



## **PUBLIC DISCLOSURE**

November 04, 2013

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

The Fairfield National Bank  
Charter Number 6609

220 East Main Street  
Fairfield, IL 62837

Office of the Comptroller of the Currency

2350 Market Street, Room 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.

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

**The Lending Test is rated: Satisfactory.**

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

The major factors that support this rating of Satisfactory are as follows:

- A substantial majority of the bank's loans by number were made within the assessment area (AA).
- The distribution of loans to individuals of different income levels and to farms of different sizes reflects excellent penetration in the AA.
- The geographic distribution of loans reflects reasonable dispersion in the AA.
- The level of lending is reasonable based on the average quarterly loan-to-deposit ratio since the last CRA evaluation.
- The bank's community development performance demonstrates adequate responsiveness to the needs of its AA.

## **Scope of Examination**

This Performance Evaluation of The Fairfield National Bank (FNB), Fairfield, Illinois, assesses its record of meeting the credit needs of the communities in which it operates. We evaluated FNB under the Intermediate Small Bank performance criteria, which consist of a Lending Test 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 service activities.

The evaluation period covers September 9, 2009 through November 4, 2013. The Lending Test analyzed loans originated or purchased from January 1, 2011 through September 30, 2013. Conclusions regarding the bank's lending performance are based on FNB's primary loan products: consumer and agricultural loans. After our initial sampling to analyze the bank's lending inside its AA, we used only loans made in the AA to evaluate the other lending test factors. Our sample of loans inside the AA included 40 consumer loans and 40 agricultural loans. We analyzed the 2011 loans against 2000 Census information and the 2012-2013 loans against 2010 Census information.

The scope for the CD Test covered the entire evaluation period. For CD activities, we did consider the donations made by the bank's affiliate, Fairfield National Bank Community Foundation.

## Description of Institution

FNB is wholly owned by Fairfield Bancshares, Inc., a one-bank holding company located in Fairfield, Illinois. As of September 30, 2013, FNB had total assets of \$429 million, net loans of \$205 million, total deposits of \$313 million, and total risk based capital of \$39 million. FNB's assets represent substantially all of the holding company's assets; however, the bank has an affiliate whose primary purpose is philanthropic activities (Fairfield National Bank Community Foundation). There have been no changes in the bank's corporate structure since the last CRA evaluation. There are no legal, financial, or other factors impeding FNB's ability to help meet the credit needs of the AA it serves.

As of September 30, 2013, net loans represented 46% of total assets and consisted of commercial and commercial real estate loans (50%), agricultural and agricultural real estate loans (24%), residential real estate loans (17%), consumer loans (7%), and other loans (2%).

FNB is primarily a consumer and agricultural lender and operates four offices in Illinois. The main office is located in downtown Fairfield (Wayne County). The other offices are located in Wayne City (Wayne County), Grayville (White County), and Bridgeport (Lawrence County).

FNB operates nine automated teller machines (ATMs): one ATM at each of the four offices; and one each located in Fairfield at Hometown IGA, Fairfield Memorial Hospital, Mach1 Convenience Store (installed February 2012), and Davis Convenience Mart (installed February 2012); and one ATM at Mid-Way Mart and Crafts in Bluford, IL. The bank closed the KBJ's Convenience Store ATM in Bridgeport in May 2011. All of the ATMs located at the bank offices and the Hometown IGA are deposit-taking while the remaining offsite locations are cash-dispensing only.

FNB was rated "Satisfactory" at its last CRA evaluation dated September 8, 2009.

## Description of Assessment Area

FNB's AA is a non-MSA comprised of twelve census tracts (CTs) in Illinois. Management designated as the bank's AA: all five CTs of Wayne County, two CTs in Edwards County (9570 and 9571), one CT in Lawrence County (9809), one CT in Wabash County (9572), one CT in White County (9582), and two CTs in Jefferson County (502, 504). The bank added the Jefferson County CTs since the last evaluation. This AA meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income geographies. Pursuant to 2000 Census information, all CTs in the AA were classified as middle-income. Pursuant to 2010 Census information, two CTs were reclassified as moderate-income and the ten other CTs remain middle-income. As of the 2010 Census, FNB's main office in Fairfield (CT 9552) and the branch in

Bridgeport (CT 8809) are located in the moderate-income CTs. The CTs in Edwards County are designated as Underserved Middle-Income Nonmetropolitan Tracts.

