



Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

August 20, 1997

**COMMUNITY REINVESTMENT ACT
PERFORMANCE EVALUATION**

Farmers and Merchants National Bank of Nashville
Charter Number 8221

P.O. Box 309
Nashville, Illinois 62263

Comptroller of the Currency

Fairview Heights Duty Station
13 Executive Drive, Suite 7
Fairview Heights, Illinois 62208

NOTE: 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.

GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the 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. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

*This document is an evaluation of the Community Reinvestment Act (CRA) performance of **Farmers and Merchants National Bank of Nashville** prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **August 20, 1997**. This evaluation is based on information since the last CRA examination dated February 7, 1995. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.*

INSTITUTION'S CRA RATING: This institution is rated **Outstanding**.

Farmers and Merchants National Bank of Nashville is actively meeting the credit needs of its assessment area. The bank's loan-to-deposit ratio exceeds that of other financial institutions in the assessment area. The bank extends a substantial majority of loans within its assessment area to borrowers of different income levels. The bank's investments and services enhance credit availability to borrowers of different income levels in Washington County.

DESCRIPTION OF INSTITUTION

Farmers and Merchants National Bank of Nashville (FMNB) is a \$93 million institution located in Washington County, Illinois. FMNB has its main office in Nashville, with branch offices located in DuBois and Hoyleton, Illinois. The Hoyleton branch was opened in April 1997. The three offices are located in Washington County. The bank also operates two automated teller machines (ATMs) and a drive-up facility in Nashville.

FMNB offers a variety of conventional loan products which are well suited to the assessment area credit needs. Net loans represented 65% of total average assets, with earning assets accounting for 94% of total average assets. The bank's primary loan products are residential mortgages, agricultural loans, commercial loans, and consumer installment loans. As of March 31, 1997, the composition of the loan portfolio was: 28% residential real estate, 17% commercial real estate, 15% commercial, 13% farm real estate, 12% consumer, 11% agricultural, and 4% other.

As of the date of this evaluation, FMNB did not have any financial, legal, or other impediments restricting its ability to serve the community. The bank is able to meet the credit needs of its assessment area by offering a variety of financial products and services. FMNB's prior CRA rating was a "Satisfactory Record of Meeting Community Credit Needs."

DESCRIPTION OF WASHINGTON COUNTY

FMNB's assessment area is Washington County, Illinois. The assessment area contains four Block Numbering Areas (BNAs). The four BNAs are middle-income geographies. The bank's main office is in BNA 9503. The DuBois branch is located in BNA 9504 and the Hoyleton branch is located in BNA 9501. Washington County is located in a non-Metropolitan Statistical Area (MSA) of southeastern Illinois. Competition among financial institutions in the bank's assessment area is strong, as there are five other financial institutions in Washington County.

According to 1990 census data, the population of Nashville and Washington County is 3,200 and 15,000, respectively. The 1990 median family income for Washington County and the 1997 statewide non-MSA median family income for Illinois are \$31,871 and \$37,600, respectively. Family incomes aggregated for the four BNAs indicated that 625 families or 15% were in low-; 833 or 20% were in moderate-; 1,031 or 25% were in middle-; and 1,673 or 40% were in upper-income categories. Local housing consists primarily of 1-4 family units (85%) of which 72% are owner occupied. The median housing value is \$45,700 with a median year built of 1958.

The economy in the assessment area is good. The June 1997 seasonally unadjusted unemployment rate for Washington County was 4.2%. The June 1997 state and national seasonally unadjusted unemployment rates were 4.6% and 5.2%, respectively. The major type of industry in the assessment area is services, with agriculture, retail trade, and manufacturing the

next largest industries. Based on U.S. census data, 96% of Washington County's business establishments have fewer than 50 employees. Businesses with 50-499 employees represent the other 4% of businesses. Farmers constitute approximately 15% of the households in Washington County. Major employers in the assessment area are: Nascote Industries, an automotive parts manufacturer employing 650; Ligma Corporation, an automotive parts manufacturer employing 200; and Friendship Manor Nursing Home, employing 200. Bank management stated the primary credit needs of the assessment area are agricultural, residential, consumer and small business lending.

For the analysis contained in this report, low income is defined as income that is less than 50% of the 1997 state non-MSA median family income. Moderate income is defined as income that is at least 50%, but less than 80%, of the 1997 state non-MSA median family income. Middle income is at least 80%, but less than 120%, of the 1997 state non-MSA median family income. Upper income is income that is 120% or more of the 1997 state non-MSA median income. In 1997, the state non-MSA median family income for Illinois is \$37,600.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Loan-to-Deposit Ratio:

FMNB's loan-to-deposit ratio exceeds that of other similarly situated financial institutions operating within Washington County. FMNB's average quarterly loan-to-deposit ratio between March 31, 1995, and March 31, 1997, was 68%. As of March 31, 1997, the bank's loan-to-deposit ratio was 73%. The average March 31, 1997 loan-to-deposit ratio for the five other financial institutions in Washington County was 61%. The loan-to-deposit ratio at these banks ranged from 45% to 71%.

Lending in Washington County:

Overall, FMNB demonstrates good responsiveness to serving the credit needs of its assessment area based on the number and dollar amount of loans inside its assessment area. A significant majority of the bank's lending is done inside the bank's assessment area. The bank provided data on the number and principal dollar amount of loans outstanding as of July 23, 1997, for loans made between April 1, 1996, and July 23, 1997. A review of this data shows that 76% of the number of loans and 77% of the dollar volume of loans are to borrowers within the bank's assessment area.

