



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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## **PUBLIC DISCLOSURE**

**May 20, 2002**

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

**The First National Bank of Kinmundy  
Charter Number 6143**

**201 South Madison Street  
Kinmundy, IL 62854**

**Comptroller of the Currency  
St. Louis Field Office  
2350 Market Street, Suite 100  
St. Louis, MO 63103**

**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 lending distribution to borrowers of different income levels and to farms of different revenue sizes is good.
- The bank's level of lending is reasonable. The bank's average loan-to-deposit ratio is 61% and is comparable to similarly situated area banks.
- A substantial majority of the bank's loans were made in the assessment area.

## **DESCRIPTION OF INSTITUTION**

The First National Bank of Kinmundy (FNB) had assets of approximately \$28 million at December 31, 2001. FNB is an independent bank located in Kinmundy, Illinois, a rural south-central agricultural community. There is no holding company or controlling ownership. Board members own or control 85% of the total outstanding stock. There have been no changes in the bank's corporate structure since the last CRA evaluation. The bank operates one office with a non-depository automated teller machine in downtown Kinmundy. Management has neither opened nor closed any branches.

FNB offers a full range of retail and commercial banking products normally associated with a small rural community bank. FNB is primarily a residential real estate and agricultural lender. As of December 31, 2001, net loans totaled approximately \$13 million, representing 45% of total assets. The composition of the loan portfolio included 34% residential real estate, 29% agriculture, 21% consumer, 14% commercial, and 1% other loans.

There are no legal or financial impediments to the bank's ability to meet community credit needs. The bank has adequate resources to provide for the credit needs of its assessment area. 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 September 25, 1997, and we rated the bank Satisfactory.

## **DESCRIPTION OF ASSESSMENT AREA**

Management designated portions of Marion and Fayette Counties as its assessment area (AA). The AA includes Block Numbering Areas (BNAs) 9516 and 9517 in Marion County and BNA 9511 in Fayette County. This is a contiguous area, meets the requirements of the regulation, and does not arbitrarily exclude low- or moderate-income geographies. The bank is located in BNA 9516.

Marion and Fayette Counties are non-Metropolitan Statistical Areas (non-MSA). Based on the non-MSA median family income in 1990, all three BNAs or 100% are classified as middle income.

As of the 1990 census, the population in the bank's AA totaled 9,512, which included 2,754 families. Of these families, 22% were classified as low income, 20% as moderate income, 26% were classified as middle income, and 32% were classified as upper income. The non-MSA statewide median family income as of the 1990 census was \$29,693. The 2001 updated figure adjusted for inflation by the Department of Housing and Urban Development is \$44,900. We used the 2001 updated figure in our analysis to determine the borrower income levels.

The 1990 census demographic data for the AA shows that 17% of the population is age 65 and over, 12% of households are in retirement, and 16% of households live below the poverty level. The median housing value is \$32,004 and the median age of the housing stock is 40 years. Owner-occupied units represent 76% of the housing stock, with 82% being 1-4 family units.

The local economy is supported primarily by agriculture, manufacturing, and other service-related businesses and retail stores. Kinmundy is considered a "bedroom" community, as many of the local residents commute to the larger cities for employment. Major employers include the South Central Community Unit School District #401, Brown Produce Company, North American Lighting, Inc., Parkview Manufacturing, and Radiac Abrasives.

The local economy is depressed. The annual average unemployment rates in 2001 for Marion and Fayette Counties are 10.8% and 7.3%, respectively. Since the beginning of 2001, there have been numerous manufacturing layoffs due to plant closings. The unemployment trend is improving, but the steady decline in manufacturing jobs continues to be a major concern. The April 2002 unemployment rates for Marion and Fayette Counties are 9.8% and 6.3%, respectively. When considered together, these ratios compare unfavorably to the state rate of 6.1% and the national rate of 5.7%. Additionally, continued low grain and livestock prices may adversely impact the economy.

Competitive pressures are strong and come primarily from larger financial institutions located in communities surrounding the bank's AA. FNB is the only financial institution in the town of Kinmundy, Illinois. There are approximately 33 offices of 18 different banks operating in Marion and Fayette Counties. This number does not include the sundry of credit unions, mortgage companies, farm services, and insurance company offices that now offer loan products.

