

# **PUBLIC DISCLOSURE**

**April 5, 1999**

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**First State Bank of Heyworth  
11316**

**117 East Main Street  
Heyworth, Illinois 61745**

**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 **First State Bank of Heyworth** prepared by the Federal Deposit Insurance Corporation, the institution's supervisory agency, as of **April 5, 1999**. 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 Satisfactory.

A review of First State Bank of Heyworth's lending performance identified an overall acceptable record of helping to meet the credit needs of its assessment area, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

The evaluation identified an adequate record of performance in meeting the community's credit needs through the origination of loans throughout its assessment area to borrowers of all income levels. Further, the bank has demonstrated a satisfactory record of concentrating its lending activities within the assessment area. Finally, the loan-to-deposit ratio of the bank has been maintained at a level reflecting an acceptable concentration of bank assets in loans.

## DESCRIPTION OF INSTITUTION

First State Bank of Heyworth is located in the village of Heyworth in McLean County, Illinois. The bank operates from only one office situated in Heyworth, Illinois. As of December 31, 1998, total assets were \$18,389,000, total deposits were \$16,789,000, and total net loans were \$10,718,000. The corresponding net loan-to-asset and net loan-to-deposit ratios were 58 percent and 63 percent, respectively. Total assets of the bank have grown approximately 28 percent since December 31, 1995, the calendar quarter immediately succeeding the previous evaluation.

First State Bank of Heyworth's loan balances are predominately residential real estate loans (67

percent of the dollar amount) while the largest number of loans originated was found in the consumer category, 12 percent of the dollar amount). This was to be expected as consumer loans are typically made in smaller dollar amounts. Fixed rate residential mortgage loans are offered with payment amortization of 30 years and are promptly sold into the secondary market. Adjustable rate mortgage loans are the primary consumer real estate product and the bank retains these adjustable rate mortgages until maturity. The bank also offers a variety of consumer products, both secured and unsecured loan products as well as commercial and agricultural loans.

No legal or financial impediments exist which would prohibit the bank from meeting the credit needs of the community.

### **DESCRIPTION OF THE ASSESSMENT AREA**

The bank's assessment area consists of two block-numbering areas and two census tracts encompassing the southern portion of McLean County, the northern portion of DeWitt County and excluding the city of Clinton. This assessment area is considered entirely rural. The surrounding geographies are classified as middle- and upper-income areas except a small moderate-income area, that is a part of the city of Bloomington, Illinois. This excluded area is served by several financial institutions located much closer to the customers than the subject bank. The assessment area is entirely middle-income. The assessment area demographics have been compared to the state non-metropolitan statistics. Table 1 on the following page, contains additional demographic and economic data regarding the assessment area.

The assessment area's economy is largely dependent upon agriculture, manufacturing, insurance and related industries. Employers include an automobile manufacturer, a national insurance company's home and regional offices, and other industrial and retail establishments in nearby Bloomington, Illinois. A majority of the local residents commute approximately 15 miles to Bloomington for employment.

Information obtained from recent interviews by all financial institution regulatory agencies indicated that all of the banks in the area are doing a good job of meeting community credit needs. One individual expressed pleasure the local banking institution is always ready to assist local customers with their banking needs. Another stated, "The greatest need in this community is more businesses and industry, not for the jobs, but for the tax base. The young families are moving into our community just as fast as they (the contractors) can build the housing, and are bringing their families into our schools. The greatest need is for more tax base to share in the cost so our schools can keep up with the growth."

**Table 1**

Demographic & Economic Data for Assessment Area and State Non metropolitan Area		
	Assessment Area	State Non metropolitan
Total Population	15,521	1,856,804
1990 State Non metropolitan Median Family Income	\$39,054	\$29,694
1996 Estimated Median Family Income(*)		\$36,000
1997 Estimated Median Family Income(*)		\$37,600
1998 Estimated Median Family Income(*)		\$39,500
Percentage of Families by Income Level:		
Low-Income	14%	20%
Moderate-Income	18%	19%
Middle-Income	25%	23%
Upper-Income	43%	38%
Percentage of Families Below Poverty Level	5.7%	11%
Median Housing Value	\$52,660	\$40,181
Median Housing Age	31 years	43 years
Percentage of Total Housing Units:		
1-4 Family Residential Units	89.9%	
Multi-Family Units	0.3%	
Mobile Homes	9.4%	
Other	0.4%	
Median Gross Rent	\$360	\$300
Owner-Occupied Housing Units	75%	66.4%
Rental Housing Units	20%	24.7%
Vacant Housing Units	5%	8.9

\* - This figure is based on estimates from the Department of Housing and Urban Development (HUD) for non-metropolitan areas in the State of Illinois.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The following analysis focuses directly on the bank's lending patterns during the evaluation

period, with particular emphasis on the extent to which the bank has served the credit needs of its community, including those of the low- and moderate-income population.

