



PUBLIC DISCLOSURE

May 12, 2014

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The First National Bank of Ava
Charter Number 10911

304 West Main Street
Ava, IL 62907

Office of the Comptroller of the Currency

500 North Broadway, Suite 1700
St. Louis, MO 63102

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 major factors that support this rating are:

- Lending to individuals with different income levels is reasonable. Lending to businesses and farms of different sizes is reasonable.
- The loan-to-deposit ratio is reasonable.
- A majority of loans are originated within the assessment area (AA).

SCOPE OF EVALUATION

This Performance Evaluation of The First National Bank of Ava (FNB) assesses its record of meeting the credit needs of the communities in which it operates. We evaluated FNB under the Small Bank performance criteria, which consist of a Lending Test. The Lending Test evaluates FNB's record of helping to meet the credit needs of its AA through its lending activities.

FNB has one AA, part of Jackson County in Illinois. The AA received a full-scope review. The evaluation period is from December 10, 2007 through May 12, 2014. We based our conclusions regarding the bank's lending performance on FNB's primary loan products: residential real estate (RRE), agricultural, and commercial loans.

We selected a sample of 20 RRE, 20 farm, and 20 business loans that FNB originated from January 1, 2012 through December 31, 2013 for analysis. We placed equal weight on each loan product.

DESCRIPTION OF INSTITUTION

FNB is an intrastate bank with one office located in Ava, IL, a small rural town in southern Illinois. This office is located in a middle-income census tract (CT 101). FNB has two cash-dispensing automated teller machines (ATMs): one on the premises and one at Pyramid Oaks in Percy, IL. Management has closed three cash-dispensing ATMs since the prior evaluation: one at the Kwik Stop in Willisville, IL; one at the Bottoms Up Bar & Grill in Jacob, IL; and one at Casey's General Store in Elkhart, IL. Management has neither opened nor closed any branches since the prior evaluation.

FNB is wholly owned by Headquarters Holding Company, Inc., a one-bank holding company located in Ava. FNB's assets represent substantially all of the holding company's assets. There have been no changes in the bank's corporate structure since the last CRA evaluation. FNB has no affiliates or subsidiaries, nor has there been any merger or acquisition activity during the evaluation period.

FNB offers a full range of loan and deposit products and services to its customers. FNB is primarily a residential real estate, agricultural, and commercial lender. As of March 31, 2014, FNB has total assets of \$63 million, total deposits of \$55 million, net loans of \$29 million, and a net Tier 1 Capital of \$8 million. Net loans represent 46% of total assets. The outstanding loan portfolio consists of RRE loans (36%), agricultural loans (32%), business loans (24%), individual loans (7%), and other loans (1%).

There are no legal, financial, or other factors impeding FNB’s ability to help meet the credit needs of the AA it serves. FNB was rated “Satisfactory” at its last CRA evaluation dated December 10, 2007.

DESCRIPTION OF ASSESSMENT AREA

FNB’s AA includes CTs 101, 103, and 104 in the northwestern portion of Jackson County, Illinois. This AA is a non-Metropolitan Statistical Area (non-MSA). All three CTs in the AA are designated as middle-income geographies based on the 2000 and 2010 census data. Although FNB’s AA is smaller than the entire Jackson County, it is reasonable due to the bank’s size and its only office in Ava, IL. Jackson County is generally rural. The AA meets the regulatory requirements and does not arbitrarily exclude any low- and moderate-income geographies.

Below is some key 2010 Census information for the AA:

Demographic Information for Full Scope Area: FNB’s AA – 2010 Census					
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #
Geographies (Census Tracts)	3	0.00	0.00	100.00	0.00
Population by Geography	11,281	0.00	0.00	100.00	0.00
Owner-Occupied Housing by Geography	3,481	0.00	0.00	100.00	0.00
Business by Geography	717	0.00	0.00	100.00	0.00
Farms by Geography	136	0.00	0.00	100.00	0.00
Family Distribution by Income Level	3,008	17.32	19.18	27.56	35.94
Household Distribution by Income Level	4,268	19.87	15.79	25.28	39.06
Distribution of Low and Moderate Income Families throughout AA Geographies	1,098	0.00	0.00	100.00	0.00
Median Household Income		44,529	Median Housing Value		86,535
FFIEC Adjusted Median Family Income (MFI) for 2013		56,200	Unemployment Rate (April 2014)		5.6%
Households Below Poverty Level		11%			

