



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

January 27, 2003

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The Fairfield National Bank
Charter Number 6609**

**220 East Main Street
Fairfield, IL 62837**

**Comptroller of the Currency
Evansville Field Office
101 NW 1st Street, Suite 207
Evansville, IN 47708**

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.

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INSTITUTION'S CRA RATING

This institution is rated Satisfactory.

All the lending performance components meet the standards for satisfactory performance. The major factors that support this rating are:

- The bank's record of lending to small farmers is good. A majority of agricultural loans were extended to small farmers with annual gross revenues of less than \$100 thousand per year.
- Loans are reasonably distributed by geography classification and to borrowers of different income levels based on the demographics of the community and credit needs of the assessment area (AA).
- The bank's level of lending is reasonable. The bank's average loan-to-deposit ratio is 60% and is comparable to similarly situated area banks.
- A substantial majority of the bank's loans extended during the evaluation period were originated within the bank's AA.

DESCRIPTION OF INSTITUTION

The Fairfield National Bank (FNB) is wholly owned by Fairfield Bancshares, Inc., a one-bank holding company located in Fairfield, Illinois. As of December 31, 2002, FNB had total assets of \$233 million, net loans of \$76 million, total deposits of \$149 million, and total risk based capital of \$27 million. FNB assets represent substantially all of the holding company's assets; there are no subsidiaries or affiliates. There have been no changes in the bank's corporate structure since the last CRA evaluation.

FNB is primarily an agricultural and residential real estate lender that operates two offices. The main office is located in downtown Fairfield, Illinois and was established over 100 years ago. The branch facility opened in March 1997 and is located in Wayne City, Illinois, which is approximately 15 miles from the main office. In addition, FNB operates two depository automated teller machines (ATMs), one at each office, and one non-depository ATM at a local grocery store in Fairfield, Illinois. Management has neither opened nor closed any branches during this evaluation period.

FNB offers a full range of retail and commercial banking products normally associated with a rural community bank. As of December 31, 2002, net loans totaled approximately \$76 million, representing 34% of total assets. The loan portfolio consisted of 37% commercial real estate/business, 33% farm real estate/agriculture production, 22% residential real estate, and 8% consumer installment loans. Small farm and residential real estate loans represent the substantial majority of the loans originated during this evaluation period. The bank continues to make

commercial real estate and business related loans; however, demand for these types of loans has declined since the last CRA evaluation.

There are no legal or financial circumstances impeding the bank's ability to meet the AA credit needs. The type and amount of CRA activities are consistent with the bank's size, financial capacity, local economic conditions, and the credit needs of the community.

FNB's last CRA evaluation was July 31, 1997, and we rated the bank Satisfactory.

DESCRIPTION OF ASSESSMENT AREA

Management designated all of Wayne County, Illinois as its AA. This is a contiguous area, meets the requirements of the regulation, and does not arbitrarily exclude low- or moderate-income geographies.

Wayne County is a non-Metropolitan Statistical Area (non-MSA) and is comprised of five Block Numbering Areas (BNAs): 9549, 9550, 9551, 9552, and 9553. Based on the 1990 non-MSA median family income, two BNAs or 40% were classified as moderate-income and three BNAs or 60% were classified as middle-income. FNB's main office is located in the middle-income BNA 9552 and the branch facility is located in the moderate-income BNA 9553. The two BNAs, 9551 and 9552, that comprise the town of Fairfield are both classified as middle-income geographies. Both moderate-income BNAs 9550 and 9553 cover large agricultural areas and consist of several small communities spread several miles apart.

The 1990 census data shows that the total population in Wayne County was 17,241, which included 5,033 families. Of these families, 25% were classified low-income, 22% were classified moderate-income, 25% were classified middle-income, and 28% were classified upper-income. In 1990, the non-MSA statewide median family income for Wayne County was \$29,693. The 2002-updated figure (adjusted for inflation by the Department of Housing and Urban Development) is \$46,700. We used the 2002-updated figure in our analysis to determine borrower income levels.

