



SMALL BANK

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

PUBLIC DISCLOSURE

August 07, 2006

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Frances Slocum Bank & Trust Company, National Association
Charter Number 24484**

**1250 North Cass Street
Wabash, IN 46992**

**Comptroller of the Currency
Central Illinois & Central Indiana
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.

- **A majority of the loans are originated within the bank's assessment area.**
- **The distribution of loans reflects reasonable penetration among individuals of different income levels (including low- and moderate-income) and good performance in lending to businesses of different sizes, given the demographics of the assessment area.**
- **The geographic distribution of loans reflects reasonable penetration in geographies of different income levels, given the demographics of the assessment area.**
- **The bank's loan-to-deposit ratio is reasonable based on the institution's size, financial condition, assessment area's credit needs, and competition.**

DESCRIPTION OF INSTITUTION

Frances Slocum Bank and Trust N.A. (FSB&T) is a \$198 million financial institution headquartered in Wabash, Indiana. Wabash is located on State Highways 24 and 15 in northeast Indiana, approximately 45 miles from Fort Wayne and 30 miles from Kokomo. FSB&T converted from a state charter to a national charter on January 1, 2004. The bank is 100% owned by First Merchants Corporation (FMC), a \$3.2 billion holding company headquartered in Muncie, Indiana. FMC owns eight banks which operate in the states of Indiana and Ohio, an insurance company, a separately chartered Trust Company, and is the majority shareholder in a title insurance company.

FSB&T is an intrastate bank with six branch offices located in Wabash, North Manchester, Peru, and Kokomo, Indiana. All branches have an automated teller machine (ATM). FMC employs a loan production specialist in Fort Wayne, Indiana, who originates commercial loans for this bank and two affiliate banks. The bank also offers banking by Internet and telephone. In the first quarter of 2005, the bank relocated its headquarters from the 189 West Market Street branch to its present location on Cass Street in Wabash, Indiana, to consolidate operations in one building. The bank has not closed any branches during this evaluation period, although it did close a loan production office in Kokomo in early 2004. Its operations were merged into the Kokomo branch location.

The bank offers a full range of retail and commercial banking products normally associated with a community bank. Gross loans total \$160 million on June 30, 2006, representing 81% of total assets. The following represents the bank's loan and lease portfolio mix as of June 30, 2006:

Commercial Loans	\$78 million	48%
Residential Real Estate Loans	\$37 million	23%
Consumer Loans	\$33 million	21%
Agricultural Loans	\$13 million	8%

The bank offers standard loan products to the community, including Small Business

Administration (SBA) and Farm Services Administration (FSA) guaranteed loans. During the assessment period, the bank made one new \$1.125 million SBA loan. The bank also participates in the Federal Home Loan Bank of Indianapolis (FHLBI) Home Ownership Initiatives Program for low-income families. Beginning in 2006, the bank has \$40,000 available for this program, which offers up to \$5,000 grants for down-payments and closing costs on a home purchase financed by the bank. The bank has not yet received any applications for this program. The bank also participates in selling residential real estate loans into the secondary market, including \$13.7 million total for 2004, 2005, and year-to-date June 30, 2006.

Total risk based capital is \$19.6 million. FSB&T has no legal or financial impediments that would hinder the bank's ability to meet the credit needs of its assessment area. Bank activities are consistent with bank's size, its financial capacity, local economic conditions, and credit needs of the community. The bank was rated "Outstanding" on its last CRA examination on June 28, 1999, performed by the Federal Deposit Insurance Corporation (FDIC). Since the last CRA examination, the bank has expanded its assessment area to include Howard County.

DESCRIPTION OF THE ASSESSMENT AREA

The bank has two assessment areas (AA). One assessment area includes all eight census tracts (9922, 9923, 9924, 9925, 9926, 9927, 9928 and 9929) in Wabash County and all ten census tracts (9520, 9521, 9522, 9523, 9524, 9525, 9526, 9527, 9528 and 9529) in Miami County. This AA is referred to as the "Non-MSA" assessment area in this analysis. The Non-MSA AA includes one moderate-income census tract and seventeen middle-income census tracts. This is the bank's primary assessment area, as it contains five out of the bank's six branches. In addition, the bank's deposit market share is 29% in Wabash County and 11% in Miami County.