Competition is strong, especially in Jefferson County. Based on FDIC data as of June 30, 2013, twenty-three institutions operate 52 offices in the 6-county area that encompasses the AA. FNB has the largest deposit market share, at 15%. Major competitors include one large regional bank (Old National Bank) and several community banks (Peoples National Bank, First National Bank of Carmi, Clay City Banking Co., Citizens National Bank of Albion, and The First National Bank of Allendale).

Major industries in the AA consist of agriculture, coal mining, and oil and gas production. The largest employers include local educational centers (Fairfield public schools and local community college), Airtex Products, Inc., Fairfield Memorial Hospital, and Horizon Healthcare. Airtex Products, Inc. has recently announced they are cutting their workforce by 50% (150 employees) in 2014. Many residents of the AA also commute to the Mt. Vernon, IL area for employment. Mt. Vernon’s largest employer, Continental Tire, recently announced an expansion and is expected to add 400+ employees.

The local economy has stabilized over the last few years. The August 2013 unemployment rate was 8.1% for Edwards County, 8.8% for Jefferson County, 8.0% for Wayne County, 7.9% for Lawrence County, 7.8% for Wabash County, and 7.7% for White County, all below the Illinois unemployment rate of 9.0%. The national unemployment rate was 7.3%. Based on 2000 Census data, 12.0% of households lived below the poverty level in the AA; that percentage increased to 13.4% based on 2010 Census data.

The following is demographic data for the AA.

Demographic Information for Fairfield National Bank’s AA – 2000 Census					
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #
Geographies (Census Tracts/BNAs)	12	0.00	0.00	100.00	0.00
Population by Geography	40,626	0.00	0.00	100.00	0.00
Owner-Occupied Housing by Geography	12,725	0.00	0.00	100.00	0.00
Business by Geography	2,670	0.00	0.00	100.00	0.00
Farms by Geography	391	0.00	0.00	100.00	0.00
Family Distribution by Income Level	11,144	21.05	21.76	27.67	29.51
Distribution of Low and Moderate Income Families throughout AA Geographies	4,771	0.00	0.00	100.00	0.00
Median Family Income		\$38,898	Median Housing Value		\$47,631
HUD Adjusted Median Family Income for 2011		\$56,600	Unemployment Rate		3.50%
Households Below Poverty Level		12%	(2000 US Census)		

Source: 2000 US Census and 2011 HUD-updated MFI

Demographic Information for Fairfield National Bank's AA – 2010 Census					
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #
Geographies (Census Tracts/BNAs)	12	0.00	16.67	83.33	0.00
Population by Geography	39,336	0.00	15.01	84.99	0.00
Owner-Occupied Housing by Geography	12,265	0.00	14.16	85.84	0.00
Business by Geography	2,429	0.00	30.09	69.91	0.00
Farms by Geography	388	0.00	12.89	87.11	0.00
Family Distribution by Income Level	10,765	17.93	19.22	25.37	37.48
Distribution of Low and Moderate Income Families throughout AA Geographies	3,999	0.00	14.58	85.42	0.00
Median Family Income		\$50,722	Median Housing Value		\$68,395
HUD Adjusted Median Family Income for 2013		\$56,200	Unemployment Rate		3.88%
Households Below Poverty Level		13%	(2010 US Census)		

Source: 2010 US Census and 2013 HUD-updated MFI

To help meet the community’s credit needs, FNB is an approved lender for the USDA Rural Development Guaranteed Housing Program. This program enables qualified low- or moderate-income families to become homeowners. Under the program guidelines, FNB made loans totaling \$366,700 in 2011, \$711,786 in 2012 and \$80,900 as of September 30, 2013. FNB also participated in the FSA’s Beginning Farmer Loan Program. In the past three years, the bank has funded five loans totaling \$1,820,550.

One community contact was made to a social services agency that operates a number of programs including a food bank, head start, emergency food and shelter, assistance to dislocated workers, home rehabilitation, weatherization, and a homebuyers program. The contact indicated FNB is an active participant in funding their homebuyers’ assistance programs. Two additional community contacts were performed to a real estate company and a community-based development corporation. The organizations did not identify any credit needs or opportunities for bank involvement.

