



INTERMEDIATE SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

September 8, 2009

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

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.

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

The Lending Test is rated: Satisfactory.

The Community Development Test is rated: Satisfactory.

All the lending performance components meet the standards for satisfactory performance. The level of community development activities is adequate. The major factors that support these ratings are:

- The bank's record of lending to small farms and low- and moderate-income borrowers is good. Residential real estate loans made to moderate-income borrowers exceeded the level of moderate-income families in the assessment area (AA). The majority (98% of dollars and 80% of number) of agricultural loans were made to farmers with gross annual revenues of less than \$1 million.
- A majority (62%) of the loans extended during the evaluation period were originated within the bank's AA.
- The bank's average loan-to-deposit ratio for this evaluation period is 58%, but has been steadily increasing since the last CRA examination. For the past six months, the ratio has exceeded 70%.
- FNB has demonstrated adequate responsiveness to the community development needs of its AA.

Scope of Examination

We reviewed the CRA activities of the bank using full-scope procedures in the combined non-Metropolitan Statistical Area (non-MSA) AA. The evaluation period for lending activities was January 1, 2007 through June 30, 2009. For community development activities, the evaluation period used was January 28, 2003 through September 8, 2009.

During this evaluation period, FNB's primary loan products are commercial and agricultural loans by dollar amount and residential real estate loans by number of loans. After our initial sampling to analyze the bank's lending inside its assessment area, we used only loans made in the AA to evaluate the other lending test factors. Our sample of loans inside the AA included 20 commercial loans, 20 farm loans and 20 residential real estate loans, originated between January 1, 2007 and June 30, 2009. Residential real estate loans were not differentiated by type (i.e., home purchase, refinancing, home improvement, and multi-family dwelling) because that information was not readily available.

For community development activities, we did consider the donations made by the bank's affiliate, Fairfield National Bank Community Foundation.

Description of Institution

The Fairfield National Bank (FNB) is wholly owned by Fairfield Bancshares, Inc., a one-bank holding company located in Fairfield, Illinois. As of June 30, 2009, FNB had total assets of \$315 million, net loans of \$161 million, total deposits of \$219 million, and total risk based capital of \$28 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.

FNB is primarily a commercial and agricultural lender and operates four offices in Illinois. The main office is located in downtown Fairfield and was established over 100 years ago. The other offices are Bean Capital Banking Center, opened in March 1997 and located in Wayne City; Tri-County Banking Center, opened in May 2005, and located in Grayville; and First Bridgeport Banking Center, opened in May 2005, and located in Bridgeport.

In addition, FNB operates seven automated teller machines (ATMs): one ATM at each of the four offices, and one each located at Hometown IGA in Fairfield, KBJ's Convenience Store in Bridgeport, and Mid-Way Mart and Crafts in Bluford. All of the ATMs located at the branches are deposit taking while the machines at the three offsite locations are cash dispensing only. During this evaluation period, the bank expanded through a three-unit branch acquisition that took place in May 2005. As noted above, branches were opened in Grayville and Bridgeport. The other branch the bank acquired was subsequently closed due to its proximity to an existing FNB location.

FNB offers a full range of commercial, agricultural, and retail banking products normally associated with a rural community bank. As of June 30, 2009, net loans totaled approximately \$161 million, representing 51% of total assets. The loan portfolio consists of 43% commercial and industrial loans, 20% agricultural loans, 14% residential real estate loans, 10% loans to individuals, 9% commercial real estate loans, and 4% other loan types. Commercial and industrial loans represent the substantial majority of the loans originated during this evaluation period.

There are no legal or financial circumstances impeding the bank's ability to meet the AA credit needs. 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 January 27, 2003, and we rated the bank Satisfactory under the small bank CRA criteria.

Description of Assessment Area

The AA is a non-MSA comprised of ten census tracts (CTs) in Illinois. Management designated all five CTs in Wayne County, two CTs in Edwards County (9570 and 9571), one CT in Lawrence County (9809), one CT in Wabash County (9572), and one CT in White County (9582) as the bank's AA. This AA meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income geographies. Based on the 2000 non-MSA median family income of \$43,531, all ten CTs are classified as middle-income.

The 2000 census data indicates total population in the AA is 31,877, which includes 9,208 families. Of these families, 22% were classified low-income, 22% were classified moderate-income, 27% were classified middle-income, and 29% were classified upper-income. The Department of Housing and Urban Development (HUD) updated non-MSA statewide median family income is \$54,400 for 2009, \$51,900 for 2008, and \$50,600 for 2007. We used the updated figures for each respective year in our analysis to determine borrower income levels. Census data also shows that 18% of the population is age 65 and over, 16% of households are in retirement, and 12% of households live below the poverty level. The median housing value in 2000 was \$46,407, and the median age of the housing stock is 47 years. Housing within the AA is 97% 1-4 family units and 72% owner-occupied.

