



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

August 4, 2003

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The First National Bank Of Monterey
Charter Number 9784**

**6222 E. Main Street
Monterey, IN 46960**

**Comptroller of the Currency
Detroit Field Office
26877 Northwestern Highway Omni Centre, Suite 411
Southfield, MI 48034**

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.

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INSTITUTION'S CRA RATING

This institution is rated Satisfactory.

The major factors that support this rating are:

- The First National Bank of Monterey (FNB of Monterey) has demonstrated a reasonable record of lending to borrowers of all income levels, and to businesses of different sizes. The bank was found to have a strong record of lending to low- and moderate-income borrowers under its personal unsecured loan program and providing farm related loans.
- The bank has a strong level of loan activity within its assessment area (AA) since the prior CRA evaluation. A sample of three loan products along with information provided by the bank disclosed that a substantial majority of loans granted during the evaluation period were made in the bank's AA.
- FNB of Monterey's geographic distribution of loans reflects a reasonable dispersion throughout the AA.
- The bank's loan-to-deposit ratio is reasonable in light of the bank's size, financial condition, and AA credit needs. FNB of Monterey's loan-to-deposit ratio is below other local banks in the assessment area. This is partly attributed to an influx of deposits over the past couple of years.

DESCRIPTION OF INSTITUTION

FNB of Monterey is a \$214.7 million intrastate financial institution. The bank is headquartered in the City of Monterey, which is located in the northwest part of Indiana. FNB of Monterey has three branch offices in addition to the main office. The locations of these offices include: Winamac, Culver, and North Judson. There has been no branch closing since the previous Community Reinvestment Act (CRA) examination. FNB of Monterey business strategy is to provide a broad range of loan products, a wide range of checking and savings account services while providing a competitive return, and a variety of other financial services such as trust services, vault facilities, and ATM machines.

As of June 30, 2003, the bank reported approximately \$103.3 million in outstanding loans and its net loans and leases to average asset ratio was 49.1 percent. Tier One Leverage capital was \$17.6 million or 8.3 percent of adjusted average assets. The bank offers a variety of loan products to help meet the community needs. This includes residential, consumer, farm related, and commercial loans. The loan portfolio consists of the following (see table 1):

Table 1 Loan Portfolio Breakdown June 30, 2003		
Loan Category	Dollar Amount (000)	Percentage
Farm /Agriculture related loans	\$35,385	34.3
1-4 Family Residential Mortgage Loans	\$31,704	30.7
Commercial Loans	\$27,903	27.0
Consumer Loans (including home equity loans)	\$8,281	8.0
Total	\$103,273	100.0

There are no legal impediments, which would adversely affect the bank’s ability to serve the community. The previous CRA examination was performed in the first quarter of 1998 and resulted in a CRA rating of “satisfactory”.

DESCRIPTION OF ASSESSMENT AREA

FNB of Monterey’s AA consists of nineteen block number areas (BNAs). This includes all of Pulaski County (4 BNAs), the southern two-thirds of Starke County (7 BNAs), the southern third of Marshall County (2 BNAs), and the northwest portion of Fulton County (6 BNAs). The bank’s AA consists of small towns and rural areas. The AA is not included in a Metropolitan Statistical Area (MSA). There are no low-income BNAs and one moderate-income BNA in the AA. The remaining BNAs in the AA are represented by middle-income tracks. The AA was found to include some partial BNAs. For evaluation purposes the bank’s AA was adjusted to include whole BNAs. Otherwise, the AA was found to meet the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income geographies.

FNB of Monterey is one of 12 financial institutions in the AA area. There are four regional banks, five community banks, one Savings and Loan, and two credit unions. The number of financial institutions in the AA helps to provide a competitive banking environment. The Federal Deposit Insurance Corporation (FDIC) report dated June 30, 2002 disclosed that FNB of Monterey is ranked number three in the market share with a 13.1 percent share based on deposits in the four counties of Marshall, Pulaski, Starke, and Fulton.

Local economic conditions are worse than many other counties in the State of Indiana. The local area has experienced some reduction in work force and plant closings by manufacturing companies over the past couple of years. The local area unemployment rate is higher than the State of Indiana. Unemployment rate for June 2003 was 4.5 percent for Marshall County, 5.9 percent for Fulton County, 6.4 percent for Pulaski County, and 8.0 percent for Starke County. The State of Indiana reported a statewide unemployment rate of 4.6 percent as of June 2003. The national unemployment rate for the same period was 6.4 percent. Major employers in the area include: Braun Corporation, Plymouth Tube Company, Lau Farm Corporation, and Deans Milk Company. The communities the bank serves are comprised of a large number of farms.