The second assessment area consists of all 20 census tracts (2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15; 101, 102, 103, 104, 105 and 106) in Howard County, which is included in the Kokomo Metropolitan Statistical Area (MSA). The MSA AA includes seven moderate-income, nine middle-income, and four upper-income census tracts. The bank's one branch in this AA is located in a moderate-income census tract. The bank's deposit market share is only 1% in Howard County. These assessment areas conform to the regulation and do not arbitrarily exclude low- or moderate-income areas.

The following demographic information is based on 2000 census data:

Demographic Information for Assessment Area	MSA	Non-MSA
Population:	84,964	71,042
Housing Stock: <i>1-4 family housing units</i>	88%	96%
Occupancy: <i>owner-occupied, renter-occupied, vacant</i>	66%, 26%, 7%	70%, 22%, 8%
Home Values: <i>Median home value</i>	\$89,236	\$74,656
Age of Homes: <i>Median year of homes built</i>	1962	1955
Income: <i>Updated Median family income</i>	\$54,245	\$46,592
Income: <i>Median household income</i>	\$45,013	\$38,917
Family Income Levels (%): <i>Low-, moderate-, middle-, upper-income</i>	20%, 19%, 23%, 38%	15%, 19%, 28%, 38%
Household Income Levels (%): <i>Low-, moderate-, middle-, upper-income</i>	23%, 17%, 19%, 41%	20%, 17%, 22%, 40%
	2005 Business Data	2005 Business Data
Farms: <i>% of small farms in the assessment area</i>	95%	94%
Businesses: <i>% of small businesses in the assessment area</i>	62%	62%
<i>Percent of farms not reporting revenue figures</i>	3%	3%
<i>Percent of businesses not reporting revenue figures</i>	33%	32%

Note: MSA represents all census tracts in Howard County. Non-MSA represents all census tracts in Wabash and Miami Counties.

The local economy is stable, but weak, and driven by manufacturing and agriculture. Major employers in the assessment area include auto manufacturers Chrysler Corporation and Delphi Delco Corporation, auto parts manufacturer GBX, and metals manufacturer Wabash Alloys. The June 2006 unemployment rate for Wabash, Miami, and Howard counties was 5.7%, 6.2% and 6.4%, respectively. The state unemployment rate was 5.2% compared to the national rate of 4.6%. The assessment area has been adversely impacted by the economic downturn in the automotive industry. The bank faces strong competition from several other financial institutions in the assessment area, including several significantly larger regional and national institutions.

We made two community contacts in conjunction with this examination, including representatives from two community organizations supporting residential homeownership and business development. The contacts indicated that the area financial institutions are meeting the community's credit needs and are supportive of economic development programs in the area.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

This review concentrated on the bank's primary loan products for the years 2004, 2005, and year-to-date June 30, 2006, which based on origination information by dollar and number provided by the bank, was primarily commercial and consumer loans.

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

The overall distribution of loans reflects reasonable penetration among individuals of different income levels (including low- and moderate-income) and good performance in lending to businesses of different sizes, given the demographics of the assessment area.

Commercial Loans

The bank's performance of lending to businesses of different sizes is good. Eighty percent of the number of business loans sampled in the Non-MSA assessment area was made to small businesses. Sixty-five percent of the number of business loans sampled in the MSA assessment areas was made to small businesses. Small businesses are businesses with annual gross revenues of less than one million dollars. The bank's lending to small businesses in the Non-MSA is significantly higher than the demographic data. The bank's performance in lending to small business in the MSA is also more favorable than the demographic data.

