



SMALL BANK

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

PUBLIC DISCLOSURE

May 10, 2004

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The First National Bank of Lacon
Charter Number 347**

**111 South Broad Street
Lacon, IL 61540**

**Comptroller of the Currency
Peoria 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

This institution is rated Satisfactory.

- First National Bank of Lacon’s (“FNB”) record of lending to farms of different sizes is good. All agricultural loans were made to small farms (under one million dollars in annual revenues). Additionally, the number and the dollar volume of the agricultural loans originated to farming operations generating revenues of less than \$250,000 were; 79 percent and 63 percent in 2002, and 71 percent and 31 percent in 2003, respectively.
- FNB’s lending to businesses of different sizes is good. Eighty percent of the loans in 2002 and 95 percent of the loans in 2003 were made to small businesses. Likewise, 33 percent of the dollar volume from 2002, and 83 percent of the dollar volume from 2003 were originated to small businesses.
- A majority of the loans originated by FNB are to customers from within its assessment area (“AA”). FNB’s lending to customers within the AA for all loan types is reasonable.
- The bank’s average net loan-to-deposit ratio over the last five years is reasonable.

DESCRIPTION OF INSTITUTION

FNB is a \$49 million intrastate financial institution located on the Illinois River at the intersection of Illinois Highways 26 and 17 in Marshall County, around 30 miles north of Peoria, Illinois. FNB has one office in downtown Lacon, with drive-up facilities and an ATM. The bank is a wholly owned subsidiary of First Lacon Corporation, a one-bank holding company.

FNB has two primary lending products, agricultural and commercial loans. These two areas of lending account for 73 percent of all loan originations during 2002 and 2003 and make up 72 percent of the outstanding loan balances as March 31, 2004. These two products were used for the analysis of this evaluation. Residential and consumer lending are not primary loan products as they only account for 27 percent of all loan originations during 2002 and 2003 and make up the remaining 28 percent of the outstanding loan balances as of March 31, 2004.

Table 1 – Loan Originations by Loan Type for 2002 & 2003		
Loan Category	\$ (000)	%
Agricultural Loans	\$ 7,791	39%
Commercial Loans	\$ 6,954	34%
Residential Loans	\$ 2,395	12%
Consumer Loans	\$ 3,021	15%
Total	\$20,161	100%

Source: Bank Records from 2002 and 2003

As of March 31, 2004, the bank reported \$30 million in outstanding loans and had a net loans and leases to total assets ratio of 61 percent. The loan portfolio consists of the following:

Table 2 – Loan Portfolio Summary by Loan Type March 31, 2004		
Loan Category	\$(000)	%
Agricultural Loans	\$ 12,051	40%
Commercial Loans	\$ 9,418	32%
Residential Loans	\$ 5,464	18%
Consumer Loans	\$ 2,827	10%
Total	\$ 29,760	100%

Source: Call Report 03/31/2004

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 its community. Tier 1 capital was reported at \$4.8 million as March 31, 2004. The bank's previous CRA rating as of January 1999 was Satisfactory.

SCOPE OF THE EVALUATION

The evaluation period covers loans originated during 2002 and 2003. The loans originated in 2002 are compared against the 1990 census data while the loans originated in 2003 are compared against the 2000 census data. The 2000 census data was not available until the 2003 calendar year.

DESCRIPTION OF ASSESSMENT AREA

FNB's AA consists of Marshall County and remains unchanged from the prior examination. The Marshall County AA is comprised of five, middle-income Block Numbering Areas "BNAs." The Illinois River divides Marshall County into an eastern half and a western half. BNA #9611, #9614 and #9615 are located in the eastern portion, while BNA #9612 and #9613 are located in the western portion of the county. BNA #9611 comprises the northern half of the eastern section of Marshall county, #9615 consists of the southeastern quarter of the eastern section, and #9614 consists of the southwestern quarter of the eastern section including the town of Lacon. BNA #9612 consists of a small portion of the northeastern corner of the western half of the county and includes the town of Henry. BNA #9613 includes the remaining portion of the western half of the county. This assessment area conforms to the regulation and does not arbitrarily exclude any low- or moderate-income areas. The following demographic information for the assessment area is based on census data.

Table 3 – Demographic Information for Marshall County AA

Category of Information	1990 Census Data		2000 Census Data	
Population:	12,846		13,180	
Total Housing Units	5,317	100%	5,914	100%
Occupancy: Owner Occupied Units	3,729	70%	4,188	71%
Renter Occupied Units	1,171	22%	1,037	17%
Vacant Units	417	8%	689	12%
Median Home Value	\$ 44,478		\$ 77,337	
Median Year Built	1952		1955	
2003 HUD Adjusted Median Family Income for Illinois Non-MSA	\$ 48,200			
Low Income Families	563	16%	433	11%
Moderate Income Families	705	19%	689	18%
Middle Income Families	816	22%	964	26%
Upper Income Families	1,556	43%	1,685	45%
Households living below the poverty level	517	10%	301	5%
Small Farms	157	99%	157	99%
Small Businesses	523	82%	417	68%

Source: 1990 & 2000 Census Data
Economic Data

The local economy is considered stable. The March 2004 unemployment rate for Marshall County of 4.8% is below the 6.0% national average and the 6.4% State of Illinois rate. The economy of the AA includes agricultural and manufacturing industries. Major employers include Caterpillar, Inc., Meta Tec, Goodrich, and the local school districts. Other individuals in the AA work in the nearby cities of LaSalle-Peru and Peoria.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

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

The distribution of loans to farms and commercial businesses of different sizes is good. While residential and consumer lending is not a primary focus, a cursory review of these products found the bank does have a satisfactory penetration among individuals of different income levels (including low-, and moderate-income) for these loan products.