Agriculture, oil production, services, and retail trade businesses primarily support the local economy. Major employers are Airtex Products, Inc., with about 850 employees; Fairfield Memorial Hospital, with about 340 employees; local educational centers (Fairfield public schools and the local college), with about 100 employees; Web Printing Control, with about 40 employees; Murphy Hog Farms, with about 40 employees; and Wayne County Press, with about 35 employees. About 13% of the labor force in Wayne County is self-employed farmers. Additionally, many residents commute outside of Wayne County for employment, primarily to Champion Laboratories in Albion and Continental Tire in Mt. Vernon.

Economic conditions in the AA are unfavorable due to the national recession. The June 2009 unemployment rate for Wayne County is 9.7%. This ratio is comparable to the state and national unemployment rates of 10.5% and 9.7%, respectively.

Competition is moderate. FNB is one of 37 financial institutions operating in the AA and the surrounding market (this includes all of Edwards, Lawrence, Wabash, Wayne, and White counties). The bank's primary competition comes from one midsize bank (Old National Bank) and two community banks (First National Bank of Carmi, and Citizens National Bank of Albion). The number of financial institutions noted above does not include an array of credit unions, mortgage companies, farm services, and insurance company offices that now offer loan products.

Management indicated the primary credit needs of Wayne County are agricultural loans. To further our understanding of the community's credit needs, we performed one contact with a local community development representative and reviewed the

information obtained during two previous contacts. The contact made during this examination did not identify any credit needs or opportunities for bank involvement but provided several examples of how FNB has been instrumental in business retention and job creation. One of the contacts indicated there is an opportunity for additional bank participation in their lender programs, but did not identify any community credit needs. The other contact indicated there is a need for affordable housing and first-time homebuyer counseling in the Lawrence County area, a very small portion of FNB's AA.

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 2003 CRA examination is 58%. This ratio is considered low when compared to four similarly situated banks in the area whose quarterly average ratios range from 62% to 79%; however, FNB's average LTD is strongly influenced by the low LTD levels the bank had from 2003 to 2007. More recently, the bank's LTD ratio has been increasing; for the last 6 months, it has averaged around 70%. As of June 30, 2009, the bank's LTD ratio is 73%. Management and the examiners agreed these four banks were similarly situated because of their size, product mix, lending opportunities, location, and influence of agriculture on their economy.

Lending in Assessment Area

Lending in the AA is reasonable. A majority of the bank's loans originated since the last CRA evaluation were made in the AA. Our sample of 20 agricultural loans, 20 commercial loans, and 20 residential loans, found that 62% by number (37 loans) and 43% by dollar (\$3,536,637) were made within the bank's AA. Due to the low local loan demand, the bank has been purchasing the guaranteed portion of USDA and SBA loans. These loans represent approximately 30% of the loan portfolio. These purchased loans are primarily from outside the bank's AA and contributed to the bank's overall lower level of lending in its AA.

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

FNB's lending to borrowers of different incomes and to businesses of different sizes is reasonable. The facts and data used to evaluate FNB's lending activity are presented in the following tables.

Commercial Loans

Borrower Distribution of Commercial Loans in the AA				
Business Revenues	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	53%	4%	43%	100%
% of Bank Loans in AA by #	35%	25%	40%	100%
% of Bank Loans in AA by \$	17%	69%	14%	100%

Sources: 2008 Dunn and Bradstreet and a sample of 20 commercial loans.

With 43% of businesses in the bank’s AA having unknown revenue and 40% of the bank’s loans not having revenue data, using revenue size as a factor in assessing borrower distribution is not very meaningful. The limited data we reviewed showed the bank had a mix of lending to both small and large businesses. The bank made 35% of its commercial loans by number to businesses with revenue less than \$1 million; by dollar amount, however, 69% of commercial loans were made to businesses with revenues greater than \$1 million.

In addition to the revenue analysis, we also reviewed the commercial loans based on the original amount of the loan. Of the 20 loans sampled, 16 loans (80%) totaling \$402,293 were for original amounts of \$100,000 or less, 3 loans (15%) totaling \$452,884 were for amounts between \$100,000 and \$200,000, and 1 loan (5%) was for \$700,000. Using loan size as a proxy for revenue, the commercial loan sample supports that the bank is serving the small businesses in its community by providing small loans.

Agricultural Loans

Borrower Distribution of Agricultural Loans in the AA				
Farm Revenues	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Farms	98%	1%	1%	100%
% of Bank Loans in AA by #	80%	-	20%	100%
% of Bank Loans in AA by \$	98%	-	2%	100%

Sources: 2008 Dunn and Bradstreet and a sample of 20 farm loans.

FNB is very responsive to the credit needs of small farms in its AA. Our sample reflected a large majority (98% by dollar and 80% by number) of loans were made to farms with gross revenues of less than \$1 million. The other 20% (by number of loans) of our agricultural loan sample had unknown revenues. This performance compares favorably to the distribution of farms in the AA.

Residential Real Estate Loans

Borrower Distribution of Residential Real Estate Loans in the AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
1-4 Family Residential RE	22%	20%	22%	25%	27%	20%	29%	35%

Sources: Sample of 20 residential real estate loans and 2000 US Census data. The 2009 non-MSA median family income for the state of Illinois is \$54,400.

