

PUBLIC DISCLOSURE

April 26, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**MALDEN STATE BANK
10807**

**302 W. MAIN STREET
MALDEN, ILLINOIS 61337**

**FEDERAL DEPOSIT INSURANCE CORPORATION
DIVISION OF COMPLIANCE AND CONSUMER AFFAIRS
CHICAGO REGIONAL OFFICE
500 WEST MONROE STREET, SUITE 3300
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 the **Malden State Bank** prepared by the **Federal Deposit Insurance Corporation**, the institution's supervisory agency, as of **April 26, 1999**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CRA Part 345.*

INSTITUTION RATING

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

Malden State Bank is adequately serving the credit needs of its local community. Credit is extended for personal consumer, residential real estate, agricultural, and commercial business purposes. A substantial majority of loans are extended within the assessment area. Loans are extended to low- and moderate-income borrowers within the assessment area that compare favorably with the population distribution of low- and moderate-income families. The loan-to-deposit ratio is reasonable. This Community Reinvestment Act evaluation represents a review of the bank's performance since the prior evaluation dated September 14, 1995.

DESCRIPTION OF INSTITUTION

Malden State Bank operates from one office located in Malden, Illinois (population 370). Malden is located in the northwestern portion of Illinois in Bureau County. The bank offers a variety of products and services to meet the deposit and credit needs of the local area it serves. No legal impediments exist which would prohibit the bank from meeting the credit needs of the community it serves.

According to the December 31, 1998, *Consolidated Report of Condition and Income*, Malden State Bank had total assets of \$12,268,000. The bank's total loan portfolio represented 49 percent of the total assets on this date. As illustrated in Table 1, the bank's loan portfolio is concentrated in residential loans and agricultural loans. To obtain more than 50 percent of the number and dollar volume of loans extended since the last evaluation, consumer and agricultural loans were reviewed.

<i>Table 1 - Loan Distribution as of December 31, 1998</i>		
<i>Loan Type</i>	<i>Dollar Amount (000s)</i>	<i>Percent of Total Loans</i>
<i>Construction and Land Development</i>	\$0	0%
<i>Secured by Farmland</i>	\$972	16%
<i>1-4 Family Residential</i>	\$1,708	28%
<i>Multi-Family (5 or more) Residential</i>	\$0	0%
<i>Commercial</i>	\$678	11%
<i>Total Real Estate Loans</i>	<i>\$3,358</i>	<i>55%</i>
<i>Commercial and Industrial</i>	\$537	9%
<i>Agricultural</i>	\$1,051	18%
<i>Consumer</i>	\$911	15%
<i>Other</i>	\$185	3%
<i>Total Loans</i>	<i>\$6,042</i>	<i>100%</i>
<i>Less: Allowance for Loan Loss</i>	\$111	
<i>Net Loans</i>	<i>\$5,931</i>	

Source: *Consolidated Report of Condition and Income*

DESCRIPTION OF INSTITUTION'S ASSESSMENT AREA

BUREAU COUNTY BLOCK NUMBERING AREAS: 9647 THRU 9656

Malden State Bank's assessment area consists of all ten block numbering areas of Bureau County. Malden State Bank's only banking office is located in Malden, Illinois. Malden has a population of 370, and is located in Bureau County block numbering area (BNA) 9649. The largest city in Bureau County is Princeton, Illinois, population of 7,197. Malden is situated approximately 7 miles northeast of Princeton, Illinois. Manufacturing-related and agricultural-related employments are the largest sources of private sector employment within Bureau County. Malden State Bank has the only banking presence in Malden, Illinois.

Nine of the ten geographies that comprise the assessment area are designated middle-income according to 1990 census data. BNA 9654 is designated upper-income. Malden State Bank's assessment area does not appear to arbitrarily exclude low- and moderate- income geographies. Table 2 on the following page outlines the demographic and economic characteristics of the assessment area along with non-metropolitan areas of Illinois.