### **Sampling Procedures**

The loan categories selected for sampling are residential real estate loans which, in the aggregate, account for approximately 67 percent of the number of all loans originated since the previous evaluation and consumer non real-estate loans. This sample represented 78 percent of all loans outstanding on the bank's, December 31, 1998 Report of Condition. The consumer loan sample included fifty-one loans from a universe of 132 loans originated during 1998 and 1999 ending March 31, 1999. The residential loan sample included fifty loans from a universe of 108 loans originated during 1997, 1998 and 1999 ending March 31, 1999. The samples are representative of the bank's lending performance during the evaluation period.

### **Lending in Assessment Area:**

The sampled loans were reviewed to determine the number and dollar amount originated inside and outside the bank's assessment area. Table 2 reflects such findings by loan category.

**Table 2 - Distribution of Sampled Loans Inside/Outside Assessment Area**

<b>Distribution</b>	<b>Number of Loans</b>	<b>Percent of # of Loans</b>	<b>Dollar Volume of Loans (000's)</b>	<b>Percent of Dollar Volume</b>
<b>Residential real-estate Loans:</b>				
Inside Assessment Area	46	92%	\$2,515,716	88%
Outside Assessment Area	4	8%	\$342,723	12%
<b>Consumer Loans:</b>				
Inside Assessment Area	43	84%	\$257,612	83%
Outside Assessment Area	8	16%	\$51,396	17%
<b>TOTAL:</b>				
Inside Assessment Area	89	88%	\$2,773,328	88%
Outside Assessment Area	12	12%	\$394,119	12%
<b>Totals</b>	101	100%	\$3,167,447	100%

The bank has demonstrated a good record of originating a substantial majority of its total loans within its assessment area.

**Lending to Borrowers of Different Incomes:**

All of the sampled loans originated within the assessment area were further reviewed to determine their distribution among borrowers of varying income levels, with emphasis on the distribution among low- and moderate-income borrowers. The residential real estate loans are segregated among low-, moderate-, middle- and upper-income families based on the family income at the time the loan was granted as reflected in Table 3. It is significant that 31 percent of the dollar amount of the residential real estate loans were granted to low- and moderate-income families while 32 percent of the families within the assessment area are considered low- and moderate-income, revealing the bank is actively lending to the lower income families in the community.

**Table 3 – Residential Real Estate Loan Distribution by Income Level**

<b>BORROWER INCOME (Number of Loans)</b>	<b>PERCENTAGE NUMBER/DOLLAR</b>	<b>PERCENT OF FAMILIES IN CATEGORY</b>
Low Income (4)	9% / 9%	14%
Moderate Income (9)	20% / 22%	18%
Middle Income (19)	41% / 36%	25%
Upper income (14)	30% / 33%	43%
<b>Total (46)</b>	<b>100%/100%</b>	<b>100%</b>

Consumer loans are also segregated among low-, moderate-, middle-, and upper-income categories, as reflected in Table 4, and based on the borrowers' income levels in relation to the Illinois state non metropolitan median family income (MFI). The percentages are further compared to the relative percentage of families representing such income levels within the assessment area. The basis for determination of a given borrower's income classification is as follows:

- Low-Income                      Borrower income less than 50% of the HUD MFI
- Moderate-Income              Borrower income between 50% and less than 80% of the HUD MFI
- Middle-Income                 Borrower income between 80% and less than 120% of the HUD MFI
- Upper-income                    Borrower income of 120% and over of the HUD MFI

Table 4, below, reflects the distribution of sampled consumer loans among the four income classifications.

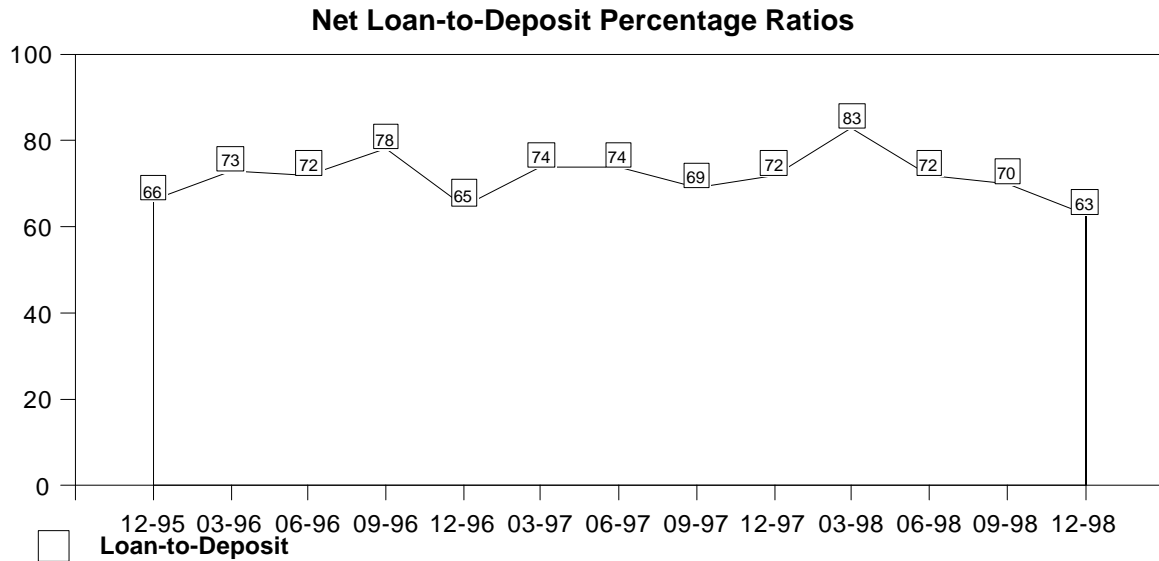
**Table 4 - Consumer Loan Distribution by Income Level**

