SMALL BANK

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

PUBLIC DISCLOSURE

August 26, 2003

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Columbia National Bank
Charter Number 16593

700 Columbia Centre
Columbia, IL 62236

Comptroller of the Currency
St. Louis Field Office
2350 Market Street, Suite 100
St. Louis, MO 63103

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.

All the lending performance components meet the standards for satisfactory performance. The major factors that support this rating are:

- The bank's lending distribution to borrowers of different income levels is reasonable.
- Loans are reasonably distributed by geography classification.
- The level of lending is good. The bank's average loan-to-deposit ratio is 73% and compares well to the similarly situated banks in the assessment area (AA).
- A substantial majority of the bank's loans extended during this evaluation period were originated within the bank's AA.

DESCRIPTION OF INSTITUTION

Columbia National Bank (CNB) is 80% owned by Columbia Bancshares, Inc., a one-bank holding company located in the City of Columbia, Illinois, and the minority shareholders own 20% of the bank. Columbia is located at the northern tip of Monroe County in Southwestern Illinois only about 12 miles from downtown St. Louis. Interstate 255 on the city's northern border connects it with the entire Metropolitan St. Louis Area.

CNB is one of the smallest financial institutions in the St. Louis Missouri/Illinois Metropolitan Statistical Area (St. Louis MSA). As of December 31, 2002, CNB had total assets of $36 million, net loans of $22 million, total deposits of $32 million, and total risk based capital of $4 million. CNB assets represent substantially all of the holding company's assets. There are no subsidiaries or affiliates. There have been no changes in the bank's corporate structure since the last CRA evaluation.

CNB is primarily a residential real estate lender that operates one office and two depository automated teller machines (ATM), located in Columbia, Illinois. The depository ATMs are located at the bank and in the Marketplace Shopping Center in Columbia, Illinois. Management has neither opened nor closed any branches during this evaluation period.

CNB offers traditional bank services and loan products normally associated with a small community bank. As of December 31, 2002, net loans totaled $22 million, representing 61% of total assets. The loan portfolio consisted of 63% residential real estate, 17% commercial real estate/business, 16% consumer loans, and 4% farm real estate/agriculture production.

Residential real estate loans represent the highest percentage of the loans originated during this evaluation period by dollar value and by number of loans granted. Using only loans made within the AA, we reviewed all Home Mortgage Disclosure Act (HMDA) reportable loans originated and purchased from January 1, 2000 through December 31, 2002.

There are no legal or financial constraints placed on the bank's ability to help meet the community credit needs. The bank has adequate resources to provide for the credit needs of its AA. The type and amount of CRA activities are consistent with the bank's size, its financial capacity, local economic conditions, and the credit needs of the community.

CNB's last CRA evaluation was February 18, 1998, and we rated the bank Satisfactory.

DESCRIPTION OF ASSESSMENT AREA

Management designated Monroe County and the southern edge of St. Clair County in southwestern Illinois as its AA. The AA is comprised of three census tracts, (CTs) 6001.00, 6002.00, and 6003.00, in Monroe County and seven CTs, 5026.01, 5026.02, 5026.03, 5031.01, 5031.02, 5032.02, and 5032.03, in St. Clair County. This is a contiguous area, meets the requirements of the regulation, and does not arbitrarily exclude low- or moderate-income geographies.

Monroe and St. Clair Counties are part of the St. Louis MSA. Based on the 1990 MSA median family income, seven CTs or 70% are classified as middle-income and three CTs or 30% are classified as moderate-income. The bank is located in middle-income CT 6001.00 of Monroe County.

The 1990 census data shows that the total population in the AA was 60,569, which included 16,387 families. Of these families, 3,207 or 19% were classified as low-income, 3,445 or 21% as moderate-income, 4,534 or 28% as middle-income, and 5,201 or 32% as upper-income. The MSA median family income as of the 1990 census was $37,995. The 2002 updated figure, adjusted for inflation by the Department of Housing and Urban Development, is $61,400. We used the 2002 updated figure in our analysis to determine the borrower income levels.

Based on the 1990 census data for the AA, 12% of the population was age 65 and older, 18% of households were in retirement, and 10% of households lived below the poverty level. In 1990, the median housing value for the AA was $56,128 and the median age of the housing stock was 29 years. Local housing for the AA was 84% 1-4 family units, with 71% being owner-occupied. Only 6% of the housing units were vacant.

Economic conditions in Monroe County are good, with unemployment noticeably lower than that of St. Clair County and the state of Illinois. The overall economic conditions in St. Clair County are stable, despite continued high rates of joblessness. The November 2003 seasonally unadjusted unemployment rate for Monroe County is 4.1%. This ratio is considerably lower than the St. Clair County rate of 7.6%, the state of Illinois rate of 6.4% and the national rate of 5.6%.

