



## **PUBLIC DISCLOSURE**

April 28, 2014

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

The First National Bank of Monterey  
Charter Number 9784

6222 E. Main Street Monterey, IN 46960

Office of the Comptroller of the Currency

Indianapolis Field Office 8777 Purdue Road, Suite 105 Indianapolis, IN 46268

**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 First National Bank of Monterey (FNBM or bank) has a satisfactory record in meeting the credit needs of its community. Factors supporting the satisfactory rating include:

- Reasonable loan-to-deposit (LTD) ratio;
- Substantial majority of primary product loans inside the assessment area (AA);
- Reasonable dispersion of loans to low- and moderate-income areas;
- Reasonable distribution to borrowers of different income levels and businesses of different revenue sizes;
- Adequate responsiveness to community development needs; and,
- No written complaints during the review period regarding the bank's CRA performance.

## **Scope of Examination**

Examiners utilized the Intermediate Small Bank (ISB) examination procedures to evaluate the bank's record of meeting the credit needs of its community. ISB procedures include a Lending Test and a separate Community Development Test. The review period for the Lending Test is January 1, 2012 through December 31, 2013 (2010 and 2011 lending data is not included in this review due to the 2010 Census and its impact on data comparability). Based on both the number and dollar volume of lending, we determined residential real estate mortgages, agricultural/farm, and business loans to be the bank's primary lending products. Examiners utilized the institutions loan register to select the sample for review, as the bank is not subject to the Home Mortgage Disclosure Act (HMDA). Examiners sampled 25 residential mortgage loan originations, 26 agricultural/farm loan originations, and 24 business loan originations (75 loans total). Demographic data is from the 2010 Census unless otherwise noted.

The Community Development Test will consider all activities during the official review period; January 6, 2009 through March 31, 2014. This is the period since the last CRA examination to the beginning of this examination.

## **Description of Institution**

The First National Bank of Monterey (FNBM) is a federally chartered institution. The bank has four locations, with the main office and one branch located in Pulaski County, a branch in

Marshall County, and a branch in Starke County. The bank also has three deposit taking automated teller machines, one located at each branch. As of March 31, 2014, FNBM reported total assets of approximately \$319.1 million.

As of March 31, 2014, the bank reported \$155.9 million in outstanding loans, reflecting loans and leases to total assets of 48.9 percent. To help meet community needs the bank offers a variety of loan products including residential, consumer, agriculture/farm, and commercial/business loans. The bank also offers loans under the Farm Service Agency (FSA) government program.

The table below shows a summary of FNBM's loan portfolio as of March 31, 2014.

| <b>FNBM's Investment in Loans<br/>(3/31/14 Uniform Bank Performance Report)</b> |                             |                                   |                                    |
|---|-----------------------------|-----------------------------------|------------------------------------|
| <b>Loan Category</b>  | <b>Amount<br/>(\$000's)</b> | <b>Percent of<br/>Total Loans</b> | <b>Percent of<br/>Total Assets</b> |
| Real Estate   | \$103,313                   | 66.3%                             | 32.4%                              |
| Commercial Loans  | 10,619                      | 6.8%                              | 3.3%                               |
| Agricultural Loans  | 31,796                      | 20.4%                             | 10.0%                              |
| Consumer and Other Loans  | 10,186                      | 6.5%                              | 3.2%                               |
| Total   | \$155,914                   | 100.0%                            | 48.9%                              |

We selected real estate and farm loans as primary products due to their high percentage of total assets. We also selected commercial loans as a product in response to the community contact's statement that the community needs more small business lending. The bank's ability to meet the credit needs of its AA is not impaired by its financial condition or other impediments. FNBM was assigned a rating of "Satisfactory" in its prior CRA performance evaluation, dated January 5, 2009.

## **Description of Assessment Area(S)**

The AA consists of four counties located in the Northwest corner of Indiana. The counties are Pulaski County, with four census tracts, Fulton County, with four census tracts, Marshall County, with two census tracts, and Starke County, with six census tracts. Of the 16 census tracts in the AA, two are moderate-income, 11 are middle-income, and three are upper-income tracts. There are no low-income census tracts in the AA. The AA is located in a non-Metropolitan Statistical Area (nonMSA).