<b>BORROWER INCOME (Number of Loans)</b>	<b>PERCENTAGE NUMBER/DOLLAR</b>	<b>PERCENT OF FAMILIES IN CATEGORY</b>
Low Income (24)	56% / 34%	14%
Moderate Income (8)	19% / 27%	18%
Middle Income (9)	20% / 27%	25%
Upper income (2)	5% / 12%	43%
<b>Total (43)</b>	<b>100%/100%</b>	<b>100%</b>

The distribution of sampled consumer loans is representative of assessment area demographics. Overall, First State Bank of Heyworth's lending patterns reflects an outstanding distribution of loans among borrowers of low- and moderate-income levels.

**Loan-to-deposit Ratio:**

The First State Bank of Heyworth's volume of lending, since the previous CRA evaluation dated October 24, 1995, meets the standards for satisfactory performance. The net loan-to-deposit ratio of First State Bank of Heyworth as of December 31, 1998, was 63 percent. The bank has maintained an average ratio of 71 percent since the previous evaluation by calculating the 13 quarterly ratios, December 31, 1995, to December 31, 1998. The ratio reached a high point of 83 percent in March 1998. The graph below presents the quarterly loan-to-deposit ratios for the period since the previous evaluation. The subject bank is typical of many farming community financial institutions that benefit from substantial deposit increases for the year-end and somewhat limited for loan acceleration for the corresponding period. This is reflected in the lower loan to deposit ratios being recorded during the fourth quarter of each year.



The bank's overall volume of lending was compared to other similarly situated banks. Specifically, eight other financial institutions within or near the bank's assessment area were identified as similarly situated. These institutions maintain offices in or adjacent to McLean County and had total assets ranging from \$5,789,000 to \$33,868,000 on December 31, 1998. (First State Bank of Heyworth reported total assets of \$18,389,000 on December 31, 1998.) The similarly situated financial institutions had net loans to deposit ratios ranging from 48 percent to 82 percent on December 31, 1998. Subject bank's net loan to deposit ratio of 63 percent on December 31, 1998 would have ranked sixth among the nine institutions, according to highest loan to deposit ratios. Subject bank's overall dollar volume of lending would rank third when compared to the eight financial institutions located within or near the bank's designated assessment area.

The bank has demonstrated a satisfactory loan to deposit ratio considering the seasonal high and low periods since the previous evaluation. The First State Bank of Heyworth continues to offer primarily conventional loan products. For example, approximately 20 percent of their residential mortgage loan originations are sold into the secondary market being underwritten with thirty-year fixed rate maturities. The bank's written loan policy recommends a down payment of 20 percent for such loans. However, a review of loan files disclosed that many of the bank's residential mortgage loans are granted with reduced down payment requirements. Another significant revelation disclosed no application or closing fees being imposed on residential real estate customers, either purchasing or refinancing.

The Village of Heyworth is a very active and growing community. Data is available which indicates that the village of Heyworth is the fastest growing community in McLean County. The significant number of families desiring to move into the community because of the quality of life, which is available, is fueling the growth. The bank is able to generate a substantial number of real estate loans to provide the growing community with residential ownership. The number of loan application denials generated by the bank since the previous evaluation is very limited as the bank

officers attempt to extend credit to every applicant.

**Geographic Distribution of Loans:**

The bank's assessment area and all adjacent geographies are comprised entirely of middle- and upper-income geographies. The sampled loans were reviewed with respect to the distribution by individual block numbering areas which demonstrated that the bank has originated loans within their assessment area.

**Response to Complaints:**

The bank has received no complaints, concerning the bank's CRA performance, since the preceding evaluation dated October 24, 1995.

**Anti discrimination Laws:**

No violations of the substantive provisions of the anti discrimination laws and regulations were Identified.