Table 2: Demographic & Economic Characteristics of the Assessment Area and the Non-Metropolitan Geographies of Illinois				
	Assessment Area		Non-Metro Illinois	
<u>Population by Area:</u>	35,688		1,856,803	
<u>Statewide non-MSA Median Family Income:</u>				
1990 Median Family Income			\$29,694	
1998 Estimated Median Family Income(*)			\$39,500	
<u>Families by Income Level:</u>	<u>Number</u>	<u>Percent</u>	<u>Number</u>	<u>Percent</u>
Low-Income	1,609	16%	99,188	20%
Moderate-Income	1,733	17%	93,532	18%
Middle-Income	2,446	24%	118,898	24%
Upper-Income	4,279	43%	194,370	38%
Total	10,067	100%	505,988	100%
<u>Housing Units:</u>	<u>Number</u>	<u>Percent</u>	<u>Number</u>	<u>Percent</u>
1-4 Family Residential	13,421	91%	656,800	84%
Multi-Family	647	4%	41,477	5%
Mobile Homes or Other	694	5%	83,964	11%
Total	14,762	100%	782,241	100%
Owner-Occupied Housing Units	10,026	68%	519,424	66%
Rental Housing Units	3,764	26%	193,307	25%
Vacant Housing Units	972	6%	69,510	9%
Total	14,762	100%	782,241	100%
<u>Median Housing Characteristics:</u>				
Median Age in Years	49years		43 years	
Median Home Value	\$41,745		\$40,181	
Median Gross Rent	\$326		\$300	

* This figure is based on estimates from the Department of Housing and Urban Development (HUD).

The demographic information contained in Table 2 shows the assessment area has a slightly lower proportion of families designated low- or moderate-income as compared to non-metropolitan geographies of Illinois. This table also shows that most of the residents in the assessment area live in 1 - 4 family residential housing units and own their own homes as opposed to living in multi-family rental units or mobile homes.

The 1990 Census median family income for the non-metropolitan geographies of Illinois was \$29,694. The U.S. Department of Housing and Urban Development (HUD) annually adjusts the estimated median family income for inflation. The HUD adjusted level for 1998 was \$39,500. The HUD estimated median family income for non-metropolitan geographies of Illinois for the year the loan was originated will be used for stratifying income levels of the bank's borrowers located within the assessment area for this evaluation. Table 3 describes the percent of median family income (MFI) used to determine the income ranges for each of the four income levels.

<i>Table 3 – Income Levels Based on Median Family Income</i>			
1990 Census Data and 1998 HUD Estimates For Non-Metropolitan Areas of Illinois			
<i>Income Level</i>	Percent of MFI	1990 Range	1998 Range
<i>Low</i>	Less than 50%	Under \$14,847	Under \$19,750
<i>Moderate</i>	50% to less than 80%	\$14,847 to \$23,754	\$19,750 to \$31,599
<i>Middle</i>	80% to less than 120%	\$23,755 to \$35,632	\$31,600 to \$47,399
<i>Upper</i>	120% or More	\$35,633 and Over	\$47,400 and Over

According to 1990 census data, the assessment area had 802 families, or 8 percent, living below the poverty level. Families below the poverty level are included within the number of low-income families. Table 2 on the previous page shows that the approximate stratification of families by income levels in the assessment area as of the 1990 census to be 16 percent low-income and 17 percent moderate-income.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Scope of Evaluation Process

To assess Malden State Bank's record of helping to meet the credit needs of its community, samples of consumer and agricultural loans were included in the analysis. Based on the percentage of lending by number and dollar volume during the time period for this evaluation, the two sampled loan categories are representative of the major types of loans extended since the previous evaluation. The bank's lending trends were reviewed from quarterly *Reports of Condition and Income*. Internal documents maintained by Malden State Bank on lending performance, and activities within the community it serves were reviewed. In addition, recent community contact information collected through financial institution regulatory agencies and other demographic data were reviewed that pertain to the assessment area.

Loan-to-Deposit Ratio

The bank's average loan-to-deposit ratio using the 14 quarterly figures from September 1995 to December 1998 is 60 percent. Since September 1995, net loans and deposits have remained stable. Malden State Bank's loan-to-deposit ratio is comparable to other banks in the assessment area and has been at an acceptable level throughout the evaluation period.

Lending in Assessment Area

Malden State Bank is extending a concentrated portion of its loans within the assessment area. The geographic distribution of the sampled consumer, and commercial loans was reviewed to determine the portion of loans inside and outside the assessment area. A summary of the findings of the review is presented in Table 4.