Based on the sample of loans selected, the bank’s residential lending to low- and moderate-income borrowers is excellent. The bank’s lending to low-income borrowers approximates the level of low-income families in the AA while the level of lending to moderate-income borrowers exceeds the level of moderate-income families in the AA.

Geographic Distribution of Loans

An analysis of the geographic distribution of loans would not be a meaningful because all CTs in the AA are middle-income.

Responses to Complaints

Neither the OCC nor FNB has received any complaints about the bank’s performance in helping to meet community credit needs since the last CRA evaluation.

COMMUNITY DEVELOPMENT TEST

The Community Development Test is rated satisfactory. Although there is a low level of opportunities for community development within FNB’s AA, the bank is actively involved and responsive to the activities that exist. All the CTs within the AA are designated as middle-income; however, all of Edwards County has been designated an underserved middle-income non-metropolitan geography since September 1, 2005. Some of the more significant activities the bank participates in are described below.

Number and Amount of Community Development Loans

FNB made eight loans totaling \$3,099,256 with a community development purpose during this evaluation period.

- The bank made two loans for a total of \$2,284,256 to fund the expansion of a hospital facility within its AA. This hospital serves the residents of the underserved middle-income non-metropolitan areas of Edwards County.

- FNB made four loans for \$769,000 in conjunction with the City of Fairfield's and Wayne County's Revolving Loan Fund. Businesses having revenues less than \$1 million are only eligible to receive these funds if the proceeds are used to create or retain jobs for low- and moderate-income individuals.
- The bank extended a \$14,000 loan to a start-up business in March 2009. The proceeds were used to open a retail store which created several low- and moderate-income jobs.
- The bank extended a \$32,000 loan in April 2007 to rehab a building for use as a pregnant women's center. The organization was started through cooperative efforts of churches and caring individuals with the objective to give hope to young pregnant mothers-to-be. The building was donated to the group, but they needed funding to adapt the building for use as a shelter. The program includes psychological uplifting and nutrition training, and supplies diapers, clothing, and medication. This group serves low-income mothers-to-be who cannot afford to seek out help and/or purchase necessities associated with pregnancy.

Number and Amount of Qualified Investments

The bank made six qualified investments for \$2,157,350 during this evaluation period and has one qualified investment for \$25,000 from a prior period still outstanding.

- The bank made a \$1 million investment in March 2009 to provide affordable housing. The funds were used to finance the cost of acquiring and improving twelve separate existing affordable housing developments. These housing developments are targeted to low- and moderate-income individuals within the State of Illinois.
- FNB provided \$450,000 to a local hospital in August 2009. The proceeds were used to purchase replacement chillers for the hospital. These facilities serve the residents of the underserved middle-income non-metropolitan areas of Edwards County.
- FNB made a \$600,000 investment to fund the alterations and repairs of existing physical facilities of the four community college campuses throughout the Illinois Eastern Community College District. Two of the four campuses, all of which are within the AA, serve the residents of the underserved middle-income non-metropolitan areas of Edwards County.
- FNB made several small donations totaling \$9,500 to a local hospital's fundraising activities. This hospital's facilities serve the residents of the underserved middle-income non-metropolitan areas of Edwards County.
- Through its related organization, the bank also made two donations totaling \$97,850 to qualifying community development organizations. One of the organizations provides educational services to residents of the underserved middle-income non-metropolitan area of Edwards County and the other provides a community service to low- and moderate-income residents of the AA.

In a prior evaluation period, the bank made a \$25,000 initial capital contribution for the formation of a community development corporation. This corporation was organized in 1993 for the purpose of promoting economic development that will retain and create new jobs, help new and existing businesses, and expand the tax base. The corporation provides both equity and subordinate debt financing and advisory services to businesses. It also encourages public sector participation in economic development projects. The financing of various projects has created jobs for low- and moderate-income individuals.

Extent to Which the Bank Provides Community Development Services

FNB is actively involved with four local organizations in providing Community Development Services within its AA. Some of the more significant Community Development Services the bank participates in include:

- FNB loan officers provide assistance to organizations requesting funds from the City of Fairfield's and Wayne County's Revolving Loan Fund. These businesses must be creating or retaining jobs for low- or moderate-income individuals to be eligible for funding from this program. Loan officers have helped four companies prepare a business plan and make their presentation to the organization.
- A bank employee has served as the treasurer of one of the local hospitals for several years during this evaluation period. This hospital serves the residents of the underserved middle-income non-metropolitan area of Edwards County.
- FNB provides financial literacy training to the students at the local community college and to teenage children. These organizations serve the residents of the underserved middle-income non-metropolitan area of Edwards County. The presentations focused on budgeting, investing, financial planning and balancing your checkbook. Bank employees have made presentations to approximately 36 different groups on various occasions.

Responsiveness to Community Development Needs

Based on the activities outlined above, FNB has demonstrated adequate responsiveness to the community development needs of 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.