Source: 2010 US Census and 2013 FFIEC updated MFI

Ava is considered a “bedroom” community; most of the local residents commute to nearby larger cities for employment. Major employers include the Southern Illinois University in Carbondale, Memorial Hospital of Carbondale, Neuro Restorative, Wal-Mart, Southern Illinois Healthcare, Penn Aluminum International, LLC, Illinois Department of Transportation, the City of Carbondale, St. Joseph Memorial Hospital, Murphysboro Unit School District 186, and Trico Community School District 176.

The area economy is starting to improve. As of April 2014, the unemployment rate in Jackson County is 5.6%, lower than the State of Illinois rate of 7.2%. In April 2010, at the height of the recession, the county and state unemployment rates were 7.3% and 10.7%, respectively. Unemployment rates are declining and are near pre-recession levels.

Bank competition is strong. As of June 30, 2013, thirteen financial institutions operate 27 offices in Jackson County. FNB ranks 6th, with a 5.71% deposit market share.

We contacted a local city official who was knowledgeable about the areas served by the bank. Our contact did not identify any unmet credit needs.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

FNB does a reasonable job of meeting the credit needs of its AA given the bank's small size, its limited presence, the improving economy, and strong competitive pressures.

Loan-to-Deposit Ratio

FNB's loan-to-deposit (LTD) ratio is reasonable given its one office and strong competition. FNB's quarterly average LTD ratio since the last CRA evaluation is 64%. This is comparable to the ratios of four other community banks of similar size and location whose quarterly averages ranged from 65% to 83% for the same period. FNB's LTD ratio is near one and lower than three of these banks with assets between \$68 million and \$244 million.

Lending in Assessment Area

FNB's lending within its AA is reasonable. We sampled 20 loans each of the bank's three primary loan products, RRE, farm, and business loans. FNB originated a majority of its loans inside the AA. Based on our sample of 60 loans, 78% by number and 85% by dollar amount were made within the bank's AA.

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

FNB's lending distribution to borrowers of different income levels and to farms and businesses of different sizes reflects reasonable penetration in the AA. Equal weight was placed on each loan product.

Residential Real Estate Loans

The borrower distribution of RRE loans is reasonable. While the percentage of RRE loans made to low-income borrowers (10%) is lower than the percentage of low-income families in the AA (17%), the percentage of RRE loans to moderate-income borrowers (20%) exceeds the percentage of moderate-income families in the AA (19%).

Opportunities to lend to low-income borrowers are limited due to the high level of families living below the poverty level (9%) coupled with the poor but improving economy.

Borrower Distribution of Residential Real Estate Loans in AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% 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
RRE Loans	17%	10%	19%	20%	28%	35%	36%	35%

Source: Sample of 20 RRE loans originated in 2012 and 2013, and 2010 Census data.

Farm Loans

The borrower distribution of farm loans is reasonable. The percentage of loans to farms with revenues of \$1 million or less (85%) is below the percentage of AA farms with revenues of \$1 million or less (99%).

Borrower Distribution of Farm Loans in AA				
Business Revenues	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Farms	99%	1%	0%	100%
% of Bank Loans in AA by #	85%	15%	0%	100%
% of Bank Loans in AA by \$	83%	17%	0%	100%

Source: Sample of 20 farm loans originated in 2012 and 2013, and 2013 farm data

Business Loans

The borrower distribution of business loans is reasonable. The percentage of loans to businesses with revenues of \$1 million or less (80%) exceeds the percentage of AA businesses with revenues of \$1 million or less (74%).

Borrower Distribution of Business Loans in AA				
Business Revenues	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	74%	3%	23%	100%
% of Bank Loans in AA by #	80%	20%	0%	100%
% of Bank Loans in AA by \$	68%	32%	0%	100%

Source: Sample of 20 business loans originated in 2012 and 2013, and 2013 business data

Geographic Distribution of Loans

The geographic distribution of loans is not meaningful as the bank’s entire AA consists of middle-income census tracts.

Responses to Complaints

FNB has not received any complaints about its performance in helping to meet community credit needs since the last CRA evaluation.

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.