

PUBLIC DISCLOSURE

September 8, 2004

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Security State Bank of Hamilton
Certificate #16712**

**1111 Broadway
Hamilton, Illinois 62341**

**Federal Deposit Insurance Corporation
Division of Supervision and Consumer Protection
Chicago Regional Office
500 West Monroe, 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 **Security State Bank of Hamilton** prepared by the **Federal Deposit Insurance Corporation**, the institution's supervisory agency, as of **September 8, 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.

Security State Bank of Hamilton continues to demonstrate a good record of helping to meet the credit needs of its assessment area. This rating is based upon an analysis of the bank's home mortgage and business lending activities. The number of loans was more heavily weighted over the dollar volume of loans in determining the bank's level of lending to borrowers of different incomes and businesses of different sizes. The following is a summary of the bank's performance:

- A majority of the bank's loans by number and dollar volume (78 percent and 71 percent respectively) were made to borrowers located within the bank's assessment area.
- Overall, the bank's record of lending to borrowers of different incomes and businesses of different sizes is excellent and reflects a solid effort by the bank to help meet the credit needs of borrowers of all income categories and businesses of all sizes.
- The geographic distribution of the bank's loans within its assessment area is good, given the location of the bank's office and existing competition. All geographies within the bank's assessment area are middle-income.
- The bank's average net loan-to-deposit ratio since the prior evaluation is 93 percent. This volume of lending is excellent, given the competition within the bank's assessment area.
- There have been no CRA complaints filed with the bank or with the FDIC Regional Office since the bank's prior CRA evaluation.

DESCRIPTION OF THE INSTITUTION

Security State Bank of Hamilton operates from its main office located at 1111 Broadway in Hamilton, Illinois (population 3,029). The bank also operates an on-premises drive-up facility and automatic teller machines (ATMs) at its office location and an off-premises ATM in the City of Hamilton at a local Casey store. No offices have been opened or closed since the bank's prior CRA evaluation. Mercantile Bancorp, Inc., a multi-bank holding company located in Quincy, Illinois owns 92 percent of Security State Bank of Hamilton.

This institution is a full-service bank that offers a typical array of conventional loan and deposit products. The bank's principal lending strategy continues to be residential and commercial lending. Residential and commercial lending represent approximately 52 and 29 percent respectively of the bank's loan portfolio (by dollar volume) as of June 30, 2004, for a total of approximately 81 percent. Home mortgage loan products offered by the bank include loans for home constructions, home purchases, home refinancings, home improvements, and home equity lines of credit. The bank offers 10 year fixed-rate balloon and one-, three-, and five-year adjustable rate mortgages with payments based on amortization schedules from 15 - 30 years. Such loans are funded up to a maximum of 80 percent of purchase price or appraised value. Junior-lien mortgage loans are also offered at the bank. Loans to individuals for household, family and other personal expenditures and farm loans are also a product focus, and these loans represent approximately 13 and 4 percent respectively of the bank's total loan portfolio (by dollar volume) as of the same date.

On June 30, 2004, the Bank reported total assets of \$48,345,000, net loans of \$34,868,000, and total deposits of \$37,534,000 yielding a net loan-to-deposit ratio of approximately 93 percent and a net loan-to-asset ratio of approximately 72 percent. Since December 31, 1999 (the calendar quarter following the institution's last CRA evaluation), the bank's total deposits have grown by approximately \$4 million and net loans have grown by approximately \$3 million, reflecting increases of 11 and 9 percent, respectively. A breakdown of the bank's loan portfolio is detailed in Table 1 on the following page:

Table 1 – Loan Distribution as of June 30, 2004		
Loan Category	Dollar Amount (000s)	Percent of Total Loans
Construction and Land Development	559	2%
Secured by Farmland	813	2%
Open-end Lines of Credit (1-4 Family Residential)	182	0%
1-4 Family Residential First Lien	17,545	50%
1-4 Family Residential Second Lien	430	1%
Multi-Family (5 or more) Residential	330	1%
Secured by nonfarm nonresidential properties	4,635	13%
Agricultural production and other loans to farmers	551	2%
Commercial and Industrial	5,485	16%
Other revolving credit plans	3	0%
Other Consumer Loans	4,628	13%
Loans to foreign governments and official institutions	\$0	---
Loans to Government Entities	\$0	---
All other loans (exclude consumer)	51	0%
Total Loans	\$35,212*	100%*
Less: Allowance for Loan Losses	\$344	
Net Loans	\$34,868	

Source: Report of Condition-June 30, 2004. *Percentages and dollar volumes may not add to totals due to rounding.