Borrower Distribution of Loans to Businesses in the Assessment Area (Non-MSA)				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable	Total
% of AA Businesses*	62%	6%	32%	100%
% of Bank Loans in AA by #	80%	5%	15%	100%
% of Bank Loans in AA by \$	78%	20%	2%	100%

Source: This table is based on 20 commercial loans from the AA that were originated in 2004. Three loans totaling \$53,793 in the sample did not have income information.

Borrower Distribution of Loans to Businesses in the Assessment Area (MSA)				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable	Total
% of AA Businesses*	62%	5%	33%	100%
% of Bank Loans in AA by #	65%	30%	5%	100%
% of Bank Loans in AA by \$	67%	32%	1%	100%

Source: This table is based on a sample of 20 commercial loans from the AA that were originated in 2004, 2005, and year-to-date 2006. One loan for \$92,814 did not have income information in the file.

Consumer Loans

The distribution of loans reflects reasonable penetration for consumer loan originations among individuals of different income levels, including low- and moderate-income, given the demographics of the Non-MSA assessment area. Performance to moderate-income borrowers is good and significantly more favorable compared to the demographic data. Performance to low-income borrowers is weaker than the demographics, but considered reasonable given the household poverty rate of nearly 8% and higher than average unemployment in the assessment area.

Consumer Loans in the Non-MSA by Income Distribution					
<u>Income Level</u>	<u>% of households in the AA</u>	<u># of Loans</u>	<u>% of #</u>	<u>\$ of Loans</u>	<u>% of \$</u>
Low-Income Less than 50% of Median	20%	2	10%	\$15,196	5%
Moderate-Income 50%-79% of Median	17%	5	25%	\$95,935	31%
Middle-Income 80%-119% of Median	22%	7	35%	\$130,352	42%
Upper-Income 120% or more of Median	40%	6	30%	\$68,539	22%

Source: Sample of 20 consumer loans originated in the AA for 2004, 2005, and year-to-date 6-30-2006 and 2000 U.S. Census data.

The distribution of loans reflects reasonable penetration for consumer loan originations among individuals of different income levels, including low- and moderate-income, given the demographics of the MSA assessment area. Performance to moderate-income borrowers is good and significantly more favorable compared to the demographic data. Performance to low-income borrowers is weaker than the demographics, but considered reasonable given the household poverty rate of more than 9% and higher than average unemployment in the assessment area.

Consumer Loans in the MSA by Income Distribution					
<u>Income Level</u>	<u>% of households in the AA</u>	<u># of Loans</u>	<u>% of #</u>	<u>\$ of Loans</u>	<u>% of \$</u>
Low-Income Less than 50% of Median	23%	2	9%	\$18,298	13%
Moderate-Income 50%-79% of Median	17%	5	25%	\$28,370	19%
Middle-Income 80%-119% of Median	19%	3	15%	\$40,171	28%
Upper-Income 120% or more of Median	41%	7	35%	\$38,538	26%

Source: Sample of 20 consumer loans originated in the AA for 2004, 2005, and year-to-date 6-30-2006 and 2000 U.S. Census data. Three loans totaling \$20,333 in the sample did not have income information available.

Geographic Distribution of Loans

The overall geographic distribution of loans reflects satisfactory penetration in geographies of different income levels, given the demographics of the assessment area.

Commercial Loans

The bank's geographic distribution of business loans in the Non-MSA is good. Ten percent of loans sampled in the Non-MSA assessment area are to businesses in the moderate-income census tract. The percentage of loans made in the moderate-income census tract in the Non-MSA is substantially higher than the demographic data.

Geographic Distribution of Loans to Businesses in Non-MSA								
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%	0%	4%	10%	96%	90%	0%	0%

Source: Sample of 20 business loans originated in the AA for 2004, 2005, and year-to-date 6-30-2006 and 2000 Census data.

