

PUBLIC DISCLOSURE

November 13, 2006

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Farmers State Bank, Astoria
Certificate #23324**

**122 West Broadway Street
Astoria, Illinois 61501**

**Federal Deposit Insurance Corporation
Division of Supervision and Consumer Protection
Chicago Regional Office
500 West Monroe, Suite 3500
Chicago, Illinois 60661**

NOTE: 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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GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the 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. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

*This document is an evaluation of the Community Reinvestment Act (CRA) performance of **Farmers State Bank, Astoria** prepared by the **Federal Deposit Insurance Corporation**, the institution's supervisory agency, as of **November 13, 2006**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 345.*

INSTITUTION RATING

INSTITUTION'S CRA RATING: This institution is rated **Outstanding**.

- A substantial majority of originated loans are made within the assessment area.
- The bank has a strong record of funding low- and moderate-income residential real estate and a very good record of providing financing to small farms through the origination of small farm loans. In addition, the bank's consumer lending, while not sampled, is further indication of the bank's commitment to meeting the credit needs of the assessment area.
- The bank's assessment area consists of five, middle-income geographies. Therefore, the geographic distribution of loans carries very little weight in the overall rating.
- The net loan-to-deposit ratio is good, given the bank's asset size, level of competition, and the credit needs of the assessment area.
- There have been no CRA complaints filed with the bank or the FDIC Regional Office since the prior CRA evaluation.
- No substantive violations of the anti-discrimination laws and regulations were identified.

DESCRIPTION OF INSTITUTION

Farmers State Bank, Astoria (Farmers State) is located in the Village of Astoria (population 1,193), Fulton County, Illinois. The institution remains wholly owned by Backlund Investment Company, a five-bank holding company based in Peoria, Illinois. The bank operates from the main office in Astoria. As of June 30, 2006, the bank's total assets were \$15,127,000 and total loans were \$9,223,000. The bank's total assets have decreased approximately 8 percent since the previous evaluation dated January 14, 2002. The bank's principal business focus is on residential real estate lending, with consumer and agricultural loans a secondary focus. According to bank management lending in the area is slow, especially regarding residential and consumer loans. Overall, however, net loans have increased from June 2005 to June 2006 by over \$700,000. Table 1, below, depicts the bank's loan portfolio as of June 30, 2006.

Table 1 – Distribution of Loans		
Loan Type	Dollar Amount (000s)	Percent of Total Loans
Secured by Farmland	\$1,453	15%
1-4 Family Residential	\$2,954	32%
Nonfarm, nonresidential	\$248	3%
<i>Total Real Estate Loans</i>	<i>\$4,655</i>	<i>50%</i>
Agricultural	\$1,099	12%
Commercial and Industrial	\$630	7%
Consumer	\$2,938	31%
All Other Loans and Obligations	\$12	< 1%
Total Loans	\$9,334	100%

Source: Report of Condition, June 30, 2006.

Deposit products include regular checking, passbook savings, money market accounts, certificates of deposit, NOW accounts, and individual retirement accounts. Loan products include real estate loans for home purchase, refinance, home improvement, agricultural, and commercial purposes; agricultural and commercial operating loans; and consumer loans for autos and personal purposes. The bank, in partnership with an affiliate bank, facilitates long-term, fixed-rate residential mortgage loans through the Federal Home Loan Bank.

As referenced in Table 1, above, the bank maintains a sizable portfolio of consumer installment loans. Many of these loans are made for essential personal expenses, and the bank has no minimum loan amount, with the smallest loan currently on the books originated for \$325. Such loans are requested by persons of low- or moderate-income to facilitate a wide range of necessities. This type of lending represents a strong commitment by the bank to meet the credit needs of low- and moderate-income individuals in the assessment area.

No legal or financial impediments exist which would prohibit the bank from meeting the credit needs of the community. The last Community Reinvestment Evaluation conducted as of January 14, 2002 resulted in a “Satisfactory” rating.

