PUBLIC DISCLOSURE

September 06, 2016

COMMUNITY REINVESTMENT ACT
PERFORMANCE EVALUATION

First National Bank in Staunton
Charter Number 14310

115 South Elm Street Staunton, IL 62088

Office of the Comptroller of the Currency

500 North Broadway
Suite 1700
St. Louis, MO 63102

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 Lending Test is rated: Satisfactory.
The Community Development Test is rated: Satisfactory.

- The loan-to-deposit (LTD) ratio is reasonable given the institution's size, financial condition, and assessment area (AA) credit needs.
- A substantial majority of loans are originated or purchased within the bank's AA.
- Residential Real Estate (RRE) and Consumer Lending to individuals with different income levels reflects reasonable penetration.
- The distribution of loans among geographies reflects less than reasonable dispersion.
- Community development activities demonstrate adequate responsiveness to the needs of the AA.

Scope of Examination

We assessed The First National Bank in Staunton's (FNB) record of meeting the credit needs of the communities in which it operates. We evaluated FNB under the Intermediate Small Bank performance criteria, which include a lending and a community development (CD) test. The lending test evaluates a bank's record of helping to meet the credit needs of its AA through its lending activities. The CD test evaluates a bank's CD lending, qualified investments, and CD services.

FNB has one AA which includes all of Madison and Macoupin Counties in South Central Illinois. This AA is part of the St. Louis MO-IL Metropolitan Statistical Area (MSA). This AA received a full-scope review.

The evaluation period is from January 6, 2012 through September 6, 2016. Conclusions regarding the bank's lending performance are based on FNB's primary loan products: RRE and consumer loans. We placed more weight on RRE loans as they comprise a larger concentration of the bank's portfolio. We conducted a data integrity review of the RRE loans reported under the Home Mortgage Disclosure Act (HMDA). We found the HMDA data to be accurate and reliable. We analyzed all HMDA loans and a sample of consumer loans that FNB originated or purchased from January 1, 2014 through December 31, 2015, and CD activities from January 6, 2012 through September 6, 2016.

Description of Institution

FNB is an intrastate bank with nine locations in Illinois. The bank is wholly owned by First Staunton Bancshares, Inc., a one-bank holding company located in Staunton, Illinois. FNB's assets represent substantially all of the holding company's assets. FNB has an operating subsidiary, 1st BankFinancial, which sells annuities, debt and equity securities, and mutual funds. There have been no changes in the bank's corporate structure since the last CRA Evaluation.

FNB's main office in Staunton and branches in Benld and Mt. Olive serve Macoupin County. The other locations (Bethalto, Edwardsville, Hamel, Livingston, Maryville and Troy) are located in Madison County. Two of the nine offices are in moderate-income geographies (Benld and Mt. Olive). Three other offices are adjacent to moderate-income geographies (Livingston, Staunton, and Holiday Shores). Competition is heavy in these geographies as several larger institutions service these areas. FNB has automated teller machines (ATMs) at each of the nine offices, plus five standalone ATMs at separate locations in Bethalto, East Alton, Mt. Clare and Worden (2). All ATMs are cash-dispensing only, with the exception of the ATMs in Staunton and Bethalto that also take deposits. The bank closed one branch in Worden, Illinois on July 16, 2012. The branch that closed was located in a middle-income track.

As of June 30, 2016, FNB has total assets of $492 million, total deposits of $395 million, net loans of $316 million, and a net Tier 1 Capital of $58 million. FNB's net loans are 62 percent of total assets.

FNB offers a typical array of deposit and loan products. The bank's lending focus is on residential lending, consumer, and commercial loans. The composition of the loan portfolio consists of 45 percent residential real estate, 38 percent commercial, 7 percent agriculture, 6 percent consumer loans, and 3 percent state and local obligations.

There are no legal or financial impediments for FNB's ability to meet the credit and community development needs in its AA. The bank was rated Satisfactory at its last CRA examination dated January 6, 2012.

Description of Assessment Area

Management designated Macoupin and Madison Counties as the bank's AA. These two counties are contiguous and within the St. Louis MO-IL MSA. FNB's AA meets the requirements of the regulation. Based on the 2010 census median family income of $64,309, the AA contains four low-income census tracts (CTs) (5 percent of the area), 19 moderate-income CTs (26 percent), 40 middle-income CTs (54 percent), and 11 upper-income CTs (15 percent).

As of the 2010 census, the AA population was 317,047. Of the 84,788 families in the AA, 23 percent were classified as low-income, 18 percent as moderate-income, 23 percent as middle-income, and 36 percent as upper-income. About 12 percent of these families lived below the poverty level. The Department of Housing and Urban Development (HUD) updates the median family income every year. For 2015, the HUD-updated median family income was $72,200.