## Conclusions with Respect to Performance Tests

### LENDING TEST

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.

**Loan-to-Deposit Ratio**

FNB’s loan-to-deposit (LTD) ratio is reasonable. The quarterly average LTD ratio since the 2009 CRA examination is 65%. This ratio, although somewhat higher than at the 2009 CRA evaluation, is lower than five similarly situated banks in the area. The quarterly average LTD ratio of these banks, with assets between \$113 million and \$871 million and located within FNB’s AA, ranges from 69% to 83% for the same period. As of September 30, 2013, the bank’s LTD ratio is 66%.

**Lending in Assessment Area**

A substantial majority of loans by number (85%) and a majority by dollar volume (65%) were made within FNB’s AA.

<b>Lending in the Assessment Area</b>										
Loan Type	Number of Loans					Dollars of Loans (000's)				
	Inside		Outside		Total	Inside		Outside		Total (\$)
	#	%	#	%		\$	%	\$	%	
Farm	31	78%	9	22%	40	1,614	62%	985	38%	2,599
Consumer	37	93%	3	7%	40	275	96%	12	4%	287
Totals	68	85%	12	15%	80	1,889	65%	997	35%	2,886

Source: Sample of 40 farm and 40 consumer loans originated between January 1, 2011 and September 30, 2013.

**Lending to Farms of Different Sizes and to Borrowers of Different Incomes**

FNB’s lending distribution to borrowers of different income levels and farms of different sizes reflects excellent penetration.

Farm Loans

The distribution of loans to farms of different sizes is reasonable in 2011 and excellent in 2012-2013. For 2011, the percentage of loans extended to farms with gross annual revenues of \$1 million or less is lower than the percentage of small farms within the AA. For 2012-2013, it is higher than the percentage of small farms within the AA.

<b>Borrower Distribution of Loans to Farms - 2011</b>				
Farm Revenues	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Farms	98.2%	0.8%	1.0%	100%
% of Bank Loans in AA by #	95.0%	5.0%	0.0%	100%
% of Bank Loans in AA by \$	80.0%	20.0%	0.0%	100%

Source: Sample of 20 farm loans; 2011 Business Geodemographic Data.

<b>Borrower Distribution of Loans to Farms - 2012-2013</b>				
Farm Revenues	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Farms	98.5%	0.5%	1.0%	100%
% of Bank Loans in AA by #	100.0%	0.0%	0.0%	100%
% of Bank Loans in AA by \$	100.0%	0.0%	0.0%	100%

Source: Sample of 20 farm loans; 2012 Business Geodemographic Data

**Consumer Loans**

The distribution of loans to borrowers of different incomes is excellent in 2011 and 2012-2013. In both years, the percentage of consumer loans extended to consumers with low and moderate income significantly exceeds the percentage of households within the AA.

<b>Borrower Distribution of Consumer Loans - 2011</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% 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	24.54%	55.00%	18.82%	35.00%	21.14%	5.00%	35.49%	5.00%

Source: Sample of 20 consumer loans; 2000 U.S. Census data.

<b>Borrower Distribution of Consumer Loans - 2012-2013</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% 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	22.81%	35.00%	17.13%	30.00%	20.12%	30.00%	39.93%	5.00%

Source: Sample of 20 consumer loans; 2010 U.S. Census data.

**Geographic Distribution of Loans**

FNB’s geographic distribution of loans reflects reasonable dispersion within the AA. This assessment is based on our analysis of 2012-2013 data. The bank lends in all CTs of the AA. The AA had no low- or moderate-income geographies per the 2000 Census, so an analysis of 2011 data would be meaningless.

**Farm Loans**

The geographic distribution of farm loans is deemed reasonable even though our sample did not identify farm loans extended in the two moderate-income CTs. In evaluating the geographic distribution for farm loans, we considered the low number of farms (50) located in the moderate-income CTs, and the high competition for those loans.

Geographic Distribution of Loans to Farms - 2012-2013								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Farms	% of Number of Loans	% of AA Farms	% of Number of Loans	% of AA Farms	% of Number of Loans	% of AA Farms	% of Number of Loans
Farm Loans	N/A	N/A	12.89%	0%	87.11%	100%	N/A	N/A

Source: Sample of 20 farm loans; 2012 Dunn and Bradstreet Data.