The economic base in the AA is diversified. The largest industries within and near to the AA include aerospace and defense, health care and social services, manufacturing, retail and service-related businesses, and manufacturing. Agriculture is still a major business, although its importance has declined in recent years.

Major employers include Scott Air Force Base, with 13,024 employees; Memorial Hospital, with 2,209 employees; St. Elizabeth's Hospital, with 1,700 employees; Belleville Shoe Company, with 500 employees; Mid-Coast Aviation, with 200 employees; Columbia School District #4, with 160 employees; Luhr Brothers, Inc., with 150 employees; Angelica Healthcare Service, with 114 employees; Mozel Incorporated, with 100 employees; Budnick Converting Incorporated, with 92 employees; Columbia Quarry, with 90 employees; and Phillip Environmental, with 75 employees. Many residents commute to employment throughout the MSA. About 4% or 856 of the households in the AA rely on farming.

There is intense competition in the AA in the financial services industry. Fifty-five offices of 13 banks and thrifts are operating in the AA. These numbers do not include the myriad credit unions, mortgage companies, insurance offices, retailer-based lenders (e.g., GMAC), or farm services that now offer lending services.

Management indicated the primary credit needs of the AA are residential real estate loans, specifically long-term fixed rate loans, temporary and permanent construction loans to build 1-4 family residential homes, consumer personal loans, and small business-related loans.

To further our understanding of the community's credit needs, we performed a community contact with a local government official knowledgeable about the community. Our contact identified residential real estate loans, a significant portion of the bank's current lending activity, as a primary credit need in the community. Our contact also identified small business loans for expansion and/or for start-up companies as another credit need. Our contact did not identify any unmet credit needs; however, the contact felt the community could benefit by forming a business enterprise corporation to promote local entrepreneurship.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

CNB's lending reflects an adequate dispersion among borrowers and geographies of different income levels, given performance contextual factors and stiff competitive pressures faced by the bank. Please refer to the "Description of Institution" and "Description of Assessment Area" sections of this evaluation for details on these context factors.

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

CNB's primary loan product during this evaluation period, when considered in terms of both total dollars and numbers of loans granted, was residential real estate loans. Lending levels, as shown by the volume of all residential real estate loans generated, reflect good responsiveness to the credit needs of the AA.
During this evaluation period, the bank originated 114 home purchase loans totaling

$8.8 million; 360 home refinance loans totaling $26.0 million; 76 home improvement loans totaling $1.6 million; and two multifamily loans totaling $543 thousand. Using only the HMDA reportable loans made within the AA, the bank originated 60 home purchase loans totaling $6.2 million; 320 home refinance loans totaling $23.4 million; 66 home improvement loans totaling $1.3 million; and two multifamily loans totaling $543 thousand.

As part of this CRA evaluation, we reviewed the independent HMDA audit performed in February 2003 by the bank's outsourced compliance auditor and concluded that the bank's publicly filed data was accurate and reliable.

Residential Real Estate Loans

The overall borrower distribution of home mortgage loans is adequate in the bank's AA. We placed more emphasis on home refinance loans because the volume of these loans exceeds the volume of home purchase and home improvement loans. Of the total home mortgage loans, home refinance loans accounted for 65%, home purchase loans accounted for 21%, and home improvement loans accounted for 14%.

In evaluating the borrower distribution of home mortgage loans, we considered the moderate level of households that live below the poverty level (9.89% of households) and the barriers that this may have on home ownership. Many of the HMDA loans were refinances and it is likely that middle- and upper-income level borrowers can more easily afford the costs associated with refinancing.

The data used to evaluate CNB's residential lending activity are presented in the following table.

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
Home Purchase	19.57%	6.78%	21.02%	20.34%	27.67%	33.90%	31.74%	38.98%
Home Improvement	19.57%	16.13%	21.02%	25.81%	27.67%	27.42%	31.74%	30.64%
Home Refinance	19.57%	5.45%	21.02%	16.67%	27.67%	32.05%	31.74%	45.83%

Sources: HMDA data and based on 1990 U.S. Census data. The 2002 MSA median family income is $61,400. The income categories are defined as: less than 50%, 50% to 80%, 80% to 120%, and over 120%, respectively, of $61,400.

The borrower distribution for home purchase loans is adequate. Home purchase loans made to low-income borrowers (6.78%) is significantly below the percentage of low-income families (19.57%) in the AA. Opportunities to make loans to low-income borrowers are limited by the moderate percentage of people living below the poverty level as mentioned above. Home purchase loans (20.34%) made to moderate-income borrowers is at the percentage of moderate-income families (21.02%) in the AA. Market share for home purchase loans made to low-income borrowers (1.12%) is near to its overall market share (1.89%) in the AA for home purchase loans. Market share for home purchase loans made to moderate-income borrowers (1.42%) is at its overall market share (1.89%) in the AA for home purchase loans.