DESCRIPTION OF THE ASSESSMENT AREA

Performance under the Community Reinvestment Act for this institution is based upon the evaluation of the overall assessment area. The bank’s assessment area consists of five census tracts in Fulton and Schuyler Counties in Illinois. The Department of Housing and Urban Development (HUD) categorizes individual census tracts in these counties as low-, moderate-, middle-, or upper-income based upon the individual geography’s Median Family Income (MFI) as a percentage of a benchmark non-metropolitan statistical area. All five tracts are categorized as middle-income. The two tracts in southwestern Fulton County include the towns of Astoria, Vermont, Ipava, Table Grove, and Smithfield. The bank also designated all of Schuyler County, which borders Fulton County’s southwest corner, as part of its assessment area. Schuyler County contains three census tracts, all of which are middle-income, and includes the towns of Rushville, Browning, and Camden. Table 2, on the following page, displays selected demographic and housing information of the assessment area compared to the Illinois Non-Metropolitan Statistical Area (Non-MSA), which includes all counties in Illinois not designated as part of a metropolitan statistical area.

A community contact indicated that one of the biggest needs in the area was development of more housing opportunities, and the rehabilitation of existing homes. He further indicated that the Village of Astoria and southern Fulton County had a significant retired population. However, the last few years have seen an increase in the number of younger families living in the area, and school enrollment is up in the district. The average income in town was estimated to be between \$20,000 and \$24,000 annually. In spite of the low incomes, he indicated that area banks are receptive to customers, and provide financing for their needs.

The primary non-farm industries in the assessment area, by number of firms, are services, non-classifiable establishments, and retail trade. A community contact indicated that there are employment opportunities locally in Astoria, particularly education, health care, and printing and publishing. Astoria is located within reasonable commuting distance from Macomb, Illinois (pop. 18,558), 30 miles to the northwest. According to a community contact, other cities to which Astoria residents commute are Beardstown (pop. 5,766) approximately 30 miles to the south, Mount Sterling (pop. 2,070) 30 miles to the southwest, and Peoria (pop. 112,936) approximately 60 miles to the northeast. Fulton County is an area that has been designated by regulatory agencies as “distressed or underserved.” In 2005, Fulton County’s unemployment rate was high enough to warrant consideration as an area of distressed, middle-income tracts. This designation has continued into 2006. According to the Illinois Department of Employment Security, the unemployment rates of Fulton and Schuyler Counties as of September 2006 were 4.5 percent and 3.4 percent, respectively. The statewide average for the same period is 4.1 percent. The assessment area is largely rural in nature. Nearly 27 percent of enterprises in the assessment area are classified as agricultural-related operations.

Table 2 - Demographic & Economic Data: Assessment Area Compared with Illinois Non-MSA		
	Assessment Area	Illinois Non-MSA
Population	12,956	1,705,887
Median Family Income:		
2000 Median Family Income	\$40,922	\$43,994
2006 Estimated Median Family Income(*)	--	\$52,200
Percentage of Families by Family Income Level:		
Low-Income	19%	18%
Moderate-Income	22%	19%
Middle-Income	27%	24%
Upper-Income	32%	39%
Families Below the Poverty Level	7%	8%
Percentage of Total Housing Units:		
Owner-Occupied Housing Units	73%	68%
Rental Housing Units	18%	23%
Vacant Units	9%	9%
1-4 Family Residential	86%	84%
Multi-Family	1%	6%
Mobile Home or Trailer	13%	10%
Median Housing Characteristics:		
Median Age in Years	50	42
Median Home Value	\$47,769	\$69,037
Median Gross Rent	\$344	\$408

Source: 2000 U.S. Census. *Based on estimates from HUD.

According to management, agricultural lending has increased somewhat recently. According to the U.S. Department of Agriculture (USDA) Census of Agriculture, the total number of farms in Fulton and Schuyler Counties has increased one percent from 1997 to 2002. However, over the same period, the amount of land in farms has decreased. The slight increase in the number of farms is due to a 13 percent increase in Schuyler County. According to management, the increase is likely due to established farming operations being divided by heirs, or through estate sales.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Scope of the Evaluation:

CRA performance at small banks (banks with less than \$250 million in total assets) is evaluated based on the following criteria:

- Lending in the assessment area
- Lending to borrowers of different income levels and to farms of different sizes
- Geographic distribution of loans within the assessment area
- Loan-to-deposit ratio
- Response to consumer complaints

Sampling Procedures Performed

To evaluate Farmers State's CRA performance, residential real estate and agricultural loans originated during 2005 year-to-date 2006 were reviewed and analyzed. These products were selected based on their relative prevalence in the bank's loan portfolio, which was shown in Table 1. Using these two products, 59 percent of the bank's loan portfolio is analyzed. Consumer loans, while representing a notable portion of the bank's portfolio, were not selected for review, but were noted in a previous section of this evaluation. Commercial loans were not reviewed due to their smaller share of the bank's total loan portfolio of 10 percent.

Call Report codes in the bank's loan download were used to determine the respective universes of originations for residential mortgage and agricultural loans made in 2005 and 2006. In 2005, Farmers State originated and maintains 31 residential mortgage loans worth \$921,000 and 14 small farm loans worth \$821,000. Through October 31, 2006, there have been 20 loan originations for loans secured by 1-4 family properties worth \$664,000. In the same period there were 27 loans secured by farmland or to finance agricultural production worth \$1.7 million. Due to the size of the universes for residential real estate loans and agricultural loans, the entire universes were used for analysis. Only loans originated inside the assessment area were analyzed to evaluate the banks lending to borrowers of different income categories and farms of different sizes.

Lending in the Assessment Area:

Farmers State Bank, Astoria has maintained a very favorable record of concentrating its lending within the assessment area. The bank originated a substantial majority of the number and dollar amount of its loans within the assessment area for 2005 and year-to-date 2006. Complete data showing the distribution of loans inside and outside the assessment area are contained in Table 3.

Table 3 - Distribution of Loans Inside and Outside of the Assessment Area										
Loan Category or Type	Number of Loans					Dollars in Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$(000)	%	\$(000)	%	
Residential										
2005	29	94%	2	6%	31	\$806	88%	\$115	12%	\$921
2006	19	95%	1	5%	20	\$605	91%	\$59	9%	\$664
Subtotal	48	94%	3	6%	51	\$1,411	89%	\$174	11%	\$1,585
Agricultural										
2005	13	93%	1	7%	14	\$711	87%	\$110	13%	\$821
2006	25	93%	2	7%	27	\$1,607	96%	\$65	4%	\$1,672
Subtotal	38	93%	3	7%	41	\$2,318	93%	\$175	7%	\$2,493
Total	86	93%	6	7%	92	\$3,729	91%	\$349	9%	\$4,078

Source: Bank data.

Lending to Borrowers of Different Incomes:

Overall, the bank has demonstrated a strong record of providing loans to borrowers of different income levels, in terms of both residential mortgage loans and small farm loan products.

Residential Real Estate Loans

To determine the distribution of lending to borrowers of different incomes, borrowers' incomes are classified as low-, moderate-, middle-, or upper-income. Those categories are calculated by using the HUD estimated median family income (MFI) for the respective metropolitan or non-metropolitan areas for the county in which the borrower resides. Fulton and Schuyler Counties are not part of a Metropolitan Statistical Area (MSA), therefore, the Illinois Non-MSA MFI was used as the benchmark for determining the various income categories. Table 4 shows the MFI figures and the divisions of income levels for 2005 and 2006 for the Illinois Non-MSA.

Income Level	Percent of MFI	2005 MFI: \$49,550	2006 MFI: \$52,200
Low	Less than 50%	Less than \$24,775	Less than \$26,100
Moderate	50% to < 80%	\$24,775 to < \$39,640	\$26,100 to < \$41,760
Middle	80% to < 120%	\$39,640 to < \$59,460	\$41,760 to < \$62,640
Upper	120% and Over	\$59,460 and Over	\$62,640 and Over

Source: U.S. 2000 Census and HUD.