Agricultural Loans

FNB's performance of lending to small farms is good. From a sample of 14 and 28 agricultural loans from 2002 and 2003, respectively, all of the loans were made to small farms. Small farms are farming operations with annual gross revenues of less than one million dollars. The demographic data for the Marshall County AA shows that 99 percent of the farming operations in the assessment area, for both the 1990 and 2000 census, have revenues equal to or less than one million dollars.

Additionally, 79 percent of the number and 63 percent of the dollar volume of the agricultural loans originated to small farms in 2002 were made to farming operations generating revenues of less than two hundred-fifty thousand dollars.

Table 4 – Borrower Distribution of Loans to Farms originated in 2002 in the Marshall County AA					
Farm Revenues	Number of Loans		% Farms in AA	Dollars of Loans	
	#	%		\$(000)	%
≤\$1,000,000	14	100%	99%	\$ 2,572	100%
>\$1,000,000	0	0%	1%	\$ - 0 -	0%
Total	14	100%	100%	\$ 2,572	100%

Source: Bank records on new loans originated in 2002.

Likewise, 71 percent of the number and 31 percent of the dollar volume of agricultural loans originated to small farms in 2003 were made to farming operations generating revenues of less than two hundred-fifty thousand dollars.

Table 5 – Borrower Distribution of Loans to Farms originated in 2003 in the Marshall County AA					
Farm Revenues	Number of Loans		% Farms in AA	Dollars of Loans	
	#	%		\$(000)	%
≤\$1,000,000	28	100%	99%	\$ 3,127	100%
>\$1,000,000	0	0%	1%	\$ - 0 -	0%
Total	28	100%	100%	\$ 3,127	100%

Source: Bank records on new loans originated in 2003.

Commercial Loans

FNB's lending to businesses of different sizes is reasonable. From a sample of 25 and 22 commercial loans from 2002 and 2003, respectively, 80 percent of the loans in 2002 and 95 percent of the loans in 2003 were made to small businesses. Likewise, 33 percent of the dollar volume from 2002 and 83 percent of the dollar volume from 2003 were originated to small businesses. Small businesses are businesses with annual gross revenues of less than one million dollars. The demographic data for the Marshall County AA shows that 82 percent in 2002 and 68 percent in 2003 of the businesses in the assessment area have revenues equal to or less than one million dollars.

Table 6 – Borrower Distribution of Loans to Businesses originated in 2002 in the Marshall AA

Business Revenues	Number of Loans		% Businesses in AA**	Dollars of Loans	
	#	%		\$(000)	%
≤\$1,000,000	20	80%	82%	\$ 1,408	33%
>\$1,000,000	5	20%	5%	\$ 2,842	67%
Total	25	100%	87%	\$ 4,250	100%

Source: Bank records on new loans originated in 2002.

** 13% of AA businesses did not report revenue data.

Table 7 – Borrower Distribution of Loans to Businesses originated in 2003 in the Marshall AA

Business Revenues	Number of Loans		% Businesses in AA**	Dollars of Loans	
	#	%		\$(000)	%
≤\$1,000,000	21	95%	68%	\$ 1,253	83%
>\$1,000,000	1	5%	5%	\$ 250	17%
Total	22	100%	73%	\$ 1,503	100%

Source: Bank records on new loans originated in 2003.

** 27% of AA businesses did not report revenue data.

Lending in the 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 Assessment Area

Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$(000)	%	\$(000)	%	
Agricultural	42	66%	22	34%	64	\$ 5,699	73%	\$ 2,092	27%	\$ 7,791
Commercial	47	82%	10	18%	57	\$ 5,753	83%	\$ 1,201	17%	\$ 6,954
Residential	31	84%	6	16%	37	\$ 1,849	77%	\$ 546	23%	\$ 2,395
Consumer	235	75%	78	25%	313	\$ 2,128	70%	\$ 893	30%	\$ 3,021
Totals	355	75%	116	25%	471	\$15,429	77%	\$ 4,732	23%	\$20,161

Source: Bank records on new loans originated in 2002 and 2003. All of the loan originations in 2002 and in 2003 were used to calculate the ratios listed in the Table.

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 April 1, 1998, to December 31, 2003, was 61 percent. The quarterly average loan-to-deposit ratio for other similarly situated financial institutions located in the area, ranges from 56 percent to 86 percent. FNB's average loan-to-deposit ratio is similar to the other three similarly situated banks in the area, which range in asset size from \$27 million to \$199 million. The similarly situated banks utilized for comparison purposes are community banks located in Marshall County.

Geographic Distribution of Loans

A geographic distribution of loans was not performed at this examination. All the geographies are middle-income, thus, the analysis would not be meaningful.

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 illegal discrimination or other illegal credit practices.