



SMALL BANK

Comptroller of the Currency
Administrator of National Banks
Washington, DC 20219

PUBLIC DISCLOSURE

July 31, 2006

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The First National Bank of Arenzville
Charter Number 9183**

**301 Frederick
Arenzville, IL 62611**

**Comptroller of the Currency
North Central Illinois & Eastern Iowa Field Office
111 West Washington Street, Suite 300
East Peoria, IL 61611**

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

First National Bank of Arenzville (FNB) is rated Satisfactory.

- FNB's lending to borrowers of different income levels regarding residential real estate is adequate.
- The geographic distribution of loans reflects satisfactory penetration among the census tracts (CT) in the Arenzville Assessment Area (AA).
- A majority of the loans originated by FNB are to customers from within its AA.
- FNB's quarterly average loan-to-deposit ratio of 79 percent over the evaluation period is reasonable.

SCOPE OF EXAMINATION

This Performance Evaluation assesses First National Bank of Arenzville's record of meeting the credit needs of the communities in which it operates. We evaluated FNB under the Small Bank performance criterion, which includes a lending test. The lending test evaluates a bank's record of helping to meet the credit needs of its assessment area through its lending activities.

- The evaluation period covers loans originated or purchased from January 3, 2001 through June 30, 2006.
- FNB has one assessment area, generating a majority of the bank's loans and deposits. The lending test is based on FNB's primary loan products.
- Conclusions regarding the bank's lending performance are based on residential real estate loans, agricultural loans, and commercial loans originated or purchased from January 1, 2004 through June 30, 2006, utilizing 2000 census data.
- Since FNB is not located in a Metropolitan Statistical Area and is not subject to the requirements of the Home Mortgage Disclosure Act, the income data on residential home loan borrowers is not maintained outside of the individual mortgage files. Thus, a sample of 40 residential mortgage products originated during the evaluation period was used in assessing the range of distribution by borrower income levels.
- FNB does not maintain revenue information on commercial and agricultural loan customers outside of the individual credit files. Thus, a sample of 40 agricultural and 56 commercial loans originated during the evaluation period were used in accessing the level of lending to commercial and agricultural borrowers of different sizes.

DESCRIPTION OF INSTITUTION

FNB is a \$43 million intrastate financial institution located in rural Cass County in West Central Illinois, approximately twenty miles northwest of Jacksonville and sixty miles east of Quincy. The main office is located in Arenzville, Illinois, and a branch office is located in South Jacksonville, Illinois. Each office is equipped with drive-up facilities and an Automated Teller Machine (ATM). FNB has an additional ATM located on the campus of Illinois College in Jacksonville, Illinois.

The bank is a wholly owned subsidiary of Arenzville Bancorp, a one-bank holding company headquartered in Arenzville, Illinois. As of June 30, 2006, the holding company had total assets of \$43 million. The holding company does not own any other subsidiaries and it does not negatively impact the bank's ability to meet the credit needs of the community.

FNB's strategy is to provide financial products and services to meet the needs of the customers in the communities they serve, with an emphasis on the Arenzville and South Jacksonville areas.

FNB's three primary lending products are residential real estate loans, agricultural loans, and commercial loans. These three lending categories account for 86 percent of the outstanding loan balances as of June 30, 2006. Thus, these three lending products were used for the analysis of this evaluation. Consumer lending is not a primary loan product, accounting for the remaining 14 percent of the outstanding loan balances as of June 30, 2006.

As of June 30, 2006, the bank reported \$30 million in outstanding loans and had a net loans and leases to total assets ratio of 70 percent. The loan portfolio consists of the following:

Table 1 – Loan Portfolio Summary by Loan Type June 30, 2006		
Loan Category	\$(000)	%
Commercial Loans	\$ 9,914	33%
Agricultural Loans	\$ 8,211	27%
Residential Loans	\$ 7,924	26%
Consumer Loans	\$ 4,271	14%
Total Loans	\$30,320	100%

Source: Call Report June 30, 2006

There are no financial conditions, legal constraints or other factors that would hinder the bank's ability in helping to meet the credit needs of the communities within its assessment area. Tier 1 capital was reported at \$3.6 million as June 30, 2006. The bank's previous CRA rating as of January 3, 2001 was Satisfactory.

DESCRIPTION OF THE ARENZVILLE ASSESSMENT AREA

FNB's AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income areas. FNB has one AA, no change from the prior evaluation, covering 15

census tracts (CTs): Cass County and Morgan County. There are no CTs designated low-income, two CTs (one in Cass County and one in Morgan County) are designated moderate-income (13%), while the remaining thirteen CTs are designated as middle- or upper-income (87%).

The two census tracts designated as moderate-income are located in the northern half of Beardstown in Cass County and in the northeastern part of Jacksonville in Morgan County. The level of credit penetration in these areas will be slightly lower than the percentage of businesses and owner-occupied homes. The northern half of Beardstown is located 15 miles from the FNB’s nearest location and there are three other financial institutions located in Beardstown. Likewise in Jacksonville, FNB’s branch is located in South Jacksonville and there are nine other financial institution facilities located between the branch and the northeastern part of Jacksonville.

