

# **PUBLIC DISCLOSURE**

**March 17, 2004**

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**The First Trust and Savings Bank of Watseka  
Certificate #10831**

**120 East Walnut Street  
Watsseka, Illinois 60970**

**Federal Deposit Insurance Corporation  
Division of Supervision and Consumer Protection  
Chicago Regional Office  
500 West Monroe Street, 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 **The First Trust and Savings Bank of Watseka** prepared by the **Federal Deposit Insurance Corporation**, the institution's supervisory agency, as of **March 17, 2004**. 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 .

The First Trust and Savings Bank of Watseka adequately serves the credit needs of its delineated assessment area. The following comments summarize the bank's satisfactory performance:

- The bank's distribution of mortgage loans to persons of various income levels and to farms of various sizes is considered adequate.
- The bank has displayed a willingness to make credit available as evidenced by its loan-to-deposit ratio.
- The borrower income distribution of mortgage loans reflects an adequate penetration in the moderate-income census tract.
- A majority of credit extensions have been made within the bank's assessment area. In combination, these factors warrant the assigned rating.

## DESCRIPTION OF INSTITUTION

The First Trust and Savings Bank of Watseka is located in Watseka, Illinois, and is owned by First Trust Holdings, Watseka, Illinois, a two-bank holding company. The First Trust and Savings Bank of Watseka reported total assets of \$126,023,000 as of December 31, 2003.

The bank operates as a unit bank with its main office located in Watseka. The branch office in Crescent City was closed on January 1, 2004. The First Trust and Savings Bank of Watseka operates four automated teller machines (ATMs). All the ATMs are cash dispensing. The major categories of loans by dollar volume are agriculture loans, commercial loans, and 1-4 family real estate mortgage loans. The makeup of The First Trust and Savings Bank of Watseka's loan portfolio as of December 31, 2003, is described in Table 1. The bank does sell mortgage loans in the secondary market. Since 1998, the bank has sold 38 loans totaling \$2,959,000. These numbers are not reflected in the bank's loan-to-deposit ratio.

A full range of deposit products and services is available, as well as a variety of mortgage, commercial, consumer and farm loan programs. For example, the bank offers debit cards, direct deposit, and Internet banking information. Also, the bank offers guaranteed loans by the United States Department of Agriculture through the Rural Development and Farm Services Agency. Furthermore, a full range of commercial loan products is available. The bank offers term loans, lines of credit, commercial mortgages, and Small Business Administration loans.

<b>Table 1 - Loan Distribution as of 12/31/2003</b>		
<b>Loan Type</b>	<b>Dollar Amount (000s)</b>	<b>Percent of Total Loans (%)</b>
Construction and Land Development	0	0
Secured by Farmland	15,202	23
1-4 Family Residential	11,514	18
Multi-Family (5 or more) Residential	49	0
Commercial	6,227	10
<b>Total Real Estate Loans</b>	<b>32,992</b>	<b>51</b>
Commercial and Industrial	10,438	16
Agricultural	14,986	23
Consumer	6,318	10
Other	409	0
Less: Unearned Income	0	0
<b>Total Loans</b>	<b>65,143</b>	<b>100</b>

*Source: Report of Condition*

This analysis will focus on small farm loans and residential mortgage loans to evaluate the bank's performance. Together, these two product lines total 64 percent of the bank's loan portfolio. According to the Consolidated Reports of Condition and Income dated December 31, 2003, the bank had total assets of \$126,023,000 and total loans of \$65,143,000. On the same date, the loan-to-deposits ratio was 56 percent and the loan-to-asset ratio was 51 percent. From June 1999 to June 2001 the bank experienced steady loan and deposit growth. Since that time, total loans have steadily decreased while deposit growth has continued. The local economic conditions have led customers to borrow less money and move savings dollars out of the stock market into insured deposits. This can be seen throughout the market area as many competing banks also have similar loan-to-deposit ratios.

The First Trust and Savings Bank of Watseka received a CRA rating of “Satisfactory” during the April 6, 1999, Community Reinvestment Act Performance Evaluation. The previous evaluation was conducted using the small bank CRA procedures and did not include a review of the bank’s Investments and Services.

## **DESCRIPTION OF ASSESSMENT AREA**

The assessment area delineation of The First Trust and Savings Bank of Watseka is in compliance with CRA regulations. Low- and moderate-income geographies are not arbitrarily excluded, and no evidence of illegal discrimination is present. The bank’s assessment area consists of six of the nine census tracts in Iroquois County. Iroquois County is not located in a Metropolitan Statistical Area. Based on the 2000 census information, five of the census tracts are middle-income and one census tract is moderate-income. Census Tracts are classified as low-income, moderate-income, middle-income, or upper-income geographies depending upon statistics gathered in the most recent (2000) Census.

Census information from 2000 reveals that 18 percent of families residing within the assessment area are low-income; 20 percent are moderate-income; 24 percent are middle-income; and 38 percent are upper-income. Eight percent of the families residing in the assessment area have incomes below the poverty line. Usually these families cannot service a mortgage loan due to income constraints. In addition, some of these low-income families would qualify for government housing subsidies and would not be in the market for a mortgage loan.