### Consumer Loans

The geographic distribution of consumer loans reflects a reasonable dispersion in the AA. The percentage of consumer loans made to borrowers in the moderate-income CTs exceeds the percentage of households located in the moderate-income CTs.

Geographic Distribution of Consumer Loans - 2012-2013								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% 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 Loans	NA	NA	17.45%	20.00%	82.55%	80.00%	NA	NA

Source: Sample of 20 consumer loans; 2010 U.S. Census data.

### Responses to Complaints

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

## COMMUNITY DEVELOPMENT TEST

FNB's CD performance demonstrates adequate responsiveness to the needs of its AA through loans, qualified investments, and services. Bank management works with city and county government officials and other community representatives in the areas where they have offices. Officers and employees of the bank are involved in several community service organizations.

### Number and Amount of Community Development Loans

FNB originated ten CD loans to five entities and their related interests totaling \$2.68 million. Information regarding these loans is summarized below.

- FNB originated a loan to an entity for a new business located in a moderate-income CT in the AA. The loan proceeds funded a farm market and bakery and created approximately seven jobs.



- FNB extended a loan to an organization in the moderate-income CT for updating and remodeling their facilities. The facilities are used to promote community development for low- and moderate-income (LMI) individuals and families, such as youth programs, a free grocery program, and educational opportunities.
- The bank extended funds to the local park district that serves LMI individuals inside the AA. One park is located in the moderate-income CT and one park is located adjacent to the moderate-income CT.
- FNB originated a loan to a day care facility that is adjacent to and serves families in the moderate-income CT.
- FNB extended loans to two borrowers for affordable housing rehab and construction of multifamily rental property serving LMI individuals and families in a moderate-income CT.

### **Number and Amount of Qualified Investments**

The bank made 23 qualified investments for \$1.45 million. Information regarding these investments is summarized below.

- FNB purchased 6 obligations for a municipal waterworks project to update the water delivery system. The water district is located in the AA and serves a moderate-income CT.
- FNB purchased an obligation for a park district's annual expenses to maintain two parks in the AA, one in and one adjacent to a moderate-income CT.
- FNB purchased 15 obligations for a community school district within the AA to upgrade, purchase and install new equipment. The school district is adjacent to and serves students from Edwards County. The elementary school primarily serves students from LMI households.
- Through its related organization, the bank made donations totaling \$72,000 to qualifying CD organizations. The organizations have a CD purpose and serve LMI individuals inside the AA.

### **Extent to Which the Bank Provides Community Development Services**

- A bank representative provided CD services to the local hospital foundation. The foundation is the primary fundraising arm of the hospital located in the AA and in a moderate-income CT. CD services provided include coordinating, assisting and attending fundraising activities.

- A FNB representative provided CD services to a business development corporation in the AA. It is adjacent to and serves the moderate-income CT and LMI individuals. The corporation builds homes and sells them to LMI individuals at cost. Small business owners are employed to build the homes. CD services provided include serving as a Board member, reviewing financial information and approving purchase requests.
- A FNB representative provided CD services to the Fairfield Chamber of Commerce. The City of Fairfield has one moderate-income CT. The Chamber seeks new businesses and promotes existing businesses. CD services include reviewing financial information and performing outreach activities.
- FNB representatives provided CD services to two Wayne County schools by teaching elementary school students the use of money and finances in a real world setting. The majority of students are from LMI families.
- A FNB representative provided CD services to the area planning commission. The Greater Wabash Regional Planning Commission serves Edwards, Lawrence, Richland, Wabash, and Wayne Counties. Edwards County is designated as underserved, and Lawrence and Wayne Counties both have one moderate-income CT. The Commission provides services such as planning, technical assistance, and project development in the areas of community and economic development, transportation, housing, land use, public facilities, and natural resources. CD services provided include reviewing and approving funding requests and approving the release of funds.

### **Responsiveness to Community Development Needs**

FNB's CD activities demonstrated adequate responsiveness to community needs of the AA given the identified needs of affordable housing and community services and FNB's financial capacity.

### **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.