



INTERMEDIATE SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

July 30, 2012

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The Farmers National Bank of Prophetstown
Charter Number 6375

114 West 3rd Street
Prophetstown, IL 61277

Office of the Comptroller of the Currency

211 Fulton Street, Suite 604
Peoria, IL 61602

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.

- Farmers National Bank of Prophetstown's (FNBP) distribution of loans to farms of different sizes and families of different income levels is satisfactory given the bank's product offerings and local economic conditions in both assessment areas (AA).
- A majority of the loans originated by FNBP are to customers from within its AAs.
- FNBP's quarterly average loan-to-deposit ratio of sixty-five percent over the evaluation period is reasonable.
- FNBP's community development performance demonstrates satisfactory responsiveness to the community development needs of its AA through community development loans, qualified investments, and community development services.

Scope of Examination

This performance evaluation assesses Farmers National Bank of Prophetstown's record of meeting the credit needs of the communities in which it operates. We evaluated FNBP under the Intermediate Small Bank performance criterion, which includes a lending test and a community development 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 community development test evaluates a bank's community development lending, qualified investments, and community development service activities.

- The evaluation period covers loans originated from January 1, 2010, through June 30, 2012.
- The evaluation period for the community development test covers any activities occurring from July 14, 2009, through July 30, 2012.
- The Henry County MSA AA and Whiteside County AA received full scope reviews.
- The lending test is based on FNBP's primary loan products. We based our conclusions regarding the bank's lending performance on agricultural and residential mortgage loans originated from January 1, 2010, through December 31, 2011, utilizing 2000 census data.

- We used loans originated in 2012 in the loan-to-deposit ratio and the in-out ratio; however, they were excluded from the Lending to Farms of Different Sizes and Borrowers of Different Incomes due to out of date census data.
- We reviewed residential related loans reported under the Home Mortgage Disclosure Act (HMDA) for the years 2010, 2011, and through June 30, 2012.
- We conducted Data Integrity reviews of the HMDA data by comparing information from the bank's loan application registers to actual loan files. We found the data for 2010, 2011, and 2012 to be accurate and reliable for use in this examination.

Description of Institution

Farmers National Bank of Prophetstown is a financial institution headquartered in Prophetstown, Illinois. Prophetstown is located in Northwestern Illinois. As of June 30, 2012, FNB reported total assets of \$481 million. FNB is wholly owned by Prophetstown Banking Co., a one-bank holding company. The bank has no affiliates.

There are no legal, financial, or other factors impeding FNB's ability to help meet the credit needs in the bank's assessment areas. There has been no change in the bank's corporate structure since the previous CRA evaluation. The bank's last CRA rating, which was as an Intermediate Small Bank, was "Satisfactory Record of Meeting Community Credit Needs" as detailed in the Performance Evaluation dated July 13, 2009.

FNB is an intrastate financial institution with three offices serving Henry and Whiteside counties in the State of Illinois. The AA meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income geographies. FNB also operates three cash dispensing automated teller machines (ATMs) located throughout the AAs. All of the bank's offices are full-service facilities and offer a full range of consumer banking products. FNB did not open or close any branch offices since the previous CRA examination.

FNB's primary focus is to provide loans and retail services to its customers throughout the AAs. FNB's primary lending products are agricultural and residential real estate loans. These lending categories account for ninety percent of all loan originations during the evaluation period and make up eighty-five percent of the outstanding loan balance as of June 30, 2012. Thus, we used these loan products for the analysis in this evaluation. Consumer and commercial loans are not primary loan products accounting for ten percent of all originations during the evaluation period.

The table below illustrates the composition of loan originations made from January 2010 through June 30, 2012.

Table 1 – Loan Originations by Loan Type from January 1, 2010 through June 30, 2012		
Loan Category	\$ (000)	%
Agricultural Loans	\$302,530	76%
Residential Loans	\$ 56,232	14%
Commercial Loans	\$ 33,229	8%
Consumer Loans	\$ 7,649	2%
Total Originations	\$ 399,640	100%

Source: Bank records from January 1, 2010 through June 30, 2012

As of June 30, 2012, the bank reported \$206 million in outstanding loans representing forty-three percent of total assets. They reported Tier One Capital at \$55.8 million. The loan portfolio consists of:

Table 2 – Loan Portfolio Summary by Loan Type June 30, 2012		
Loan Category	\$(000)	%
Agricultural Loans	\$150,429	73%
Residential Loans	\$ 25,693	12%
Commercial Loans	\$ 24,135	12%
Consumer Loans	\$ 4,230	2%
Other Loans	\$ 1,259	1%
Total Loans	\$205,746	100%

Source: June 30, 2012 Call Report

Description of Assessment Areas

FNBP's assessment areas meet the requirements of the regulation and do not arbitrarily exclude any low- or moderate-income areas. FNBP has two assessment areas: the Whiteside County AA (Whiteside AA) and the Henry County MSA AA (Henry AA). We performed a full-scope review of both AAs.

Whiteside County AA

The Whiteside AA is not located in an MSA and consists of five geographies in Whiteside County. All five geographies are designated middle- or upper-income.