To further our understanding of the community's credit needs, we performed one community contact with a local government official who is also a real estate broker. Our contact identified that low-cost housing, home improvement loans, small dollar consumer loans, and farm-related loans are the primary credit needs of the community. The community contact feels that FNB and two other financial institutions are very dedicated to meeting these needs. Our contact did not identify any unmet credit needs and knows of no community development or other credit-related projects available for participation by local financial institutions.

## CONCLUSIONS ABOUT PERFORMANCE CRITERIA

FNB does a good job of meeting the credit needs of its AA, including those of low- and moderate-income people.

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

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

FNB's primary loan products are residential real estate loans, farm loans, and auto/truck loans. Residential real estate loans and farm loans comprise the largest portion of the loan portfolio by dollar, and auto/truck loans comprise the largest portion of the loan portfolio by number.

Using only loans made in the AA, we sampled 24 residential real estate loans, 20 farm loans, and 20 auto/truck loans originated from January 1, 2000, through May 20, 2002. The facts and data used to evaluate FNB's lending activity are presented in the following tables.

#### 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	12%	85	7%	22%
<i>Moderate Income</i>	9	38%	414	35%	20%
<i>Middle Income</i>	6	25%	303	25%	26%
<i>Upper Income</i>	6	25%	388	33%	32%

The bank's percentage of residential real estate loans to low-income borrowers is significantly lower than the percentage of low-income families residing within the AA. However, the bank's percentage of residential real estate loans to moderate-income borrowers exceeds the percentage of moderate-income families residing within the AA. The bank's penetration to low-income families is reasonable given the high unemployment rates and that 17% of the households live below the poverty level.

**Distribution by Borrower Income Level  
Auto and Truck Loans**

<b>Income Levels</b>	<b># of Loans</b>	<b>% By # of Loans</b>	<b>Loan \$ (000's)</b>	<b>% By \$ of Loans</b>	<b>AA Household Income</b>
<i>Low Income</i>	3	15%	43	12%	27%
<i>Moderate Income</i>	8	40%	150	42%	17%
<i>Middle Income</i>	6	30%	103	28%	18%
<i>Upper Income</i>	3	15%	65	18%	39%

The bank's percentage of auto/truck loans to low-income borrowers is significantly lower than the percentage of low-income households living within the AA. However, the bank's percentage of auto/truck loans to moderate-income borrowers exceeds the percentage of moderate-income households living within the AA. The bank's penetration to low-income households is reasonable given the high unemployment rates and that 17% of the households live below the poverty level.

**Distribution by Farm Gross Revenue Size**

	<b>Under \$100M</b>		<b>\$100M-\$250M</b>		<b>\$250M-\$500M</b>		<b>\$500M-\$1MM</b>		<b>Over \$1MM</b>	
#	11	55%	8	40%	0	0%	0	0%	1	5%
\$ (000's)	439	52%	391	46%	0	0%	0	0%	14	2%

Based on 1990 business demographic data, 98% 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. The majority of the bank's loans to small farms were for amounts of \$100,000 or less.

**Loan-to-Deposit Ratio**

FNB's loan-to-deposit ratio is reasonable. As of December 31, 2001, the bank's quarterly average loan-to-deposit ratio since the 1997 CRA evaluation was 61%. This compared well to six competing banks in the area whose quarterly average ratios ranged from 48% to 67%. Bank management identified these six competing banks and felt they were similarly situated due to their size, no branching networks, 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 25 residential real estate loans made since the last CRA evaluation found that 96% by number and 97% by dollar were made within the bank's AA. A sample of 20 auto/truck loans made since the last CRA evaluation found that 85% by number and 86% by dollar were made within the bank's AA.

### **Geographic Distribution of Loans**

An analysis of FNB's distribution of loans by geography was not performed. Such an analysis would not be meaningful, as the bank's AA does not have any low- or moderate-income BNAs.

### **Responses to Complaints**

No CRA-related complaints have been received since the prior CRA evaluation.

### **Fair Lending Review**

We performed a fair lending examination on January 14, 2002, as the bank was selected in the random sample of banks to receive a fair lending examination. The alternative approach was used and included a review of the bank's loan policies and a diverse sample of eight denied and six approved loan applications. Our fair lending review did not identify any instances of discriminatory practices. No violations of the substantive provisions of the anti-discrimination laws and regulations were identified.