The assessment area is located in east central Illinois. It has a total population of 20,709. There are 5,765 families in the assessment area. Demographic information in this evaluation was obtained from the 2000 US Census and any data from other sources is labeled.

In 2000, there were 8,875 housing units in the bank’s assessment area. Of this number, 69 percent were owner-occupied units, 23 percent were rental units, and 8 percent were vacant units. The median age of the housing stock was 50 years. The median value of these units was \$75,117, compared to a statewide median value of \$127,800 for Illinois. The median gross rent for the assessment area was \$437. The statewide median gross rent was higher at \$605. The age of the housing stock suggests a need for home equity and home improvement lending in the area.

Within this assessment area, farm entities total 388, and 98 percent of those, who reported revenues, have gross revenues of \$1,000,000 or less. This information was obtained from the 2003 Dun and Bradstreet data. The unemployment rate for Iroquois County as of January 2004 was 7.6%. This rate is slightly higher than State of Illinois (6.9%) and United States (6.3%).

Among the competitors in Iroquois County are 16 other FDIC-insured financial institutions with 27 other offices. Credit unions and other consumer lending organizations are not included in the aforementioned numbers and provide additional competition to this bank.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

All farm and mortgage loans originated in 2002 and 2003 were reviewed to evaluate the bank's performance under each of performance categories discussed below. The information for 2003 did not differ substantially from the 2002 data; therefore, information presented in the analyses below only contains the most current (2003) data.

### LEVEL OF LENDING

The First Trust and Savings Bank of Watseka's average loan-to-deposit (LTD) ratio is reasonable, considering its market focus, size, competition from other area lenders, and local loan demand. The bank's average quarter-ending loan-to-deposit ratio for the time period June 30, 1999, to December 31, 2003, was approximately 69 percent. There are several local institutions within the assessment area whose loan-to-deposit ratios range from 50 to 71 percent.

### LENDING IN THE ASSESSMENT AREA

The bank's performance of making loans available to families and small farms that are located within the bank's assessment area is sufficient. The institution's performance meets the requirements of the regulation as a majority of the loans, both by number and dollar amount, are funded within the assessment area. Table 2 below details the review of loan originations by The First Trust and Savings Bank of Watseka and sets forth the percentages of these loans that were located within the bank's assessment area.

<b>Table 2 - Distribution of Loans Inside and Outside of the Assessment Area</b>										
<b>Loan Category or Type</b>	<b>Number of Loans</b>					<b>Dollars in Loans (000s)</b>				
	<b>Inside</b>		<b>Outside</b>		<b>Total</b>	<b>Inside</b>		<b>Outside</b>		<b>Total</b>
	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>		<b>\$</b>	<b>%</b>	<b>\$</b>	<b>%</b>	
<b>Small Farm</b>	140	70	62	30	202	9,757	69	4,490	31	14,247
<b>Mortgage</b>	45	88	6	12	51	2,785	87	427	13	3,212
<b>Total</b>	185	73	68	27	253	12,542	72	4,917	28	17,459

Source: Bank records

## **LENDING TO BORROWERS OF DIFFERENT INCOMES AND SMALL FARM LENDING**

Evaluation procedures included a review of the income distribution of assessment area borrowers for mortgage loans and a distribution of assessment area small farm loans using the loan amount as a proxy for size. The bank's lending distribution to borrowers of different incomes was reviewed. The income levels used were based on an annual Median Family Income (MFI), for the Non-Metropolitan Statistical Area for the State of Illinois for 2003 (\$48,200).

Table A-1 in Appendix A shows the break down of the Illinois State Non-MSA median family income for 2003 and classifies the incomes that would qualify a family as low-, moderate-, middle-, or upper-income during those years.

The overall distribution of loans to borrowers of varying incomes and the record of making loans to small farms is adequate. Table 3 provides information on the bank's distribution of mortgage loans by borrower income. The bank's performance in funding loans to low-income borrowers is adequate.

Eighteen percent of the families residing within the assessment area are low-income. However, not all low-income families are potential borrowers for purchase money mortgage loans. The percentage of low-income families in the assessment area needs to be adjusted to compensate for families living below the poverty level. Eight percent of families within the assessment area are classified as living below the poverty level. Families living below the poverty level are generally not in a position to service a mortgage loan. The adjusted percentage of low-income families of 10% with incomes above the poverty level is more of a realistic figure. Of the low-income families above the poverty level, some families would qualify for government housing subsidies and would not be in the market for a mortgage loan, which further impacts the number of prospective low-income borrowers.

The bank funded 9% of its mortgage loans to low-income borrowers, which based on the foregoing analysis, is reasonably close to the adjusted percentage of low-income families in the assessment area. The percentage of dollar volume of mortgage lending to low-income borrowers is lower because of the relatively smaller size of loans..

The bank's level of lending to moderate-income families is acceptable. Twenty percent of families within the bank's assessment area are moderate-income. The bank has extended 16% of its mortgage loans to moderate-income borrowers. The dollar amount of mortgage lending to moderate-income borrowers is lower because of lower loan amounts.