The 2002 HUD adjusted non-MSA statewide median family income is \$50,300. A review of demographic information for the AA disclosed only 4.6 percent of the total owner occupied housing units and 4.2 percent of families are located in the one moderate-income BNA. We concluded based on this demographic information that the moderate-income BNA represents a small portion of the AA. Table 2 below provides further demographic information for the bank's AA.

Table 2 Demographic Information for FNB of Monterey's Assessment Area		
Block Numbers Area (BNAs) Characteristics	Count	Percentage
Low-Income	0	0.0
Moderate-Income	1	5.0
Middle-Income	18	95.0
Upper-Income	0	0.0
Totals	19	100.0
Population Data (# of Families)	Count	Percentage
Low-Income	3,269	19.0
Moderate-Income	3,528	20.4
Middle-Income	4,984	28.9
Upper-Income	5,472	31.7
Totals	17,253	100.0
Housing Information	Count	Percentage
Owner Occupied Units	17,982	64.8
Rental Units	5,218	18.8
Vacant Housing Units	4,542	16.4
Totals	27,742	100.0

Data Source: 1990 U.S. Census Data

We conducted two community contact interviews during our evaluation. We contacted a government related farm organization and a local community organization which is involved in various community services including meeting affordable housing needs. The interviews disclosed the major credit needs of the community are farm related loans and affordable housing.

These interviews disclosed FNB of Monterey is active in helping to meet the credit needs of low- and moderate-income borrowers as well as small farmers.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

FNB of Monterey has exhibited a reasonable record of addressing the credit needs of the AA in light of its size, resources, and capabilities. This is supported by a reasonable performance, with some aspects considered strong, in lending to low- and moderate-income borrowers, a strong record of lending in its AA, and a reasonable geographic distribution of loans throughout the AA. In addition, the bank has a reasonable loan-to-deposit ratio as discussed below.

Loan-to-Deposit Ratio

The bank's average loan-to-deposit ratio is reasonable given the bank's size, financial condition, and AA credit needs. FNB of Monterey's loan-to-deposit ratio is lower than other banks in the assessment area. This is partly due to a large influx of deposits over the past two years. Total deposits increased from \$127.9 million as of December 31, 2000 to \$190.6 million as of June 30, 2003. This represented a 49.0 percent increase in total deposits. The FNB of Monterey's loan-to-deposit ratio was found to be reasonable based on the large influx of deposits and the bank's lending record.

FNB of Monterey's quarterly average loan-to-deposit ratio for the period from March 31, 1998 to June 30, 2003 was 67.6 percent. The bank's loan-to-deposit ratio ranged from 53.3 percent to 78.2 percent over the evaluation period. The average loan-to-deposit ratio for three other institutions in the AA with total assets of \$250 million or less was 83.2 percent as of March 31, 2003. These three institutions reported a loan-to-deposit ratio of 76.8 percent, 79.0 percent, and 93.7 percent.

Lending in Assessment Area

FNB of Monterey's record of lending within its AA is considered strong. A substantial majority of the bank's loans are made within its AA. A sample of 75 loans disclosed 93 percent of the number of loans and dollar amount of loans were made in the bank's AA. Table 3 below further details the bank's lending within the AA based on a loan sample.

Table 3 Lending Inside and Outside of Assessment Area						
Loan Product	Loans in Sample		Loans In AA		Loans Outside AA	
	#	\$	#	%	#	%
			\$	%	\$	%
1-4 Residential Refinance Mtg Loans	25	\$1,117,017	24	96.0%	1	4.0%
					\$1,051,017	94.1%
Personal Unsecured Loans	25	\$ 78,948	23	92.0%	2	8.0%
					\$ 64,648	81.9%
Farm Related Loans	25	\$2,209,744	23	92.0%	2	8.0%
					\$2,066,012	93.5%
Grand Total	75	\$3,405,709	70	93.3%	5	6.7%
					\$3,181,677	93.4%

To evaluate FNB of Monterey’s CRA performance a sample of farm related loans, residential refinance mortgage loans, and personal unsecured loans were taken. The sample of farm related loans was taken since it represents the largest dollar amount in the loan portfolio. The residential refinance mortgage sample was reviewed due to the large dollar amount granted over the evaluation period. Home purchase loans were not sampled since these represented a much smaller dollar amount compared to refinance mortgage loans over the evaluation period. A sample of personal unsecured loans was taken despite the low aggregate dollar amount of this loan product. This sample was taken because of the high frequency of this loan product being granted over the evaluation period. The typical dollar amount of the personal unsecured loan was under \$5,000.

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

FNB of Monterey has shown a reasonable level, with some aspects considered strong, of extending credit to borrowers of different income levels and to farm businesses of different sizes.