The following table shows selected demographic data of the AA.

| Demographic Information for Full Scope Area: FNBM AA                       |        |            |                                    |               |              |            |
|--|--------|------------|------------------------------------|---------------|--------------|------------|
| Demographic Characteristics  | #      | Low % of # | Moderate % of #                    | Middle % of # | Upper % of # | NA* % of # |
| Geographies (Census Tracts/BNAs)   | 16     | 0.00       | 12.50                              | 68.75         | 18.75        | 0.00       |
| Population by Geography  | 56,940 | 0.00       | 17.04                              | 67.74         | 15.22        | 0.00       |
| Owner-Occupied Housing by Geography  | 17,028 | 0.00       | 14.15                              | 70.00         | 15.85        | 0.00       |
| Business by Geography  | 4,172  | 0.00       | 25.29                              | 59.71         | 15.00        | 0.00       |
| Farms by Geography   | 789    | 0.00       | 2.15                               | 77.82         | 20.03        | 0.00       |
| Family Distribution by Income Level  | 15,884 | 22.80      | 20.11                              | 21.84         | 35.25        | 0.00       |
| Distribution of Low and Moderate Income Families throughout AA Geographies | 6,816  | 0.00       | 21.65                              | 68.96         | 9.39         | 0.00       |
| Median Family Income   |        | 48,861     | Median Housing Value               |               | 101,751      |            |
| HUD Adjusted Median Family Income for 2013                                 |        | 52,700     | Unemployment Rate (2010 US Census) |               | 5.40%        |            |
| Households Below Poverty Level   |        | 15%        |                                    |               |              |            |

(\*) The NA category consists of geographies that have not been assigned an income classification.  
 Source: 2010 US Census and 2013 HUD updated MFI

FNBM is one of 16 financial institutions within the AA. The number of financial institutions in the AA helps to provide a competitive banking environment. According to the June 30, 2013 Federal Deposit Insurance Corporation (FDIC) report, FNBM is ranked second in deposit market share, in the four counties of Marshall, Pulaski, Starke, and Fulton, with 17.5 percent of deposits.

Unemployment rates in three of the four counties in the AA are higher than the state average. As of March 31, 2014, the unemployment rate for Fulton County was 7.1 percent, Marshall County was 6.5 percent, Pulaski County was 5.6 percent, and Starke County was 8.2 percent. The statewide unemployment rate was 6.3 percent. Major employers in the area include Braun Corporation, Plymouth Tube, and Pulaski Memorial Hospital. Farming is also prevalent in the area.

The Department of Housing and Urban Development (HUD) annually adjusts the 2010 census data to update the Median Family Income (MFI) levels. The updated figures were used in the *Lending to Borrowers of Different Income Levels* section of this evaluation. The HUD estimated MFI for the FNBM AA was \$52,600 for 2012 and \$53,700 for 2013. According to the 2010 Census, 12.0 percent of the families in the AA have income below the poverty level. The data

also indicates 34.5 percent of the AA population receives social security benefits, and approximately 3.4 percent receive some type of public assistance.

During this evaluation, one community contact was conducted with an economic development organization. They noted concern for the shifting population, to a more aged population, as younger generations move to the city or other locations with more employment opportunities. The organization also noted a need in the local community for more small business lending.

## **Conclusions with Respect to Performance Tests**

### **LENDING TEST**

FNBM's performance in helping meet the needs of its AA through lending is satisfactory.

#### **Loan-to-Deposit Ratio**

FNBM's loan-to-deposit (LTD) ratio is considered reasonable given the bank's size, financial condition, and AA credit needs. The bank's average LTD ratio over the review period is 56.69 percent. The LTD ratio ranged from a high during this period of 67.83 percent, in the fourth quarter of 2008, to a low of 47.45 percent, in the first quarter of 2013. Two similarly situated institutions, with total assets exceeding \$300 million, have an average LTD ratio of 72.43 percent. The lower than average LTD ratio is largely due to the bank offering competitive deposit rates, a management philosophy, that causes them to have a high volume of deposits in their market share. FNBM does not have restrictive loan policies or a conservative corporate lending culture that prohibits them from making loans.