Security State Bank of Hamilton was assigned a CRA rating of “Satisfactory” at the conclusion of its prior CRA evaluation, performed as of November 28, 1999. The previous rating was assigned using small bank procedures, as is the current rating. The bank has no financial or legal impediments that would inhibit its ability to provide credit within its established assessment area. However, the bank does operate in a competitive environment. On June 30, 2003, Security State Bank of Hamilton controlled approximately \$36.2 million of deposits or 10.66 percent of the total deposits in Hancock County. This percentage of market share for deposits ranks the bank first out of the 12 FDIC-insured institutions operating inside Hancock County.

DESCRIPTION OF THE ASSESSMENT AREA

Security State Bank of Hamilton has designated all of Hancock County as its assessment area. All geographies included in the bank’s assessment area are middle-income geographies. The assessment area consists of whole geographies that are contiguous and does not arbitrarily exclude any low- or moderate-income census tract.

According to the 2000 U.S. Census, the population of the assessment area was 20,121. Between April 1, 2000 and July 1, 2003, the population in Hancock County decreased by 3.6 percent. This decrease compares unfavorably to the State of Illinois, which reflected a population increase of 1.9 percent. In July 2004 the unemployment rate of Hancock County was 8.2 percent which compared unfavorably to the 6.2 percent unemployment rate for the State of Illinois.

Based on a community contact, area banks are doing a good job in meeting the credit needs of the residents within the assessment area in terms of mortgage financing. The contact stated that businesses in the area are also receiving good assistance from the local banks. Table 2 below illustrates selected housing and economic characteristics of the assessment area. Non-Metropolitan Illinois data is also presented for comparison purposes.

Table 2 – Assessment Area (AA) Demographic & Economic Data Compared with Non-Metropolitan Illinois Data.		
	Security State Bank of Hamilton AA	Non-Metropolitan Illinois
Population in Area:	20,121	1,705,887
<u>Percentage of Families by Income Level:</u>		
Low-Income	14%	18%
Moderate-Income	21%	19%
Middle-Income	26%	24%
Upper-Income	39%	39%
<u>Families Below the Poverty Level</u>	5%	8%
<u>Number of Census Tracts by Income Levels:</u>		
Low-Income	0	3
Moderate-Income	0	64
Middle-Income	7	367
Upper-Income	0	41
<u>Percentage of Total Housing Units:</u>		
1-4 Family Residential	89%	84%
Multi-Family	2%	6%
Mobile Home or Trailer	8%	10%
Others	<1%	<1%
Owner-Occupied Housing Units	73%	68%
Rental Housing Units*	21%	23%
Vacant Housing Units	9%	26%
<u>Median Housing Characteristics:</u>		
Median Age in Years	48	41
Median Home Value	\$59,133	\$68,412
Median Gross Rent	\$360	\$407

Source: U.S. Census. *Total Rental Units includes units with 'No Cash.

Competition inside the bank's assessment area is moderate. As of June 30, 2003, 12 FDIC insured banking institutions controlled 16 banking offices in the assessment area (seven census tracts). Additionally, mortgage and finance companies and other lending institutions located within 10 miles of the assessment area add to the level of competition.

Based on the 2000 U.S. Census, the leading industries in the assessment area by the number of employees are manufacturing at 1,872; service and other at 1,006; retail trade at 765; and construction at 345. According to 2003 Dun and Bradstreet data, there are 1,189 business establishments located in the assessment area.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

SCOPE OF THE EVALUATION:

CRA performance at small banks (less than \$250 million in total assets) is evaluated based on the following performance related criteria:

- Lending in the assessment area.
- Lending to borrowers of different incomes and farms and businesses of different sizes.
- Geographic distribution of loans within the assessment area by census tract income level.
- Loan-to-deposit ratio.
- Response to consumer complaints.

All geographies included in the bank's assessment area are located in Non Metropolitan Illinois areas. Therefore, the entire assessment area will be analyzed using the Illinois Non Metropolitan population demographics.