During the evaluation, an analysis of 66 home mortgage loans originated between August 1996 and July 1997 indicated that 73% of the number and 71% of the dollar volume of these loans were made in FMNB's assessment area. See Table A.

Table A - Home Mortgage Loan Distribution Inside/Outside the Assessment Area (AA)

	# of Loans	% of Loans	Loan \$	% of Loans \$
<i>Loans inside the AA</i>	48	73%	\$2,082	71%
<i>Loans outside the AA</i>	18	27%	\$849	29%
<i>Total</i>	66	100%	\$2,931	100%

Dollar amounts are in 000's

Lending to Borrowers of Different Income Levels and to Businesses and Farms of Different Sizes:

FMNB has a good distribution of loans to borrowers of different income levels and to businesses and farms of different sizes. The level of home mortgage loans in FMNB's assessment area to persons with low or moderate income is satisfactory in relation to the 35% of low- or moderate-income families living in the assessment area. A sample of 48 home mortgage loans originated in the assessment area between August 1996 and July 1997 were analyzed to determine the number and dollar volume of loans made to the four income levels. The following table shows that 35% of the number of home mortgage loans and 31% of the dollar volume of home mortgage loans were made to low- and moderate-income individuals.

Table B - Home Mortgage Loan Distribution by Borrower Income

	# of Loans	% of Loans	Loan \$	% of Loan \$
<i>Low income</i>	3	6%	\$143	7%
<i>Moderate income</i>	14	29%	\$489	24%
<i>Middle income</i>	17	36%	\$717	34%
<i>Upper income</i>	14	29%	\$735	35%
<i>Total</i>	48	100%	\$2,084	100%

Dollar amounts are in 000's.

The distribution of FMNB's small business and small farm loans based on borrower characteristics is strong. The June 30, 1997 Report of Condition revealed that approximately 94% of the number of small farm loans and 82% of the number of small business loans have original loan amounts of less than \$100,000. This supports FMNB's concerted efforts to meet the credit needs of businesses and farms of different sizes. FMNB also uses flexible lending practices in meeting the needs of small farms through reduced interest rate crop production loans. As of July 31, 1997, the bank had advanced approximately \$3 million of these loans for 1997

crop production. The bank offers loans under special programs designed to meet the credit needs of small farms and small businesses. The programs include Small Business Administration, Farmers Home Administration, and Illinois Farm Development Authority Loan Programs.

Geographic Distribution of Loans:

All BNAs comprising the assessment area are middle income. An analysis of the geographic distribution of loans within the assessment area does not provide meaningful information.

Response to Complaints:

No complaints were received by the bank since the prior CRA examination.

Compliance with Antidiscrimination Laws:

In conjunction with the CRA evaluation, we performed a Fair Lending examination which included a review of the bank's compliance with the Equal Credit Opportunity Act and the Fair Housing Act. No substantive violations of these antidiscrimination laws and regulations were identified.

Investments:

Overall, FMNB's investment in the assessment area is good and enhances credit availability within Washington County. The bank was an initial participant in the Jefferson, Marion, and Washington Counties Community Development Corporation (CDC). The bank was one of several investors and invested \$1,600 in 1994 for the formation of the CDC. To date, the CDC has made four loans, with FMNB providing \$71,000 of the funding. One of the projects funded by the CDC is a multi-use retail complex in a low-income area of Jefferson County. The CDC promotes economic development opportunities that will create and retain jobs, help new and existing small businesses, and enhance the tax base of Jefferson, Marion, and Washington Counties, Illinois. Specifically, the CDC provides capital to small businesses for growth and expansion; this capital is otherwise unavailable to them in the area's conventional market.

Services:

FMNB's record of providing branches, ATMs and other services enhances credit availability to borrowers of different income levels in the assessment area. The three banking offices, drive-up facility, and two ATMs demonstrate the bank's commitment to provide banking services to all residents of the assessment area. The bank's record of opening offices is good, as noted by the opening of the Hoyleton branch in April 1997. No offices have been closed since the last CRA examination. Alternative delivery services are also offered through the Loan by Phone Program. Under this program, individuals may apply for residential and consumer loans over the telephone.

FMNB offers other services that target low- or moderate-income individuals and small businesses. The following is a listing and descriptions of those services:

- o FMNB offers free cashing of government checks, including social security and tax refund checks, at all branches. This service is offered to all residents of the assessment area.
- o A no-fee checking account is available for not-for-profit organizations, senior citizens, and students.
- o No-fee checking accounts are offered to Washington County Workshop for Disabled workers and residents at the Home for the Functionally Disabled. Both of these social service oriented facilities are located in Nashville.
- o Service fees are not assessed on trust money placed in the bank by the Lawyers Trust Fund of Illinois, a charitable foundation of lawyers, which sets up trust accounts to hold money a plaintiff is to receive for successful lawsuit and attorney retainer fees. The interest on these deposit accounts is then used to pay for legal services for low-income individuals.
- o Donations have been made to community service organizations which specifically provide assistance to low- and moderate-income individuals. Organizations include the Come Share Program and BCMW, both of which provide food to low-income families.
- o FMNB's president serves as a director on the CDC's board.