#### **Lending in Assessment Area**

A substantial majority of the bank's loans are made in their AA by both the number and the dollar amount of loans. For this portion of the lending test, examiners selected a random sample of 60 loans. The sample consisted of 20 residential mortgage loan originations, 20 agricultural/farm loan originations, and 20 business loan originations. Of the 60 loans sampled, 75.0 percent were made in the AA, 72.6 percent by dollar amount.

Table 1 below shows the number and dollar amount of each type of loan made in the AA.

| Table 1 – Lending in FNBM AA |                 |        |         |        |       |                          |        |         |        |         |
|------------------------------|-----------------|--------|---------|--------|-------|--------------------------|--------|---------|--------|---------|
| Loan Type                    | Number of Loans |        |         |        |       | Dollars of Loans (000's) |        |         |        |         |
|                              | Inside          |        | Outside |        | Total | Inside                   |        | Outside |        | Total   |
|                              | #               | %      | #       | %      |       | \$                       | %      | \$      | %      |         |
| RE - Home Purchase           | 15              | 75.00% | 5       | 25.00% | 20    | \$955                    | 81.20% | \$221   | 18.80% | \$1,176 |
| Agricultural Loans           | 14              | 70.00% | 6       | 30.00% | 20    | \$919                    | 52.03% | \$847   | 47.97% | \$1,766 |
| Commercial Loans             | 16              | 80.00% | 4       | 20.00% | 20    | \$2,329                  | 81.74% | \$520   | 18.26% | \$2,850 |
| Totals                       | 45              | 75.00% | 15      | 25.00% | 60    | \$4,203                  | 72.57% | \$1,589 | 27.43% | \$5,792 |

Source: Loan sample

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

The bank’s overall distribution of loans to borrowers of different income levels and businesses of different revenue sizes reflects reasonable penetration.

***Residential Real Estate Loans***

The distribution of residential real estate loans exceeds the standard for satisfactory performance and reflects excellent penetration among individuals of different income levels. FNBM’s lending to both low- and moderate-income borrowers exceeded the comparable demographics for low- and moderate-income households in the AA. The bank made 60.0 percent of their residential real estate loans to low- and moderate-income borrowers. The table below illustrates FNBM’s lending to borrowers of different income levels.

| Table 2 - Borrower Distribution of Residential Real Estate Loans in FNBM 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 |
| Residential RE  | 22.80%           | 25.00%               | 20.11%           | 35.00%               | 21.84%           | 15.00%               | 35.25%           | 25.00%               |

Source: Loan sample; 2010 U.S. Census data

***Small Loans to Farms***

The bank’s distribution of loans to farms of different sizes reflects reasonable penetration. The percentage of farms with revenues of \$1 million or less within the AA is approximately 98.5 percent. Based on our sample of 20 loans within the AA, the bank made 70.0 percent by number

and 61.3 percent by dollar amount of loans to farms with revenues of \$1 million or less. These percentages are below but near the level of farms with revenues of \$1 million or less.

| <b>Table 2A - Borrower Distribution of Loans to Farms in FNBM AA</b> |              |              |                         |         |
|--|--------------|--------------|-------------------------|---------|
| Business Revenues (or Sales)   | ≤\$1,000,000 | >\$1,000,000 | Unavailable/<br>Unknown | Total   |
| % of AA Businesses   | 98.48%       | 0.89%        | 0.63%                   | 100.00% |
| % of Bank Loans in AA by #   | 70.00%       | 30.00%       | 0.00%                   | 100.00% |
| % of Bank Loans in AA by \$  | 61.25%       | 38.75%       | 0.00%                   | 100.00% |

*Source: Loan sample; 2013 Dunn & Bradstreet data*

### ***Small Loans to Businesses***

The bank's distribution of loans to businesses of different sizes reflects reasonable penetration. In the AA, 74.7 percent of businesses have revenues of \$1 million or less. The bank made 65.0 percent by number and 18.0 percent by dollar amount to these businesses. The percentage of bank loans to businesses with revenues of \$1 million or less is below but near the percentage of those businesses within the AA.