There are 94,761 (69 percent) owner-occupied units, 31,477 (23 percent) rental occupied units, and 12,104 (9 percent) vacant housing units in the AA. Less than 3 percent of the owner-occupied units are located in low-income CTs; 22 percent are in moderate-income CTs; 56 percent are in middle-income CTs; and 19 percent are in upper-income CTs. Within the low-income CTs, owner occupied units comprise 41.6 percent of the units, and the remainder (59.5 percent) is vacant or rental homes. Within the moderate income tract, 59.5 percent of the units are owner occupied. The weighted average monthly gross rent is $685. The weighted average median year for houses built is 1966. The weighted average median housing price is $122,194.

Based on 2015 business data, there are 17,746 businesses in the AA: 78 percent are small businesses with revenues of $1 million or less, 5 percent have revenues greater than $1 million, and 17 percent did not report revenues. Only 3% percent of the businesses are located in low-income CTs, 20 percent in moderate-income CTs, 54 percent in middle-income CTs, and 23 percent in upper-income CTs.

Major employers in Madison County include Southern Illinois University Edwardsville with 2,480 employees, six manufacturing companies (U.S. Steel, Olin Brass, Amsted Rail, ASF Keystone, Kraft, and Basler Electric) with a combined total of 5,851 employees, five health care organizations (Gateway Regional Medical Center, Southwestern Illinois Health Facilities Inc., Alton Memorial Hospital, Alton Mental Health and Development Center, and St. Anthony's Health Center) with nearly 4,200 employees, and county government with 1,250 employees. Major employers in Macoupin County include a manufacturer (Prairie Farms Dairy Inc.) with 515 employees, a utility company (Exxon Mobil Corp.) with 300 employees, and several local school districts with 150-250 employees each.

The unemployment rate in June 2016 was 5.7 percent for Macoupin County and 5.9 percent for Madison County. The Illinois unemployment rate of 5.6 percent fell below the county rates, while the national unemployment rate of 4.9 percent was lowest overall. The national unemployment rate has fallen over the evaluation period, going from a high of 8.3 percent in February 2013, to the current rate of 4.9 percent as of June 2016. The state and local unemployment rates remained high and lags behind the national rate.

Competition is intense in the AA. As of June 30, 2015, 35 financial institutions operate 123 offices in this AA. FNB Staunton ranks 6th, with a 6.94 percent deposit market share in the AA. The top five banks in the area control 56 percent of the deposit market. The remaining 44 percent is distributed across the remaining 30 banks within the AA. The AA is also serviced by multiple credit unions, mortgage companies, insurance offices and other businesses that offer lending services.

For this evaluation, examiners spoke to one community contact and reviewed the information provided by two additional community contacts during the evaluation period. The contacts represented community development organizations and a small business and economic development organization. The community contacts selected serve the same assessment area of FNB Staunton. The contacts indicated opportunities exist for financial institutions to participate in the community through small business loans, micro-lending, credit-building activity, and financial literacy classes.

Conclusions with Respect to Performance Tests

LENDING TEST

FNB's performance under the lending test is rated Satisfactory.

Loan-to-Deposit Ratio

FNB's LTD ratio is reasonable given the institution's size, its financial condition and the credit needs of the AA.

As of June 30, 2016, the bank's LTD ratio is 80.09 percent. The quarterly average LTD since the last evaluation is 76.27 percent. We reviewed peer banks with assets between $300MM and $700MM. The average LTD ratio of the other banks, which are comparable in size and location, ranges from 70 percent to 84 percent over the same time period.

Lending in Assessment Area

A substantial majority of loans are originated inside FNB's AA. Based on all HMDA data and a sample of small business loans made from 2014 to 2015, 89 percent by number and 83 percent by dollar amount were made within the bank's AA.

Lending in Macoupin and Madison Counties										
	Number of Loans					Dollars of Loans				
Loan Type	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		$	%	$	%	
Home Purchase	308	75.60%	55	15.15%	363	$34,255	75.60%	$11,054	24.40%	$45,309
Home Improvement	146	90.68%	15	9.32%	161	$7,020	85.96%	$1,147	14.04%	$8,167
Home Refinancing	229	91.97%	20	8.03	249	$31,576	92.65%	$2,504	7.35%	$34,080
Consumer	20	100%	0	0%	20	$373	100%	$0	0%	$373
Totals	703	88.65%	90	11.35%	793	$73,224	83.28%	$14,705	16.72%	$87,929

Source: 2014- 2015 data reported under HMDA and sample of 20 consumer loans.