The following is demographic information for the assessment area:

Table 3 - Demographic Information for the Whiteside AA					
Demographic Characteristics	#	Low % of #	Mod % of #	Middle % of #	Upper % of #
Geographies (Census Tracts)	5	0%	0%	80%	20%
Population by Geography	16,177	0%	0%	80%	20%
Owner-Occupied Housing by Geography	4,951	0%	0%	79%	21%
Businesses by Geography	1,401	0%	0%	81%	19%
Farms by Geography	264	0%	0%	77%	23%
Family Distribution by Census Tract	4,595	0%	0%	80%	20%
Family Distribution by Income Level	4,595	12%	18%	24%	46%
Median Family Income	\$49,067	Median Housing Value		\$79,539	
Median Household Income	\$42,909	Median Year Built		1952	
2011 HUD Adjusted Median Family Income for the MSA	\$56,600	Average Monthly Gross Rent		\$426	
Households Below the Poverty Level	6%				

Source: 2000 U.S. Census Data

Henry County MSA AA

The Henry AA is located in the Davenport-Moline-Rock Island, IA-IL MSA and consists of three geographies in Henry County. All three geographies are designated middle-income.

The following is demographic information for the assessment area:

Table 4 - Demographic Information for the Henry AA					
Demographic Characteristics	#	Low % of #	Mod % of #	Middle % of #	Upper % of #
Geographies (Census Tracts)	3	0%	0%	100%	0%
Population by Geography	12,384	0%	0%	100%	0%
Owner-Occupied Housing by Geography	3,713	0%	0%	100%	0%
Businesses by Geography	1,394	0%	0%	100%	0%
Farms by Geography	283	0%	0%	100%	0%
Family Distribution by Census Tract	3,467	0%	0%	100%	0%
Family Distribution by Income Level	3,467	14%	21%	26%	39%

Median Family Income	\$50,320	Median Housing Value	\$92,743
Median Household Income	\$41,020	Median Year Built	1950
2011 HUD Adjusted Median Family Income for the MSA	\$64,100	Average Monthly Gross Rent	\$447
Households Below the Poverty Level	7%		

Source: 2000 U.S. Census Data

Economic Data

The local economic condition is relatively stable due to the large agricultural presence; however, Whiteside County continues to be negatively impacted by high unemployment. The Whiteside County unemployment rate for June 2012 compares unfavorably to both the national average and State of Illinois unemployment rates. Henry County compares favorably to both the national and state unemployment rates for June 2012. The June 2012 unemployment rates for each area are: 7.5 percent Henry County, 10.0 percent Whiteside County, 9.3 percent State of Illinois, and 8.4 percent national average rate.

The economy of the AA is concentrated in the education, healthcare, agricultural, retail, and manufacturing sectors. Major employers include: local school districts, local hospital and health care facilities, Springfield Armory, Wyffels Hybrid Seed Corn, GE Control Products, Climco Coils, Winning Wheels, and city and county governmental units.

We made one community contact from the bank’s AA during the evaluation. The contact indicated the primary credit need in the AA is small business loans. The contact indicated there are no credit needs or banking services not met or provided for by the local financial institutions. Overall, the contact felt FNBP and other local financial institutions are meeting the credit needs of the area. The contact stated FNBP and their employees are actively involved in the community.

Conclusions with Respect to Performance Tests

LENDING TEST

FNBP meets the standards for satisfactory performance.

- The distribution of loans to farms of different sizes and individuals of different income levels is reasonable.
- A majority of the loans originated by FNBP are to customers within its AA.
- FNBP’s loan-to-deposit ratio is reasonable given the bank’s size, financial condition, and AA’s credit needs.

Loan-to-Deposit Ratio

FNBP's average loan-to-deposit ratio is reasonable given the bank's size, financial condition, and AA's credit needs. FNBP's quarterly average loan-to-deposit ratio for the period July 1, 2009, to March 31, 2012, was sixty-five percent. The quarterly average loan-to-deposit ratios for other similarly-situated financial institutions over the same time period ranged from forty-seven percent to ninety-five percent. The similarly-situated banks utilized for comparison purposes are community banks located within the AA counties. The similarly-situated banks range in asset size from \$75 million to \$476 million.

Lending in Assessment Area

The distribution of loans reflects reasonable penetration in the AA. A majority of the loans originated by FNBP are to customers inside its AA. The following table details the bank's lending within its AA based on the number of loan originations and dollar volume during the evaluation period.

Table 5 – Loans Originated within the Assessment Area										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total \$(000)
	#	%	#	%		\$(000)	%	\$(000)	%	
Agricultural	52	72%	20	28%	72	\$7,775	77%	\$2,378	23%	\$10,153
Residential	425	73%	156	27%	581	\$41,502	71%	\$17,105	29%	\$58,607
Total	477	73%	176	27%	653	\$49,277	72%	\$19,483	28%	\$68,760

Source: Sample of 72 agricultural loans originated from January 1, 2010, to June 30, 2012. Mortgage loan register records from January 1, 2010, to June 30, 2012

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

The distribution of loans reflects, given the demographics of the AA, reasonable penetration among farms of different sizes and individuals of different income levels. The distribution of agricultural and residential real estate loans is reasonable.