The bank's geographic distribution of business loans in the MSA AA is less than reasonable. Twenty-five percent of the loans sampled in the MSA assessment area are to businesses located in moderate-income census tracts. The percentage of loans made in moderate-income census tracts in the MSA is weaker than the demographic data. The bank's Kokomo branch is located in a moderate-income census tract. The effect of the bank's geographic distribution of business loans in the MSA on the overall CRA rating is mitigated by geographic distribution of business and consumer loans in the Non-MSA, and in the other factors, particularly the bank's good performance in lending to small businesses. Since most of the bank's business for lending and deposits is in the Non-MSA, more weight is given to its performance in that assessment area for the overall performance rating.

Geographic Distribution of Loans to Businesses in MSA								
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%	0%	42%	25%	44%	50%	14%	25%

Source: Sample of 20 business loans originated in the AA for 2004, 2005, and year-to-date 6-30-2006 and 2000 Census data.

Consumer Loans

The bank's geographic distribution of loans in the Non-MSA assessment area is reasonable. The bank's 2004, 2005, and year-to-date June 30, 2006 performance in originating consumer loans in the moderate-income census tract is comparable to the demographic data for the assessment area.

Geographic Distribution of Consumer Loans in Non-MSA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	0%	0%	5%	5%	95%	95%	0%	0%

Source: Sample of 20 consumer loans originated in the AA for 2004, 2005, and year-to-date 6-30-2006 and 2000 Census data.

The geographic distribution of consumer loans in the MSA is less than reasonable. The bank's 2004, 2005, and year-to-date June 30, 2006 performance in originating consumer loans in the moderate-income census tracts is lower than the demographic data for the assessment area. However, the moderate-income census tracts are largely zoned for commercial business, including some factories and several retail shopping centers. The bank's Kokomo branch is located in a moderate-income census tract. The effects of the bank's geographic distribution of consumer loans in the MSA on the overall CRA rating is mitigated by its geographic distribution of consumer loans in the Non-MSA and its geographic distribution of business loans, as well as its performance in the other factors. Since most of the bank's business for lending and deposits is in the Non-MSA, more weight is given to its performance in that assessment area for the overall performance rating.

Geographic Distribution of Consumer Loans in MSA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	0%	0%	34%	25%	49%	50%	17%	25%

Source: Sample of 20 consumer loans originated in the AA for 2004, 2005, and year-to-date 6-30-2006 and 2000 Census data.

Lending in Assessment Area

A majority of loans are originated within the bank's assessment area. Based on a sample of forty loans originated in 2004, 2005, and year-to-date June 30, 2006, 60% of the number and 81% of dollars were made within the bank's assessment area. The bank's consumer loan portfolio originations are skewed by a large multi-state indirect loan program to finance lawn mowers. This program has experienced significant growth in the last three years, and currently represents approximately 40% of the total dollars outstanding in the consumer loan portfolio. The effects of this on the bank's overall CRA rating is mitigated by the performance of lending within the AA for business loans, as well as its performance in other factors, such as lending to individuals of different incomes and businesses of different sizes.

Lending in Assessment Area										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total (000's)
	#	%	#	%		\$ (000's)	%	\$ (000's)	%	
Business	16	80%	4	20%	20	\$4,325	82%	\$ 919	18%	\$5,244
Consumer	8	40%	12	60%	20	\$ 83	46%	\$ 99	54%	\$ 182
Totals	24	60%	16	40%	40	\$4,408	81%	\$1,018	19%	\$5,426

Source: Sample of 40 business and consumer loans originated in the AA for 2004, 2005 and year-to-date June 30, 2006.

Loan-to-Deposit Ratio

The bank's loan to deposit ratio is reasonable given the institution's size, financial condition, assessment area (AA) credit needs, and local competition. The bank's loan to deposit ratio averaged 97.12% over nine quarters between March 31, 2004 and March 31, 2006. This average ratio is comparable to the 97.02% quarterly average for three similarly situated banks located in the bank's assessment area.

Responses to Complaints

FSB&T has not received any complaints about its performance in helping to meet assessment area needs during this evaluation period.

Fair Lending or Other Illegal Credit Practices Review

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