Lending to Borrowers of Different Incomes

The distribution of loans among borrowers of different incomes reflects reasonable penetration.

Residential Real Estate Loans

The overall borrower distribution of RRE loans is reasonable.

The borrower distribution for home refinance loans is reasonable. The percentage of home refinance loans made to moderate-income borrowers (28 percent) significantly exceeds the percentage of moderate-income families in the AA (18 percent). The percentage of home refinance loans made to low-income borrowers (7 percent) is well below the percentage of low-income families in the AA (23 percent); this poor penetration to low-income borrowers is somewhat mitigated by the number of families living below the poverty level (12 percent).

The borrower distribution for home purchase loans is reasonable. The percentage of home purchase loans made to moderate-income borrowers (25 percent) significantly exceeds the percentage of moderate-income families in the AA (18 percent). The percentage of home purchase loans made to low-income borrowers (10 percent) is lower than the percentage of low-income families in the AA (23 percent).

The borrower distribution for home improvement loans is excellent. The percentage of home improvement loans made to moderate-income borrowers (29 percent) is significantly higher than the percentage of moderate-income families in the AA (18 percent). The percentage of home improvement loans made to low-income borrowers (23 percent) meets the percentage of low-income families in the AA (23 percent).

Borrower Distribution of Residential Real Estate Loans in Macoupin and Madison Counties								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Purchase	23%	10%	18%	25%	23%	22%	36%	43%
Home Improvement	23%	23%	18%	29%	23%	19%	36%	29%
Refinancing	23%	7%	18%	28%	23%	29%	36%	35%

Source: 2014- 2015 data reported under HMDA; 2010 U.S. Census data.

Consumer Loans

The distribution of the bank’s loans to consumers is excellent. The percentage of consumer loans made to moderate-income borrowers in our sample (33 percent) is significantly higher than the percentage of moderate-income families in the AA (18 percent). The percentage of consumer loans made to low-income borrowers (25 percent) is higher than the percentage of low-income families in the AA (23 percent).

Borrower Distribution of Consumer Loans in Macoupin and Madison Counties								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer	23%	25%	18%	33%	23%	18%	36%	25%

Source: Sample of 40 Consumer loans; 2010 U.S. Census data

Geographic Distribution of Loans

The geographic distribution of loans reflects less than reasonable dispersion throughout the AA. The RRE loan distribution does not meet the standard for satisfactory performance; however, the consumer loan distribution does meet the standard for satisfactory performance. We considered several factors to arrive at our conclusion regarding home purchase, refinance, and home improvement loans. Circumstances within the AA that impact the banks opportunity to lend include: the high competition from other financial institutions, the low percentage of owner occupied units within the low income and moderate income CTs at 2.34 and 22.14 percent respectively, and the high poverty level (12 percent) within the AA. The number of households below the poverty level is 27.16 percent for low-income CTs, and 18.44 percent in the moderate income tracts. In addition, there are only four low income CTs within the AA, representing less than 3 percent of the AA. Other institutions are closer in proximity to both the low and moderate income CTs to meet the credit needs of the individuals. While the bank has three branches that are adjacent to one moderate income CT, the competition is high which limits lending opportunity. The other moderate income tracks within the AA are located at the northern end of Macoupin County, or the southern end of Madison County. The bank does not have branches near either of those tracks. Further, borrowers living below the poverty level within the AA is high at 12 percent and most times do not qualify for residential mortgages or home improvement loans.

FNB lends in most geographies within its AA; no conspicuous gaps were noted.

<u>Residential Real Estate Loans</u>

The overall geographic distribution of RRE loans reflects less than reasonable dispersion throughout the AA.

The geographic distribution for home purchase loans is less than reasonable. The percentage of home purchase loans made to borrowers in low-income CTs (0.33 percent) falls below with the percentage of owner-occupied housing units in the low-income CTs (2.34 percent). This percentage is mitigated somewhat by the high competition and institutions situated closer to the customers in the low and moderate income CTs. The percentage of home purchase loans made to borrowers in moderate-income CTs (12 percent) is below the percentage of owner-occupied housing units in the moderate-income CTs (22 percent). Both lending in the low income and moderate income CTs is impacted by the factors discussed above. The low number of owner occupied housing in both the low income and moderate income tracts as well as the competition, branch locations and poverty levels impact the lending opportunity in these areas.

The geographic distribution for home improvement loans is reasonable. The percentage of home improvement loans made to borrowers in low-income CTs (0 percent) is below the percentage of owner-occupied housing units in the low-income CTs (2.34 percent). However, branch location, competition, and the number of borrowers living below the poverty level impact the bank's distribution of home improvement lending to low income borrowers. The percentage of home improvement loans made to borrowers in moderate-income CTs (19 percent) is reasonable and near the percentage of owner-occupied housing units in the moderate-income CTs (22 percent).