Competition within the AA, outside of Jacksonville, is primarily from local community banks with a similar business focus. Competition in Jacksonville is strong with several larger, well-established community banks and several branches of larger regional banks.

The following is demographic information for the assessment area:

Table 2 – Demographic Information for Arenzville AA		
Category of Information	Number	Percentage
Total Population:	50,311	
Population by CT Income Designation: Low-income	- 0 -	0%
Moderate-income	6,298	13%
Middle-income	39,390	78%
Upper-income	4,623	9%
Total Housing Units	21,075	
Occupancy: Owner Occupied Units	13,883	66%
Renter Occupied Units	5,503	26%
Vacant Units	1,689	8%
Median Home Value	\$68,638	
Median Year Built	1957	
Average Monthly Gross Rent	\$ 416	
2005 HUD Adjusted Median Family Income for Illinois Non-MSA	\$49,550	
Low Income Families	2,128	16%
Moderate Income Families	2,589	20%
Middle Income Families	3,175	24%
Upper Income Families	5,148	40%
Families living below the poverty level	901	7%
Households living below the poverty level	2,014	13%
Small Farms	487	96%
Small Businesses	1,643	62%

Source: 2000 Census Data

Economic Data

The local economy is considered stable. The June 2006 Cass County unemployment rate of 4.2% compares favorably to the 4.6% national average and to the 4.5% State of Illinois average rate. Meanwhile the June 2006 Morgan County unemployment rate of 5.1% is slightly above the national and state average rates. The economy of the AA is diversified among agriculture, manufacturing, governmental, education, and retail industries. Major employers include: Excel Corporation (meat processing plant), Pactiv Corporation, and Passavant Hospital.

We contacted a local town official during the examination, who is also an independent, practicing Certified Public Accountant. The official indicated the primary credit needs in the assessment area are residential, car, small business and agricultural loan products. He felt FNB and other local financial institutions were actively meeting the credit needs of the area.

The contact stated the economy in the assessment area is stable and believes the unemployment rate is better than the state and national average. He said agriculture dominates the local economy, especially in Cass County. The Jacksonville economy remains relatively stable, even though it has been shifting to more retail and service jobs versus manufacturing over the years. The contact believes the growth in the last year in the South Jacksonville area will continue as more businesses migrate to the interstate exchange.

The contact indicated there are not any credit needs or banking services not met or provided for by the local financial institutions. He believes all are offering Internet Banking and debit cards. He sees Health Savings Accounts becoming a widely used product, much like Individual Retirement Accounts. He said all local banks and their employees remain actively involved in the community, especially with the annual United Way campaign.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

FNB meets the standards for satisfactory performance.

- The distribution of loans to individuals of different income levels and businesses and farms of different sizes is satisfactory.
- The geographic distribution of loans reflects satisfactory penetration among the census tracts in the AA, including moderate-income census tracts.
- A majority of the loans originated by FNB are to customers from within its AA.
- FNB's average loan-to-deposit ratio is reasonable given the bank's size, financial condition, and AA credit needs.

LENDING TO BORROWERS OF DIFFERENT INCOMES AND TO BUSINESSES OF DIFFERENT SIZES

The distribution of loans reflects satisfactory penetration among individuals of different income levels (including low-, and moderate-income) and businesses and farms of different sizes.

Residential Real Estate Loans

FNB's lending to borrowers of different income levels regarding residential real estate is adequate. Based on our sample, lending to moderate-income borrowers exceeds the percentage of moderate-income families in the AA, while lending to low-income borrowers is below the percentage of low-income families in the AA. Although the lending to low-income borrowers is below the percentage of low-income families in the AA, this is still considered adequate given a seven percent family poverty rate in the AA.

Table 3 – Borrower Distribution of Residential Real Estate Loans in the AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number	% of AA Families	% of Number	% of AA Families	% of Number	% of AA Families	% of Number
Residential Mtg	16%	8%	20%	35%	24%	20%	40%	37%

Source: Bank records on loans originated or purchased from January 1, 2004 to June 30, 2006; 2000 Census Data.

Commercial Loans

FNB's performance of lending to businesses of different sizes is reasonable. Based on our sample, eighty percent of the loans were made to small businesses, while forty-seven percent of the dollar amounts were loans made to small businesses. Small businesses are businesses with annual gross revenues equal to or less than one million dollars. The demographic data for the AA shows that sixty-two percent of the businesses reporting revenue data in the AA have revenues equal to or less than one million dollars.

The following table shows the distribution of commercial loans among businesses of different sizes within the AA:

Table 4 – Borrower Distribution of Loans to Businesses of Different Sizes					
Business Revenues	Number of Loans		% Businesses in AA**	Dollars of Loans	
	#	%		\$(000)	%
≤\$1,000,000	45	80%	62%	\$ 1,605	47%
>\$1,000,000	11	20%	5%	\$ 1,799	53%
Total	56	100%	67%	\$ 3,404	100%

Source: Bank records on new loans originated from January 1, 2004 to June 30, 2006; 2000 Census Data.