Based on the 1990 census data for Wayne County, 20% of the population was age 65 and over, 15% of households were in retirement, and 16% of households lived below the poverty level. The median housing value was \$34,136 and the median age of the housing stock was 29 years. Local housing was 76% 1-4 family units, with 72% being owner-occupied.

Agriculture, services, and retail trade businesses primarily support the local economy. Major employers are Airtex Products, Inc., with 750 employees; Fairfield Memorial Hospital, with 300 employees; Web Printing Control, with 75 employees; Walters Buildings, with 36 employees; and Wayne County Press, with 35 employees. About 13% of the labor force in Wayne County is self-employed farmers. Additionally, several residents commute outside of Wayne County to Albion and Mt. Vernon for employment.

Economic conditions are fair and remain stable. The December 2002 unemployment rate for Wayne County is 5.9%. This ratio is comparable to the state and national unemployment rates of 6.3% and 6.0%, respectively.

Competition is moderate. FNB is one of six financial institutions operating in Wayne County. The bank's primary competition comes from two large regional banks, Peoples National Bank of McLeansboro and Integra Bank, National Association, which have branches located within Wayne County. This number does not include the array of credit unions, mortgage companies, farm services, and insurance company offices that now offer loan products.

Management indicated the primary credit needs of Wayne County are agricultural, residential, and business-related loans. To further our understanding of the community's credit needs, we performed a community contact with a local community development representative. The contact identified home refinancing, a significant portion of the bank's current lending activity, as a credit need. Our contact did not identify any unmet credit needs; however, the contact felt the community could benefit from educational loan programs or scholarships.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

FNB does a reasonable job of meeting the credit needs of its AA given the demographics, economic factors, competitive pressures, credit needs of the community, and other lending related activity.

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

The bank's record of lending to farms of different sizes is good. The bank's lending distribution to borrowers of different income levels is reasonable.

During this evaluation period, FNB's primary loan products are farm-related loans by dollar and residential real estate loans by number. Using only loans made in the AA, we sampled 20 farm loans and 20 residential real estate loans originated from January 1, 2000, through December 31, 2002. Residential real estate loans were not differentiated by type, i.e., home purchase, refinancing, home improvement, and multi-family dwelling, because that information was not readily available.

The facts and data used to evaluate FNB's lending activity are presented in the following tables.

Distribution by Farm Gross Revenue Size

	Under \$100M		\$100M-\$250M		\$250M-\$500M		\$500M-\$1MM		Over \$1MM		Revenues Not Reported
	#	%	#	%	#	%	#	%	#	%	
# Loans**	11	73%	1	7%	2	13%	1	7%	0	0%	5
\$ (000's)**	518	62%	69	8%	175	21%	73	9%	0	0%	284

Sources: **Bank records

Based on 2002 Dun and Bradstreet business demographic data, 96% of all farms within the AA have gross revenues of less than \$1 million.

FNB is very responsive to the credit needs of small farms in its AA. One hundred percent of the number of loans extended to small farms was for amounts of \$140 thousand or less.

Additionally, management stated that the revenue size of the five farm loans that did not report their revenues is less than \$1 million.

Distribution by Borrower Income Level 1-4 Family Residential Real Estate Loans

Income Levels*	# of Loans**	% By # of Loans	Loan \$ (000's)**	% By \$ of Loans	AA Family Income***
<i>Low Income</i>	3	15%	45	4%	25%
<i>Moderate Income</i>	2	10%	55	5%	22%
<i>Middle Income</i>	11	55%	519	46%	25%
<i>Upper Income</i>	4	20%	515	45%	28%

*The 2002 non-MSA median family income for the state of Illinois is \$46,700. The income categories are defined as: less than 50%, 50% to 80%, 80% to 120%, and over 120%, respectively, of \$46,700.