| <b>Table 2A - Borrower Distribution of Loans to Businesses in FNBM AA</b> |              |              |                         |         |
|---|--------------|--------------|-------------------------|---------|
| Business Revenues (or Sales)  | ≤\$1,000,000 | >\$1,000,000 | Unavailable/<br>Unknown | Total   |
| % of AA Businesses  | 74.69%       | 3.45%        | 21.86%                  | 100.00% |
| % of Bank Loans in AA by #  | 65.00%       | 35.00%       | 0.00%                   | 100.00% |
| % of Bank Loans in AA by \$   | 18.02%       | 81.98%       | 0.00%                   | 100.00% |

*Source: Loan sample; 2013 Dunn & Bradstreet data*

### **Geographic Distribution of Loans**

The bank's overall geographic distribution of loans within the AA is reasonable. The bank has only two moderate-income census tracts in their AA and no low-income census tracts.

### ***Residential Real Estate Loans***

The percentage of bank originated residential real estate loans in moderate-income tracts is lower than percentage of owner-occupied housing units in moderate-income census tracts. However, the bank's geographic distribution of residential real estate loans is reflective of the overall distribution 1-4 family housing in the AA, with 68.96 percent of low- to moderate-income families living in the middle-income census tract. The bank's geographic distribution of residential real estate loans reflects reasonable dispersion among census tracts of different income levels.

| Table 3 – Geographic Distribution of Residential Real Estate Loans in FNBM AA |                                |                      |                                |                      |                                |                      |                                |                      |
|---|--------------------------------|----------------------|--------------------------------|----------------------|--------------------------------|----------------------|--------------------------------|----------------------|
| Census Tract Income Level   | Low                            |                      | Moderate                       |                      | Middle                         |                      | Upper                          |                      |
| Loan Type   | % of AA Owner Occupied Housing | % of Number of Loans | % of AA Owner Occupied Housing | % of Number of Loans | % of AA Owner Occupied Housing | % of Number of Loans | % of AA Owner Occupied Housing | % of Number of Loans |
| Residential RE  | 0.00%                          | 0.00%                | 14.15%                         | 5.00%                | 70.00%                         | 70.00%               | 15.85%                         | 25.00%               |

Source: Loan sample; 2010 U.S. Census data

**Small Loans to Farms**

The percentage of small farm loans originated in moderate-income tracts exceeded the percentage of farms located in moderate-income geographies. The geographic distribution of small farms loans in the bank’s AA reflects excellent dispersion.

| Table 3A - Geographic Distribution of Loans to Farms in FNBM AA |                    |                      |                     |                      |                    |                      |                    |                      |
|---|--------------------|----------------------|---------------------|----------------------|--------------------|----------------------|--------------------|----------------------|
| Census Tract Income Level                                       | Low                |                      | Moderate            |                      | Middle             |                      | Upper              |                      |
| Loan Type   | % of AA Businesses | % of Number of Loans | % of AA Businesses/ | % of Number of Loans | % of AA Businesses | % of Number of Loans | % of AA Businesses | % of Number of Loans |
| Farm Loans  | 0.00%              | 0.00%                | 2.15%               | 5.00%                | 77.82%             | 50.00%               | 20.03%             | 45.00%               |

Source: Loan sample; 2013 Dunn & Bradstreet data

**Small Loans to Businesses**

The percentage of small business loans originated in moderate-income tracts meets the percentage of businesses located in moderate-income geographies. The geographic distribution of small business loans in the Wayne County AA reflects excellent dispersion.

| Table 3A - Geographic Distribution of Loans to Businesses in FNBM AA |                    |                      |                     |                      |                    |                      |                    |                      |
|--|--------------------|----------------------|---------------------|----------------------|--------------------|----------------------|--------------------|----------------------|
| Census Tract Income Level  | Low                |                      | Moderate            |                      | Middle             |                      | Upper              |                      |
| Loan Type  | % of AA Businesses | % of Number of Loans | % of AA Businesses/ | % of Number of Loans | % of AA Businesses | % of Number of Loans | % of AA Businesses | % of Number of Loans |
| Business Loans   | 0.00%              | 0.00%                | 25.29%              | 25.00%               | 59.71%             | 55.00%               | 15.00%             | 20.00%               |

Source: Loan sample; 2013 Dunn & Bradstreet data

**Responses to Complaints**

There were no consumer complaints relating to the bank’s CRA performance during the evaluation period.