Agricultural Loans

The distribution of loans reflects reasonable penetration among farms of different sizes. Loans to small farms are those with gross annual revenues of \$1 million or less. The following table displays the distribution of loans among different-sized farms.

Table 6 – Borrower Distribution of Loans to Farms of Different Sizes in the Whiteside AA					
Farm Revenues	Number of Loans		% Farms in AA**	Dollars of Loans	
	#	%		\$(000)	%
≤\$1,000,000	15	75%	99%	\$1,206	63%
>\$1,000,000	3	15%	0%	\$560	29%
Not Reported	2	10%	1%	\$154	8%
Total	20	100%	100%	\$1,920	100%

Source: Sample of 20 agricultural loans originated January 1, 2010 through December 31, 2011; 2000 Census Data.

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

Table 7 – Borrower Distribution of Loans to Farms of Different Sizes in the Henry AA					
Farm Revenues	Number of Loans		% Farms in AA**	Dollars of Loans	
	#	%		\$(000)	%
≤\$1,000,000	22	92%	98%	\$2,964	75%
>\$1,000,000	2	8%	1%	\$1,000	25%
Total	24	100%	99%	\$3,964	100%

Source: Sample of 24 agricultural loans originated January 1, 2010 through December 31, 2011; 2000 Census Data.

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

Residential Real Estate Loans

FNBP's lending to moderate-income borrowers shows more than reasonable penetration and exceeds the percentage of moderate-income families in the Whiteside AA. Although lending to low-income borrowers is below the percentage of low-income families in the Whiteside AA, this is considered reasonable given the percentage of families in the Whiteside AA below the poverty level.

Table 8 – Borrower Distribution of Residential Real Estate Loans in the Whiteside AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Families	% of Number	% of AA Families	% of Number	% of AA Families	% of Number	% of AA Families	% of Number
Residential	12%	7%	18%	22%	24%	27%	46%	44%

Source: Mortgage loan register records from January 1, 2010, to December 30, 2011; 2000 Census Data

FNBP's lending to moderate-income borrowers shows more than reasonable penetration and exceeds the percentage of moderate-income families in the Henry AA. Although lending to low-income borrowers is slightly below the percentage of low-

income families in the Henry AA, this is considered reasonable given the percentage of families in the Henry AA below the poverty level.

Table 9 – Borrower Distribution of Residential Real Estate Loans in the Henry 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	13%	11%	21%	23%	26%	23%	40%	43%

Source: Mortgage loan register records from January 1, 2010, to December 31, 2011; 2000 Census Data

Geographic Distribution of Loans

We did not perform a geographic distribution of loans at this examination. Since all of the geographies are middle- or upper-income, the analysis would not be meaningful.

Responses to Complaints

FNBP has received no complaints about its performance in helping to meet the credit needs within its AA during this evaluation period.

COMMUNITY DEVELOPMENT TEST

FNBP’s community development performance demonstrates an adequate responsiveness to the community development needs of its AA through community development loans, qualified investments, and community development services.

Number and Amount of Community Development Loans

FNBP has three qualifying loans from the Whiteside AA totaling \$2.5 million during the evaluation period.

- FNBP originated a \$500 thousand loan, a \$1.5 million loan, and another \$500 thousand loan for operating costs for a not-for-profit agency that provides health and housing services to mentally disabled individuals. The majority of the patients are low- and moderate-income individuals.

FNBP did not have any qualifying CD loans for the Henry AA during the evaluation period.

Number and Amount of Qualified Investments

FNBP has made a total of \$4 thousand in cash contributions and donations to community development organizations assisting low- and moderate-income individuals and families in the Whiteside AA.

FNBP has made a total of \$3 thousand in cash contributions and donations to community development organizations assisting low- and moderate-income individuals and families in the Henry AA.

Some notable qualifying donations are as follows:

- \$2,202 to local food pantries.
- \$2,000 to charities providing clothing and toys to local low- and moderate-income families.
- \$1,440 to the United Way.

Extent to Which the Bank Provides Community Development Services

Delivery systems are reasonably accessible to individuals of different income levels. FNBP operates three full-service offices and three ATMs in the AA. All locations are in middle-income tracts. All offices are open on Saturdays, and the three ATMs accept deposits. Products and services offered by the bank help to meet the needs of the community. FNBP's loan and deposit products are available at all branch locations.

FNBP offers an adequate level of community development services based on the capacity of the bank, and the need and availability of opportunities in both AAs. The officers and employees of the bank are moderately involved in a number of community service organizations in both the Whiteside and Henry AAs.

Responsiveness to Community Development Needs

FNBP displays an adequate responsiveness to the community development needs of the Whiteside AA; however, the bank displays a poor responsiveness to the community development needs of the Henry AA. More weight was given to the community development performance in the Whiteside AA at this examination. Overall, FNBP displays an adequate responsiveness to community development needs of the AA through community development lending, investments, and services.

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.