SAMPLING PROCEDURES PERFORMED:

To evaluate the bank's CRA performance, home mortgage and business loans originated during the year-to-date 2004 were analyzed (sample period). The listed loan types account for approximately 81 percent of the bank's loan portfolio as of June 30, 2004. For purposes of this analysis all loans secured by nonfarm nonresidential properties and commercial and industrial loans will be combined and referred to as business loans. All 1-4 family residential real estate loans (first and second liens) will be combined and referred to as home mortgage loans. An electronic file of the bank's loan portfolio, as of August 16, 2004, was used to determine the universe of loans to be analyzed during this evaluation.

LENDING IN THE ASSESSMENT AREA:

The bank's performance in lending inside its assessment area is good. This performance criteria measures how well the bank is lending to borrowers within its defined assessment area, as compared to the number and dollar volume extended to borrowers outside of this area. A majority of the loans sampled were extended within the bank's assessment area (78 percent of the number and 71 percent of the dollar volume) which indicates a good level of performance. The sampled loans were successfully located by using FDIC mapping software and by zip code and census tract boundary analysis. A review of the home mortgage and business loans originated by the bank during the prior 30 months revealed no conspicuous "gaps"; therefore, the selected sample is deemed to represent the bank's lending efforts dating back to the last examination. Table 4 on the following page illustrates this lending performance:

Table 4 – Distribution of Loans Inside and Outside of the Bank’s Assessment Area										
Loan Category or Type	Number of Loans Reviewed					Dollars Volume of Loans Reviewed				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$(000)	%	\$(000)	%	
Home Mortgage	34	77%	10	23%	44	\$1,873	76%	\$585	24%	\$2,458
Business	45	79%	12	21%	57	\$1,991	67%	\$994	33%	\$2,985
Total*	79	78%	22	22%	101	\$3,864	71%	\$1,579	29%	\$5,443

Source: U.S. Census, Bank Records *Percentages and dollar volumes may not add to totals due to rounding.

LENDING TO BORROWERS OF DIFFERENT INCOMES AND BUSINESSES OF DIFFERENT SIZES:

The bank has demonstrated a solid record of lending to borrowers of different incomes and businesses of different sizes. For this portion of the analysis, only those loans extended to borrowers within the assessment area (as identified in Table 4 above) were analyzed. To determine the distribution of lending to borrowers of different incomes, the U.S. Department of Housing and Urban Development’s (HUD) Medium Family Income (MFI) figure of \$49,000 was used. This figure represents the MFI for families who live in Illinois Non Metropolitan areas for the calendar year 2004. Based on this income figure, residents are classified as low-, moderate-, middle- or upper-income. The definitions of each income category are described below:

Definitions:

Median Family Income (MFI) – for loans originated in calendar year 2004, the estimated MFI for Illinois Non-Metropolitan areas is \$49,000.

Low-Income – an individual income that is less than 50% of the MFI (less than \$24,500).

Moderate-Income – an individual income that is at least 50% but less than 80% of the MFI (from \$24,500 to \$39,200).

Middle-Income – an individual income that is at least 80% but less than 120% of the MFI (from \$39,200 to \$58,800).

Upper-Income – an individual income that is at least 120% of the MFI (\$58,800 and above).

Home Mortgage

The bank’s record of home mortgage lending to all income groups, particularly to low- and moderate-income individuals within its assessment area, is excellent. For this portion of the analysis, only those loans extended within the assessment area was included in the review. Based on the 2000 Census, the percentage of low-income families residing in the bank's assessment area was 14 percent. Approximately 5 percent of those families have annual incomes below the poverty level and may not be able to service a home mortgage loan (payments including principal, interest and taxes). Therefore, only 9 percent of the low-income families can be considered as potential home buyers. The percentage of home mortgage loans extended to low-income borrowers during the review period was 12 percent of the number and 10 percent of the dollar volume, which exceeds the proportion of low-income families residing in the assessment area that are considered potential home buyers. Therefore, the bank’s lending to low-income borrowers is deemed to be excellent and represents a strong effort by the bank to meet the credit needs of low-income borrowers within its assessment area.

