12.50%	40	\$2,397	34.55%	\$4,542	65.45%	\$6,939

Source: Sample of 20 farm and 20 business loans originated between 1/1/06 and 6/29/08.

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

The distribution of loans reflects a reasonable penetration among businesses and farms of different sizes.

Business Loans

The distribution of loans to businesses reflects reasonable penetration among businesses of different sizes. Fifty-five percent of the bank’s loans to businesses originated and purchased during the loan sampling period were made to small businesses. Small businesses are businesses with gross annual revenues of one

million dollars or less. This is considered reasonable compared to demographic data that show 63% of the area’s businesses are considered small businesses.

The bank is very willing to make small dollar loans to businesses. Twenty-five percent of the loans included within the sample were for \$10 thousand or less. Sixty percent of the sample had loan amounts of \$50 thousand or less. All of the loans made to small business in the sample were for loan amounts of \$50 thousand or less. This does have an impact on the ratio of bank loans in AA by dollars.

Borrower Distribution for Business within AA				
Business Revenues (or Sales)	< = \$1,000,000	> \$1,000,000	Unavailable	Total
% of AA businesses	61.73%	4.86%	33.41%	100.00%
% of bank loans in AA by #	55.00%	25.00%	20.00%	100.00%
% of bank loans in AA by \$	20.42%	54.95%	24.63%	100.00%

Source: Sample of 20 business loans originated between 1/1/06 and 6/29/08 made within the AA.

Farm Loans

The distribution of farm loans reflects reasonable penetration among farms of different sizes. Ninety percent of the bank’s farm loans originated and purchased during the loan sampling period were made to small businesses. Small farms are farms with gross annual revenues of one million dollars or less. This is considered reasonable compared to demographic data that show 98% of the area’s businesses are considered small businesses.

Borrower Distribution for Farms within AA				
Farm Revenues (or Sales)	< = \$1,000,000	> \$1,000,000	Unavailable	Total
% of AA farm	98.30%	0.99%	1.49%	100.00%
% of bank loans in AA by #	90.00%	00.00%	10.00%	100.00%
% of bank loans in AA by \$	98.29%	00.00%	1.71%	100.00%

Source: Sample of 20 farm loans originated between 1/1/06 and 6/29/08 made within the AA.

Geographic Distribution of Loans

A geographic distribution analysis was not performed. There are no low- to moderate-income census tracts in the bank’s assessment area.

Responses to Complaints

FNBA has not received any complaints about its performance in helping to meet the assessment area needs 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.