## **COMMUNITY DEVELOPMENT TEST**

The bank's community development performance demonstrates adequate responsiveness to the community development needs of its AA through community development loans, qualified investments, and community development services considering the bank's capacity and the need and availability of such opportunities for community development in the bank's AA.

### **Number and Amount of Community Development Loans**

The bank's community development lending performance demonstrates adequate responsiveness to the community development needs of its AA through qualified loans considering the bank's capacity and the need and availability of such opportunities for community development in the bank's AA.

The bank originated 15 community development loans totaling approximately \$1.8 million in its AA. All 15 were in support of affordable housing and community services targeted to low- and moderate-income seniors in the AA. Such services were noted by a community contact as key among the community development credit needs of the AA. Loans were made to either Pulaski County Human Services in support of services delivered in cooperation with the Northwest Indiana Community Action Agency, or to the Pulaski Health Foundation in support of long-term and intermediate-care of seniors, a majority of whom receive support through Medicaid.

The bank also originated three community development loans totaling approximately \$1 million in geographies immediately adjacent to their AA. One loan was in support of affordable housing for low- and moderate-income individuals. The remaining two were in support of social services for low- and moderate-income individuals, with an emphasis on seniors, provided by the Area 5 Agency on Aging & Community Services, a Community Action Agency.

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

The bank's qualified investment performance demonstrates poor responsiveness to the community development needs of its AA through qualified investments considering the bank's capacity and the need and availability of such opportunities for community development in the bank's AA.

The bank made \$4,339 in qualified community development investments for the period in its AA. The bank made qualified grants to organizations providing community development services including the Culver Boys and Girls Club, the Starke County United Fund, the Starke/Pulaski Habitat for Humanity, and the Marshall County United Way.

In addition, the bank made an additional qualified investment benefiting the broader statewide area that includes the bank's AA. The bank invested \$249,482 in low-income housing tax credits financing the construction or rehabilitation of five multi-family residential properties serving low- and moderate-income individuals and families across the state of Indiana undertaken by the Great Lakes Capital Fund.

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

The bank's community development service performance demonstrates adequate responsiveness to the community development needs of its AA through qualified community development services considering the bank's capacity and the need and availability of such opportunities for community development in the bank's AA.

Twelve employees provided community development services to seven different organizations during the period, providing 452 hours of qualified community development service. These organizations included the Starke/Pulaski Habitat for Humanity, the Kirpc Head Start Program, and three local public schools with rates of free and reduced lunch greater than 50 percent. Services provided included administrative support related to fundraising, program management, and general operations, membership on a board of directors, and financial literacy program delivery.

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

FNBM's community development activities, as a whole, demonstrate adequate responsiveness to the community development needs of its AA. This evaluation considers the bank's capacity, the performance context, and availability of community development opportunities in the institution's AA. The bank's community development performance is rated Satisfactory.

Delivery systems are reasonably accessible to individuals of different income levels. The Bank operates four full-service offices and three full-service ATMs in its AA. Two offices are located in upper-income tracts (one in Marshall County and the other in Pulaski County) and two are

located in middle-income tracts (one in Starke County and the other in Pulaski County). Two ATMs are located in middle-income tracts in Starke and Pulaski Counties and the third in an upper-income census tract in Marshall County.

## **Fair Lending or Other Illegal Credit Practices Review**

Pursuant to 12 CFR 25.28(c), in determining a national bank's (bank) CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank, or in any AA by an affiliate whose loans have been considered as part of the bank's lending performance.

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.