As for lending to moderate-income borrowers, the bank’s performance is also excellent. Moderate-income borrowers represent 21 percent of the total families residing in the bank’s assessment area. The percentage of home mortgage loans made to moderate-income borrowers during the review period was 32 percent of the number and 26 percent of the dollar volume. This level of lending also exceeds the proportion of moderate-income borrowers residing in the assessment area, and reflects an excellent effort by the bank to meet the credit needs of these borrowers. Table 5 provides a complete distribution of the bank's home mortgage loans based on the number and the dollar volume of loans originated to all income groups.

Table 5 – Distribution of Home Mortgage Loans by Income Category of the Borrower					
Borrower Income Level	Percentage of Total Families	Number of Loans Sampled		Dollar Volume of Loans Sampled	
		#	%	\$(000)	%
Low	14% *	4	12%	\$181	10%
Moderate	21%	11	32%	\$483	26%
Middle	26%	9	26%	\$472	25%
Upper	39%	10	29%	\$737	39%
Total**	100%	34	100%	\$1,873	100%

Source: U.S. Census, Bank Records, *Includes poverty level borrowers of 5% and should be adjusted to 9%.

**Percentages and dollar volumes may not add to totals due to rounding.

Business Loans

To evaluate the bank's performance in lending to businesses of different sizes, loan amounts were used as a proxy for business sizes. The Consolidated Report of Condition and Income (Call Report) defines small business loans as: “Loans secured by nonfarm, nonresidential properties” and “Commercial and industrial loans” in dollar amounts of \$1 million or less. Therefore, loans extended in amounts of \$1 million or less are assumed to be made to small businesses which cannot typically service larger dollar volume of debt. Again, only those business loans extended within the bank’s assessment area were considered in this portion of the evaluation.

The bank’s level of lending to small businesses in its assessment area is good. All of the loans sampled were extended in amounts less than \$1 million dollars, and 98 percent of the number and 62 percent of the dollar volume of loans sampled were in amounts less than \$500,000. Further, 91 percent of the number and 38 percent of the dollar volume of loans were in amounts less than \$100,000. This would indicate that the bank is doing a very good job of meeting the credit needs of very small family business as well. Table 7 on the following page illustrates the distribution of the bank's business loans by the number and dollar volume of loans originated.

Table 6 – Distribution of Business Loans by Loan Size				
Loan Size (000s)	Number of Loans Sampled		Dollar Volume of Loans Sampled	
	#	%	\$(000)	%
< \$100	41	91%	\$755	38%
≥ \$100 < \$250	3	7%	\$477	24%
≥ \$250 < \$500	0	0%	\$0	0%
Total < \$500	44	98%	\$1,232	62%
≥ \$500	1	2%	\$759	38%
Total*	45	100%	\$1,991	100%

Source: Bank Records. * Percentages and dollar volumes may not add to totals due to rounding.

GEOGRAPHIC DISTRIBUTION OF LOANS:

Overall, the Bank’s distribution of loans throughout its assessment area is good, given the location of the bank’s office and existing competition. All geographies within the assessment area received a reasonable volume of loans in each of the loan categories that were reviewed. This rating takes into consideration the level of competition within specific geographies and the location of those geographies in relation to the bank’s office. The geographies in which the bank has an office generally received the larger volume of loans. There are no low- or moderate-income geographies located within the bank’s assessment area. Therefore, no further analysis of this assessment factor was conducted.

LOAN-TO-DEPOSIT RATIO:

Security State Bank of Hamilton has consistently maintained an excellent Loan-to-Deposit ratio since the prior evaluation, dated November 28, 1999. As of June 30, 2004, the bank’s net loan-to-deposit ratio was approximately 93 percent. The bank has maintained an average net loan-to-deposit ratio of approximately 93 percent during the prior 19 quarters. The average ratio was calculated using the 19 quarterly ratios beginning with December 31, 1999, through June 30, 2004. The bank’s June 30, 2004, ratio of 93 percent ranks the bank first among the 12 banking institutions operating within the bank’s assessment area.

RESPONSE TO CONSUMER COMPLAINTS:

The bank or the FDIC Regional office has not received any complaints concerning the bank’s Community Reinvestment Act performance since the prior FDIC CRA evaluation.

COMPLIANCE WITH ANTI-DISCRIMINATION LAWS AND REGULATIONS:

No violations of the substantive provisions of the anti-discrimination laws and regulations were noted during this evaluation.