*** 33 percent of AA businesses did not report revenue data.*

Agricultural Loans

FNB's performance of lending to farms of different sizes is reasonable. Based on our sample, one hundred percent of the loans were made to small farms. Small farms are farms with annual gross revenues equal to or less than one million dollars. The demographic data for the AA shows that ninety-seven percent of the farms reporting revenue data in the AA have revenues equal to or less than one million dollars.

The following table shows the distribution of agricultural loans among farms of different sizes within the AA:

Table 5 – Borrower Distribution of Loans to Farms of Different Sizes					
Farm Revenues	Number of Loans		% Farms in AA**	Dollars of Loans	
	#	%		\$(000)	%
≤\$1,000,000	40	100%	97%	\$ 3,833	100%
>\$1,000,000	0	0%	2%	\$ - 0 -	0%
Total	40	100%	99%	\$ 3,833	100%

Source: Bank records on new loans originated from January 1, 2004 to June 30, 2006; 2000 Census Data.

*** 1 percent of AA businesses did not report revenue data.*

GEOGRAPHIC DISTRIBUTION OF LOANS

The geographic distribution of loans reflects satisfactory penetration throughout the AA. FNB originated a reasonable volume of lending activity from the two moderate-income census tracts, even though there are larger and more established financial institutions in Beardstown and in Jacksonville as compared with FNB's locations in Arenzville and in South Jacksonville. Therefore, it is reasonable that there is less loan penetration in these census tracts with the exception of two large commercial loan customers.

The geographic distribution for agricultural loans was not performed as it would not be meaningful since less than 1% (5 of 505) of the farms in the AA are located in a moderate-income CT.

Commercial Loans

FNB's geographic distribution of commercial lending reflects a reasonable level of penetration in census tracts of different income levels, including moderate-income census tracts. Based on the commercial loans originated during the evaluation period, the percentage of commercial loans originated in moderate-income census tracts is slightly below the level of commercial businesses located in the moderate-income census tracts within the AA. The vast majority of loan volume generated from the moderate-income CTs is from two large commercial customers.

Table 6 – Geographic Distribution of Loans to Businesses in the AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number	% of AA Businesses	% of Number	% of AA Businesses	% of Number	% of AA Businesses	% of Number
Commercial	0%	0%	11%	10%	79%	84%	10%	6%

Source: Bank records on new loans originated or purchased from January 1, 2004 to June 30, 2006; 2000 Census Data.

Residential Real Estate Loans

FNB’s geographic distribution of residential lending reflects a slightly less than satisfactory level of penetration in census tracts of different income levels, including moderate-income census tracts. Based on the residential loans originated during the evaluation period, the percentage of residential loans originated in moderate-income census tracts is below the level of owner occupied housing located in the moderate-income census tracts within the AA. The low volume of residential lending in the two moderate-income census tracts is in direct correlation with the location of FNB’s two facilities and the location of larger and more established financial institutions in Beardstown and Jacksonville.

Table 7 – Geographic Distribution of Residential Real Estate Loans in the AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Owner Occupied Housing	% of Number	% of AA Owner Occupied Housing	% of Number	% of AA Owner Occupied Housing	% of Number	% of AA Owner Occupied Housing	% of Number
Residential	0%	0%	10%	3%	79%	85%	11%	12%

Source: Bank records on new loans originated or purchased from January 1, 2004 to June 30, 2006; 2000 Census Data.

LENDING IN THE ARENZVILLE ASSESSMENT AREA

A majority of the loans originated by FNB are to customers from within its AA. FNB’s lending to customers within the AA for all loan types is reasonable. The following table details the bank’s lending within the AA by number of loan originations and dollar volume during the evaluation period.

Table 8 – Loans Originated within the Arenzville Assessment Area

Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$(000)	%	\$(000)	%	
Commercial	191	82%	41	18%	232	\$ 10,008	64%	\$ 5,714	36%	\$ 15,722
Agricultural	195	94%	13	6%	208	\$ 12,635	97%	\$ 361	3%	\$ 12,996
Residential	148	75%	50	25%	198	\$ 7,968	75%	\$ 2,656	25%	\$ 10,624
Totals	534	84%	104	16%	638	\$ 30,611	78%	\$ 8,731	22%	\$ 39,342

Source: Bank records on new loans originated or purchased from January 1, 2004 to June 30, 2006.

LOAN-TO-DEPOSIT RATIO

FNB's average loan-to-deposit ratio is reasonable given the bank's size, financial condition, and AA credit needs. FNB's quarterly average loan-to-deposit ratio for the period October 1, 2000, to March 31, 2006, was seventy-nine percent. The quarterly average loan-to-deposit ratio for other similarly situated financial institutions over the same time period ranged from sixty-two percent to ninety percent. FNB's average loan-to-deposit ratio is comparable with the other nine similarly situated banks, which range in asset size from \$22 million to \$160 million. The similarly situated banks utilized for comparison purposes are community banks located in Cass and Morgan counties.

RESPONSES TO COMPLAINTS

FNB has not received any complaints about its performance in helping to meet the credit needs within its AA 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.