The management team is committed to serving its communities by offering a variety of loan products and participating in local programs in helping to meet the credit needs of the community.

FNB of Monterey refinanced residential mortgage loans to borrowers of all income levels (see table 4 below). Based on a loan sample the bank made, 16.7 percent of its refinance residential mortgage loans were to low-income borrowers, and 16.7 percent were to moderate-income borrowers. This reflects a reasonable performance, as the percentages are similar to the percentage of AA families that are in those income categories.

Table 4 1-4 Residential Refinance Mtg. Loans Made in the Assessment Area (AA)								
# and \$ of Loans in Sample that were made within the assessment area and included current income information.	Loans to Low Income Borrowers		Loans to Moderate Income Borrowers		Loans to Middle Income Borrowers		Loans to Upper Income Borrowers	
	#	%	#	%	#	%	#	%
	\$	%	\$	%	\$	%	\$	%
24 \$1,051,017	4	16.7%	4	16.7%	11	45.8%	5	20.8%
	\$88,808	8.5%	\$112,100	10.7%	\$447,509	42.5%	\$402,600	38.3%
Demographic Data of the AA –Families by Income Category								
	3,269	19.0%	3,528	20.4%	4,984	28.9%	5,472	31.7%

Data Source for Origination Data: Bank loan files.

Data Source for Demographic Data: 1990 U.S. Census Data

To assist in providing affordable housing FNB of Monterey granted a \$1.5 million construction loan in October 2000 to provide financing for a subsidized senior living complex known as Riverwood Commons. In 2003 the bank donated land to Starke/Pulaski Habitat For Humanity Inc., which is planned to be used for building two homes for families that are in need of affordable housing.

A sample of personal unsecured consumer loans disclosed the bank has a strong record of making personal unsecured loans to borrowers of different income levels (see table 5 below). For both low- and moderate-income borrowers, the percentage of loans made by the bank far exceeded the percentage of AA borrowers in those income categories. This loan product helps to meet low-and moderate-income borrowers by not requiring any collateral, no loan closing fees, and a low minimum loan amount of \$100.

Table 5 Personal Unsecured Loans Made in the Assessment Area (AA)								
# and \$ of Loans in Sample that were made within the assessment area and included current income information.	Loans to Low Income Borrowers		Loans to Moderate Income Borrowers		Loans to Middle Income Borrowers		Loans to Upper Income Borrowers	
	#	%	#	%	#	%	#	%
	\$	%	\$	%	\$	%	\$	%
23 \$ 64,648	14	60.9%	5	21.7%	2	8.7%	2	8.7%
	\$38,927	60.2%	\$14,400	22.3%	\$4,421	6.8%	\$6,900	10.7%
Demographic Data of the AA –Families by Income Category								
	3,269	19.0%	3,528	20.4%	4,984	28.9%	5,472	31.7%

Data Source for Origination Data: Bank loan files.

Data Source for Demographic Data: 1990 U.S. Census Data

FNB of Monterey has a good record of lending to farms of different size. A review of farm loans made from calendar years 1999 through June 2003 disclosed the bank granted the vast majority of farm loans to borrowers with revenues less than \$1 million. The sample of 25 farm loans disclosed all loans were made to borrowers with farm revenue of less than \$1 million. Demographic information from the 1990 census disclosed 98.3 percent of farms in the AA had gross annual revenues of \$1 million or less.

FNB of Monterey is active in granting loans under the Farm Service Agency (FSA) program. This program assists farmers in obtaining financing that may not otherwise be available. Bank personnel assist borrowers, educating them about the different programs under FSA and helping them fill out the necessary paper work to qualify. The bank renewed or originated nine loans under the FSA guaranteed loan program in 2000, seven loans in 2001, eight loans in 2002, and six loans in the first half of 2003.

Geographic Distribution of Loans

FNB of Monterey's geographic distribution of loans reflects reasonable dispersion throughout the AA. The bank's AA contains no low-income areas and only one moderate-income BNA. An in-depth review of the bank's geographic distribution of loans was not performed due to the small representation of low- and moderate-income areas in the AA, as discussed under the description of AA section of this evaluation. The sample of 50 personal unsecured and refinance residential mortgage loans did disclose the bank made three loans, or six percent, in the moderate-income BNA. This is comparable to the percentages of the AA's owner-occupied housing units and families that are located in that BNA. We observed from information provided by management that the bank is lending in essentially all parts of its AA.

Responses to Complaints

FNB of Monterey has not received any complaints about its performance in helping to meet the credit needs within the AA during this evaluation period.

Fair Lending Review

We found no evidence of illegal discrimination or other illegal credit practices.