Farmers State has demonstrated a strong record of providing residential real estate loans to borrowers of different income levels, including low- and moderate-income borrowers. The bank's lending patterns were compared to assessment area demographics. In the assessment area, 7 percent of the families are below the poverty level, resulting in 12 percent of low-income families being able to qualify for and service mortgage debt. The distribution to low-income borrowers in 2005 exceeds the adjusted percentage of assessment area families. The lending concentration exceeds the percentage of the population by an even larger amount in 2006. Similarly, the number of loans to moderate-income individuals substantially exceeds the percent of families. Table 5 displays the bank's residential loan performance for the period reviewed.

Borrower Income Level	Percent of Total Families in AA	2005		2006		Total	
		#	%	#	%	#	%
Low	19%*	5	17%	6	32%	11	23%
Moderate	22%	12	41%	6	32%	18	37%
Middle	27%	4	14%	5	26%	9	19%
Upper	32%	8	28%	2	10%	10	21%
Total	100%	29	100%	19	100%	48	100%

Source: U.S. 2000 Census, Bank Records. *Includes 7% of families below the poverty level.

Agricultural Loans

The bank's performance in providing loans to farms of different sizes was analyzed using loan amount as a proxy for farm size. The Consolidated Report of Condition and Income (or Call Report) defines small farm loans as those extended in amounts of \$500,000 or less, and are "Loans secured by farmland" or "Loans to finance agricultural production". In general, small farms typically demand smaller denomination loans, as it is often difficult for such entities to service larger dollar amounts of debt. Thus, the bank's record of making agricultural loans, in smaller dollar amounts, is an indication of its performance in lending to small farms. Only one of the bank's agricultural loans was in an amount of more than \$500,000. All other agricultural loans were classified as "small farm loans."

As reflected in Table 6, below, Farmers State has demonstrated a very good record of serving the assessment area through the origination of small farm loans. Over the period reviewed, over 80 percent of small farm loans were in amounts of \$100,000 and less. Additionally, just under 30 percent of loans were \$25,000 and less. While farm data on the census tract level is not available, in Fulton and Schuyler Counties, 29 percent of farms have annual sales less than \$2,500, while 59 percent have annual sales less than \$25,000 and 79 percent of all farms in those counties have annual sales less than \$100,000, according to the USDA 2002 Census of Agriculture. This level of making agricultural loans in smaller-dollar amounts demonstrates the bank's commitment to providing credit to small farms in its assessment area. In the table, the two years are presented together, because the proportion of loans in each size category in each year were similar.

Table 6 - Distribution of Small Farm Loans by Loan Amount 2005 & 2006				
Loan Amount	Number of Loans	Percent of Number	Dollar Amount of Loans \$(000)	Percent of Dollar Amount
Less than \$25,000	11	29%	\$131	6%
\$25,000 to < \$50,000	15	40%	\$555	24%
\$50,000 to < \$100,000	5	13%	\$349	15%
\$100,000 to < \$250,000	5	13%	\$738	32%
\$250,000 to \$500,000	2	5%	\$545	23%
Totals	38	100%	\$2,318	100%

Source: Bank data.

Geographic Distribution:

Since the bank's assessment area consists of five middle-income census tracts, and no low-or moderate-income tracts, no geographic distribution analysis was performed. However, the dispersion of the bank's loans was noted, and it was apparent that the bank is making loans in all tracts of its assessment area, with a concentration in and around the village of Astoria. This performance criterion carries very little weight in the overall rating.

Loan-to-Deposit Ratio:

The bank's loan-to-deposit ratio reflects a good concentration of loans in the bank's asset portfolio. The average net loan-to-deposit ratio is 64 percent over the last 18 quarters from March 31, 2002, to June 30, 2006. The bank's most recent quarter loan-to-deposit ratio, June 30, 2006, was 74 percent. The ratio has exhibited an upward trend throughout the evaluation period. The bank's average was compared to nine other banks in Fulton, Schuyler, and nearby counties. In terms of average ratios, Farmers State Bank's ratios approximated the median, with average ratios of area institutions falling between 42 and 84 percent.

Response to Consumer Complaints:

No complaints have been received by the bank or the FDIC Regional Office regarding the bank's Community Reinvestment Act performance since the prior evaluation on January 14, 2002.

Compliance with Anti-Discrimination Laws and Regulations:

No violations of the substantive provisions of the anti-discrimination laws and regulations were identified during the evaluation.