The borrower distribution for home improvement loans is excellent. Home improvement loans made to low-income borrowers (16.13%) are near to the percentage of low-income families (19.57%) in the AA. Again, opportunities to make loans to low-income borrowers are limited by the moderate percentage of people living below the poverty level (9.89% of households). The percentage of home improvement loans made to moderate-income borrowers (25.81%) exceeds the percentage of moderate-income families (21.02%) in the AA. Market share for home improvement loans made to low-income borrowers (10.71%) exceeds its overall market share (9.49%) in the AA for home improvement loans. Market share for home improvement loans made to moderate-income borrowers (12.07%) also exceeds its overall market share (9.49%) in the AA for home improvement loans.

The borrower distribution for home mortgage refinance loans is adequate. Refinance loans (5.45%) made to low-income borrowers is significantly below the percentage of low-income families (19.57%) in the AA. Again, opportunities to make loans to low-income borrowers are limited by the moderate percentage of households living below the poverty level (9.89%). Refinance loans made to moderate-income borrowers (16.67%) is near to the percentage (21.02%) of moderate-income families in the AA. Market share for refinance loans made to low-income borrowers (1.20%) is well below its overall market share (5.07%) in the AA for refinance loans. Market share for refinance loans made to moderate-income borrowers (4.54%) is near its overall market share (5.07%) in the AA for refinance loans.

Geographic Distribution of Loans

Residential Real Estate Loans

The overall geographic distribution of home mortgage loans to geographies of different income levels is adequate, given the contextual factors. Competition is strong in the moderate-income geographies. There are three larger banking institutions with five offices competing for the available business. A geographical analysis of multifamily loans would not be meaningful because of the low volume; however, it should be noted that both of the loans were made in moderate-income geographies.

HMDA data reports detailing CNB's lending activity over the evaluation period for home mortgage loans were reviewed to identify gaps in the geographic distribution of those loans. No conspicuous gaps were identified. Our conclusion was based on the HMDA reportable loans discussed above.

The data used to evaluate CNB's residential lending activity is presented in the following table.

Geographic Distribution of Residential Real Estate Loans in 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
Home Purchase	0%	0%	29.38%	15.00%	70.62%	85.00%	0%	0%
Home Improvement	0%	0%	29.38%	34.85%	70.62%	65.15%	0%	0%
Home Refinance	0%	0%	29.38%	15.94%	70.62%	84.06%	0%	0%

Sources: HMDA data and based on 1990 U.S. Census data.

Home purchase loan geographic distribution is adequate. The percentage of the bank's home purchase loans made in the moderate-income geographies (15.00%) is well below the percentage of owner-occupied housing units (29.38%) in these geographies. The bank's market share for loans made in the moderate-income geographies (1.50%) is at its overall market share (1.66%) for home purchase loans.

Home improvement loan geographic distribution is excellent. The percentage of the bank's home improvement loans made in the moderate-income geographies (34.85%) exceeds the percentage of owner-occupied housing units (29.38%) in these geographies. The bank's market share for loans made in the moderate-income geographies (18.92%) significantly exceeds its overall market share (10.20%) for home improvement loans.

Home refinance loan geographic distribution is adequate. The percentage of the bank's refinance loans made in the moderate-income geographies (15.94%) is well below the percentage of owner-occupied housing units (29.38%) in those geographies. The bank's market share for refinance loans made in the moderate-income geographies (3.01%) is near to its overall market share (4.44%) for refinance loans.

Loan-to-Deposit Ratio

CNB's loan-to-deposit (LTD) ratio is good. As of December 31, 2002, the bank's LTD ratio was 66%. CNB's quarterly average LTD ratio since the 1998 CRA examination was 73%. This compares well to three similarly situated banks in the area whose quarterly average LTD ratios ranged from 56% to 88%, with an average ratio of 70%. These banks are considered similarly situated because of their size, location, and lending opportunities.

It should also be noted that since November 1998, the bank has originated and sold $11.6 million long-term fixed-rate residential loans to Freddie Mac. Because these loans are sold, they are not reflected in the bank's LTD ratio. Lending levels, as shown by the sheer volume of all residential real estate loans originated since the last CRA examination, demonstrate the bank's eagerness to help meet community credit needs. If the volume of sold loans were added back to the LTD ratio, CNB would have surpassed its similarly situated banks.

Lending in Assessment Area

Lending in the AA is satisfactory. A substantial majority of the bank's loans originated since the last CRA evaluation were made in the AA. We analyzed HMDA data to review residential real estate loans originated and purchased from 2000 through 2002. The data shows that 81% by number and 85% by dollar were made within the bank's AA. This performance was positively factored into the overall analysis of the geographic distribution of lending by income level of geographies.

Responses to Complaints

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

Fair Lending or Other Illegal Credit Practices Review

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