<b>Table 3 - Distribution of Home Loans by Borrower Income</b>					
<b>Borrower Income Level</b>	<b>% of Total Families</b>	<b>Total Number</b>		<b>Total Dollar</b>	
		<b>#</b>	<b>%</b>	<b>\$</b>	<b>%</b>
<b>Low*</b>	18	4	9	115	4
<b>Moderate</b>	20	7	16	195	7
<b>Middle</b>	24	13	29	746	27
<b>Upper</b>	38	21	46	1,729	62
<b>Total</b>	<b>100</b>	<b>45</b>	<b>100</b>	<b>2,785</b>	<b>100</b>

*Source: U.S. Census and Bank Reports (2001-2003)*

*\*--Approximately 8 percent of the family population live below the poverty level leaving approximately 10 percent of the low-income families in a potential borrowing capacity.*

The bank's distribution of small loans to farms of various sizes is considered acceptable. Table # 4 provides information on the bank's distribution of small farm loans by loan size. As a proxy for determining the size of a farm, the original amount of the approved credit is used. When looking at loan size, a loan in the original amount of \$500,000 or less is considered a small farm loan. The bank does a good job of making small farm loans available within its assessment area. Approximately 99 percent of all farm loans funded in 2003 were considered to be small farm loans. In addition, 115 loans, or 82 percent, were in an amount of \$100,000 or less. This indicates that the bank is making very small farm loans available within the assessment area, and small farms generally seek smaller credits. With 99 percent of the bank's agricultural loans being funded in amounts of less than \$500,000, the bank's performance mirrors the demographic data obtained from Dun and Bradstreet. Of the farms reporting revenues, Dun and Bradstreet reports that over 98% of all the farms located in the bank's assessment area have revenues of less than \$500,000.

<b>Table 4 - Distribution of Small Farm Loans by Loan Size</b>				
<b>Loan Size (000s)</b>	<b>Total</b>		<b>Total (000)</b>	
	<b>#</b>	<b>%</b>	<b>\$</b>	<b>%</b>
<b>≤ \$100</b>	115	82	4,648	23
<b>&gt; \$100 ≤ \$250</b>	18	13	2,847	29
<b>&gt; \$250 ≤ \$500</b>	7	5	2,262	48
<b>Total</b>	<b>140</b>	<b>100</b>	<b>9,757</b>	<b>100</b>

Source: Bank records

### **GEOGRAPHIC DISTRIBUTION OF LOANS**

The geographic distribution of loans reflects an acceptable dispersion throughout the assessment area and among geographies of different income levels.

The following table reflects the lending distribution of the residential real estate loans reviewed, according to the income level of the geography. In addition, the table includes the percentage of families living within such geographies according to the 2000 U.S. Census data. The fact that the bank has funded 38 percent of its mortgage loans in moderate-income geographies where 18 percent of the families reside is considered adequate. The one moderate-income census tract includes the city of Watseka where the bank's only office is located. It is reasonable to conclude that most customers would reside close to the bank. Only three percent of farm loans were funded in the moderate-income tract. However, this performance is considered adequate as the moderate-income tract is located in the Watseka downtown area. Most farm lending is located in the rural areas of Iroquois County.

<b>Table 5 - Distribution of Home Loans by Geographic Area</b>					
<b>Geographic Income Level</b>	<b>% of families living in such geographies</b>	<b>Total Number</b>		<b>Total Dollar</b>	
		<b>#</b>	<b>%</b>	<b>\$</b>	<b>%</b>
<b>Moderate</b>	18	17	38	937	34
<b>Middle</b>	82	28	62	1,848	66
<b>Total</b>	<b>100</b>	<b>45</b>	<b>100</b>	<b>2,785</b>	<b>100</b>

Source: U.S. Census and Bank Reports (2003)

## **RESPONSE TO COMPLAINTS**

The First Trust and Savings Bank of Watseka has not received any written consumer complaints regarding its performance under the Community Reinvestment Act (CRA) since the prior performance evaluation.

## **COMPLIANCE WITH ANTI-DISCRIMINATION LAWS AND REGULATIONS**

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

Recent loan originations 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.

Appendix A

Table A-1

State of Illinois Non-Metropolitan Statistical Area Median Family Income*					
Year	Non-MSA MFI	LOW	MODERATE	MIDDLE	UPPER
2003	\$48,200	<\$24,100	\$24,100-\$38,559	\$38,560-\$57,839	≥ \$57,840

Source: U. S Department of Housing and Urban Development

\*Low-income is less than 50 percent of the State of Illinois Non-Metropolitan Statistical Area Median Family Income, Moderate-income is greater than 50 percent and less than 80 percent of the of the State of Illinois Non-Metropolitan Statistical Area Median Family Income, Middle-income is greater than 80 percent and less than 120 percent of the of the State of Illinois Non- Metropolitan Statistical Area Median Family Income, and Upper-income is greater than 120 percent of the State of Illinois Non- Metropolitan Statistical Area Median Family Income.