<i>Table 4 – Distribution of Sampled Loans Inside and Outside of the Assessment Area</i>										
<i>Loan Category or Type</i>	<i>Number of Loans</i>					<i>Dollars in Loans</i>				
	<i>Inside</i>		<i>Outside</i>		<i>Total</i>	<i>Inside</i>		<i>Outside</i>		<i>Total</i>
	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>		<i>\$</i>	<i>%</i>	<i>\$</i>	<i>%</i>	
<i>Consumer</i>	38	78%	11	22%	49	\$216,382	90%	\$22,800	10%	\$ 239,182
<i>Agricultural</i>	45	94%	3	6%	48	\$2,455,766	99%	\$16,600	1%	\$2,472,366
<i>Total</i>	83	86%	14	14%	97	\$2,672,148	99%	\$39,400	1%	\$2,711,548

Source: Sample of loans used for CRA performance analysis.

As shown by Table 4, a substantial majority of the loans both by number and dollar volume extended by Malden State Bank are within the bank's assessment area. The bank's percentage of loans within the assessment area exceeds expectations.

Lending to Borrowers of Different Incomes and Businesses of Different Sizes

An analysis was performed to determine the distribution of the sampled loans according to the borrowers' income as reported in credit file information maintained in bank records or loan officer knowledge. Table 5A on the following page shows the distribution of consumer loans by the borrowers' income. Income levels are based on the HUD estimated median family income for non-metropolitan areas of Illinois for the year the loan was originated.

Table 5A – Distribution of Sampled Consumer Loans by Income Level of Borrowers						
Median Family Income Level	Total Families		Number of Consumer Loans		Dollars in Consumer Loans	
	#	%	#	%	\$	%
Low	1,609	16%	12	31%	\$44,754	21%
Moderate	1,733	17%	13	34%	\$75,699	35%
Middle	2,446	24%	9	24%	\$80,329	37%
Upper	4,279	43%	4	11%	\$15,600	7%
Total	10,067	100%	38	100%	\$216,382	100%

Sources: US Census and sample of Consumer Loans

Consumer loans are generally extended for smaller dollar amounts. While the sample by number indicates 65 percent of the consumer loans are extended to low- (31 percent) and moderate- (34 percent) income borrowers, the estimated percentage of low- (16 percent) and moderate- (17 percent) income families residing in the assessment area is 33 percent. Malden State Bank is serving the assessment area through consumer loans in a manner that exceeds the demographics of the population income levels.

An analysis was also performed of the gross revenue distribution of the sampled agricultural loans extended within the assessment area. Table 5B shows the distribution of the sampled agricultural loans.

Table 5B - Distribution of Sampled Small Farm Loans by Gross Annual Revenues				
Gross Annual Revenues (000s)	Number of Small Farm Loans		Dollars in Small Farm Loans	
	#	%	\$	%
≤ \$100	14	31%	\$389,475	16%
> \$100 ≤ \$250	19	43%	\$1,202,720	49%
> \$250 ≤ \$500	6	13%	\$540,000	22%
> \$500	6	13%	\$323,571	13%
Total	45	100%	\$2,455,766	100%

Source: Sample of Agriculture loans.

≤ Less than or equal to
 ≥ Greater than or equal to

The assessment area is strong in agriculture; however, small farmers are finding difficulty in

maintaining profitable operations. Farm operations with lower annual revenues are finding alternative means for financing other than through commercial banks and a significant portion of small farmers is employed with other jobs. Malden State Bank is responding to credit needs of the small farms operating in close proximity to the bank's office. The bank's overall level of meeting credit needs of small farm operations is adequately represented.

Geographic Distribution of Loans

The bank's overall geographic loan distribution is considered acceptable given that the bank's assessment area consists of nine tracts that are designated middle-income and one upper-income tract. Moreover, a substantial majority of the bank's loans are extended within this area. As expected, a majority of the loans made within the assessment area are to borrowers in BNA 9649, which contains the town of Malden and the bank's office. There are no neighborhoods or areas identified by the bank as low- or moderate-income in or around the assessment area

Response to Complaints

Regulations implementing the Community Reinvestment Act require Malden State Bank to maintain a file containing all comments received by the public relating to the bank's lending performance in the assessment area. This file is required to be made readily available for public inspection. No public comments regarding the bank's performance in helping to meet the credit needs of its community have been received by Malden State Bank within the past two years.

COMPLIANCE WITH ANTI-DISCRIMINATION LAWS AND REGULATIONS

Recent loans originated and rejected credit applications were reviewed to ascertain compliance with applicable fair housing and fair lending laws and regulations. This evaluation did not identify any acts, policies, or practices that are inconsistent with the substantive provisions of these laws and regulations, including the Equal Credit Opportunity Act and the Fair Housing Act.