The geographic distribution for home refinance loans is less than reasonable. The percentage of home refinance loans made to borrowers in low-income CTs (0.88 percent) falls below percentage of owner-occupied housing units in the low-income CTs (2.34 percent). Refinance is impacted by the same factors discussed above. The percentage of home refinance loans made to borrowers in moderate-income CTs (11 percent) is below the percentage of owner-occupied housing units in the moderate-income CTs (22 percent).

Geographic Distribution of Residential Real Estate Loans in Macoupin and Madison Counties								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Purchase	2.34%	0.33%	22%	12%	56%	75%	19%	12%
Home Improvement	2.34%	0.00%	22%	19%	56%	74%	19%	7%
Refinancing	2.34%	0.88%	22%	11%	56%	77%	19%	11%

Source: 2014- 2015 data reported under HMDA; 2010 U.S. Census data.

Consumer Loans

The geographic distribution of consumer loans is reasonable. The percentage of consumer loans made to borrowers in low-income CTs (zero percent) is below the percentage of consumers in the low-income CTs (2.34 percent). The percentage of consumer loans made to borrowers in moderate-income CTs (18 percent) is below the percentage of businesses in the moderate-income CTs (22 percent).

Table 3B - Geographic Distribution of Consumer Loans in Madison and Macoupin County								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% Number Of Loans	% of AA Households	% Number Of Loans	% of AA Households	% Number Of Loans	% of AA Households	% Number Of Loans
Consumer Loans	2.34%	0%	22%	18%	56%	73%	19%	10%

Source: Sample of 40 consumer loans and 2010 U.S. Census data.

Responses to Complaints

No CRA-related complaints have been received by FNB or the OCC since the prior CRA evaluation.

COMMUNITY DEVELOPMENT TEST

FNB's performance under the community development test is rated Satisfactory. We considered the bank's capacity, business strategy, the needs of the community, and the number and type of opportunities for CD activities in making this determination. Through the bank's origination of CD and small business loans, investments in CD and providing CD services, FNB demonstrated adequate responsiveness to the AA's CD needs during the evaluation period.

Number and Amount of Community Development Loans

FNB's CD lending demonstrates adequate responsiveness to the AA's needs. During the evaluation period, the bank made a total of 7 community development loans in the amount of $4,465,000. Five of these loans totaling $4,400,000 were to various organizations that provided affordable housing to low- and moderate income individuals. Additionally, two loans totaling $64,500 were made to various organizations in order to stimulate economic development.

Number and Amount of Qualified Investments

FNB Staunton made a total of 6 Community Development (CD) investments to School Districts located in the AA during the evaluation period totaling $3 million. The bank has 10 prior period investments totaling $2.1 million to School Districts located in the AA. All

16 investments provided funds for the purpose to develop or operate school facilities within the AA.

Additionally, FNB donated $8,450 to 11 non-profit organizations that provide an array of community services primarily for low- and moderate-income individuals. These organizations supported food donations, health care, temporary shelter for the homeless and abused individuals, school supplies for children and financial literacy.

Extent to Which the Bank Provides Community Development Services

FNB's CD services reflect adequate responsiveness to the needs and opportunities in the AA. FNB's service delivery systems are reasonably accessible to geographies and individuals of different income levels. The bank has nine full-service branch offices and 14 automated teller machines (ATMs) in the AA. Two branch offices or 20 percent are located in moderate-income CTs. Moderate-income CTs contain 21 percent of the AA's population. Branch hours are comparable to other deposit-taking institutions in the AA. All branch locations maintain standard banking hours Monday through Friday with extended hours on Friday and Saturday. Additionally, FNB offers remote deposit capture as well as mobile, telephone and internet banking.

The bank provides an adequate level of CD services in the AA. Throughout the evaluation period, management and employees shared their technical expertise with several local organizations that provide qualified CD services to the AA. These organizations focus on fostering economic development, neighborhood revitalization, health services, violence prevention, food assistance and financial literacy.

Responsiveness to Community Development Needs

FNB's CD activities, as a whole, demonstrate adequate responsiveness to the needs and opportunities in its AA. The bank's level of CD services is also adequate. Through volunteer efforts, bank management and employees provided a number of services to community groups and organizations that deliver CD services to the AA.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. 25.28(c), or 12 C.F.R. 195.28(c), in determining a national bank's (bank) or Federal savings association's (FSA) CRA rating, respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or FSA, or in any assessment area by an affiliate whose loans have been considered as part of the bank's or FSA's lending performance.

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.