Sources: **Bank records, and ***1990 US Census

Based on the sample of loans selected, the bank's residential lending to low-income borrowers is reasonable compared to the AA family income demographic data. However, lending to moderate-income borrowers reflected poor penetration. The bank's penetration to moderate-income borrowers is somewhat mitigated given the high unemployment rates, 20% of the population is 65 and over, 16% of the households live below the poverty level, and 21% of the housing in Wayne County is rental units. In addition, many of the sampled loans were refinances and it is likely the middle- and upper-income level borrowers can more easily afford the costs associated with refinancing.

Geographic Distribution of Loans

The bank's lending distribution to geographies of different income levels is reasonable, given the performance context. Our conclusion was based on the sample of farm-related loans and residential loans discussed above.

The findings of these analyses are presented in the following tables.

Farm-Related Loans

BNA Income Level	# of Loans*	% By # of Loans	Loan \$ (000's)*	% By \$ of Loans	% of Farms in BNA**
<i>Low Income (a)</i>	0	0%	0	0%	0%
<i>Moderate Income (b)</i>	7	35%	447	40%	50%
<i>Middle Income (c)</i>	13	65%	672	60%	50%
<i>Upper Income (d)</i>	0	0%	0	0%	0%

Sources: *Bank records, and **Dun and Bradstreet (2002)

Residential Real Estate Loans

BNA Income Level	# of Loans*	% By # of Loans	Loan \$ (000's)*	% By \$ of Loans	% Owner Occupied Housing Units**
<i>Low Income (a)</i>	0	0%	0	0%	0%
<i>Moderate Income (b)</i>	6	30%	290	21%	44%
<i>Middle Income (c)</i>	14	70%	1,109	79%	56%
<i>Upper Income (d)</i>	0	0%	0	0%	0%

Sources: *Bank records, and **Based on 1990 US Census Information

- (a) 0 low-income BNAs in AA
- (b) 2 moderate-income BNAs in AA
- (c) 3 middle-income BNAs in AA
- (d) 0 upper-income BNAs in AA

Loan-to-Deposit Ratio

FNB's loan-to-deposit (LTD) ratio is reasonable. As of December 31, 2002, the bank's LTD ratio was 51%. FNB's quarterly average LTD ratio since the 1997 CRA examination was 60%. This is comparable to four similarly situated banks in the area whose quarterly average ratios ranged from 55% to 75%. Management identified these four banks as similarly situated because of their size, product mix, lending opportunities, and agriculture as an important part of the economy.

Lending in Assessment Area

Lending in the AA is satisfactory. A substantial majority of the bank's loans originated since the last CRA evaluation were made in the AA. A sample of 20 agricultural loans found that 75% by number and 69% by dollar were made within the bank's AA. A sample of 20 residential real estate loans found that 90% by number and 95% by dollar were made within the bank's AA.

Responses to Complaints

FNB has not received any complaints about its performance in helping to meet community credit needs since the last CRA evaluation.

Fair Lending Review

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

Other Lending Related Activity

FNB is a participant in community development activities, as they become available. Some of the more significant activities that the bank participates in include:

Southeastern Illinois Community Development Corporation - This CDC was formed in 1993 and is comprised of nine area banks and a utility company. The objective is to create and retain employment opportunities by pooling funds to provide financing to new business ventures in a four-county area, which includes Wayne County. FNB has pledged \$100 thousand to the CDC and, to-date, has funded \$25 thousand. The CDC has provided financing for three projects: a medical center in nearby Grayville, a day care facility in Fairfield, and a muffler shop in nearby Carmi. However, no projects have been funded since 1997.

Wayne County Housing Rehabilitation Program – In 1995, FNB allocated \$50 thousand to a program that provides home rehabilitation assistance to low-income individuals in conjunction with the Greater Wabash Regional Planning Commission. Two loans were made for this purpose totaling \$10 thousand. On September 21, 1999, FNB renewed this commitment, but no requests for funding have been received since that time.