

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 operations 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 CRA performance of **Port Byron State Bank, Port Byron, Illinois** prepared by the **Federal Reserve Bank of Chicago**, the institution's supervisory agency, as of **December 2, 1996**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 228.

INSTITUTION-S RATING: This institution is rated Satisfactory.

Port Byron State Bank's distribution of credit demonstrates that the bank provides credit consistent with its size, financial capacity, location, current economic conditions and needs of its assessment area. The bank's loan to deposit ratio is reasonable and a substantial majority of its loans are originated within the assessment area. The bank is lending to consumers of different income levels, and businesses and farms of different sizes.

The following table indicates the performance level of **Port Byron State Bank, Port Byron, Illinois** with respect to each of the five performance criteria:

SMALL INSTITUTION ASSESSMENT CRITERIA	PORT BYRON STATE BANK PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does Not Meet Standards for Satisfactory Performance
Loan-to-Deposit Ratio		X	
Lending in Assessment Area	X		
Lending to Borrowers of Different Incomes and to Businesses of Different Sizes		X	
Geographic Distribution of Loans	There are no low or moderate income geographies within the assessment area; therefore, this criterion is not rated.		
Response to Complaints	No complaints have been received since the previous examination		

DESCRIPTION OF INSTITUTION

Port Byron State Bank, with total assets of \$30.7 million as of September 30, 1996, is a subsidiary of First Port Byron Bancorp, Incorporated, a one-bank holding company. The bank operates one full-service office located in Port Byron, Illinois. The bank offers credit for business, agricultural, auto, real estate, home improvement and personal purposes.

Since the previous examination the bank has began offering home equity lines of credit, VISA credit cards and real estate loans with 5-year balloon payments and 30-year amortization. Port Byron State Bank is the only financial institution in Port Byron, Illinois. There are no apparent impediments to the bank's ability to meet the credit needs in its assessment area.

The bank's primary competitors include: Old Farmers & Merchants State Bank, located in Hillsdale, Illinois (\$18 million in assets), Erie Bank, located in Erie, Illinois (\$22 million in assets), and Metrobank, headquartered in East Moline (\$246 million in assets), with branches in Hampton and Rapid City, Illinois. Additional competition is provided by several larger institutions located in the Quad Cities including Norwest Bank Iowa, N.A.; The Rock Island Bank Bettendorf, N.A.; Bank One Quad Cities, N.A.; First Midwest Bank, N.A. and Firstar Bank Quad Cities, N.A.

DESCRIPTION OF BANK-S ASSESSMENT AREA

The bank has defined its assessment area as Census Tracts 201.00 and 204.00 in the northeastern portion of the Davenport/Rock Island/Moline Metropolitan Statistical Area (MSA) 1960 in Rock Island County, Illinois. Both census tracts are moderate income and nonminority areas.

The assessment area includes Cordova, Coe, Canoe Creek, Port Byron, Zuma, and Hampton Townships. Cities and towns within the assessment area and their populations, according to the 1990 Census, include: Port Byron (1,002), Cordova (638), Hampton (1,601), Hillsdale (489), and Rapid City (932). Whites comprise the majority of the residents in the assessment area, with the minority populations ranging from 0.30% to 1.76% in the cities and towns within the community. While minorities comprise 14% of the population in these two census tracts, it should be noted that the East Moline Correctional Center is located in the southern portion of Census Tract 204. The higher minority population in the census tract can be attributed to the racial make-up of the inmates in the correctional center.

The community is primarily a bedroom community with middle to upscale residential development. Many residents commute to the Quad Cities Metropolitan Area (Davenport and Bettendorf, Iowa and Moline and Rock Island, Illinois) for employment in manufacturing and service-related industries. Major employers in the community and surrounding area include Riverdale Community School District, Sandstrom Products Company, 3M Corporation, Quad City Nuclear Generating Station, Deere & Company, Rock Island Arsenal, ALCOA Aluminum, J.I. Case Company, Iowa-Illinois Gas & Electric, and several local hospitals. Aggregate employment opportunities provided by these entities are estimated in excess of 30,000.

According to data from the State of Illinois, in September 1996, the unemployment rate for Rock Island County was 4.0%. This rate is lower than the State's rate of 4.9% for the same period and

is substantially lower than the September 1995 rate of 5.1% for Rock Island County and 5.0% for the State, indicating favorable employment opportunities. According to the 1990 U.S. Census the median family income for the assessment area was \$36,048. Approximately 34.4% of the families in the assessment area are considered low- and moderate-income, 24.4 % are middle-income and 41.2% are classified as upper income.

The housing stock in the assessment area is primarily single-family, the majority of which is over 30 years old; however, there is some new residential construction. According to a local realtor, the average price of a newly constructed house is \$200,000.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Management has developed adequate policies, procedures, and training programs to support fair lending activities. The bank is in compliance with the substantial provisions of antidiscrimination laws and regulations of the Equal Credit Opportunity and Fair Housing Acts.

Loan-to-Deposit Ratio

A review of the bank's September 30, 1996 Consolidated Report of Condition revealed a loan-to-deposit ratio of 46.25%. The following chart shows the net loan-to-deposit ratios since the previous examination:

6/95	9/95	12/95	3/96	6/96	9/96
37.97	37.84	38.36	41.17	43.38	46.25

The loan-to-deposit ratios of the bank's competitors, and its peer group, as defined in the Uniform Bank Performance Report (UBPR) as of 9/30/96 were as follows:

Metrobank	46.44%
Old Farmers & Merchants Bank	61.06%
Erie Bank	55.51%
P E E R Group	65.79%

Bank management indicated that the bank's relatively low 1995 loan-to-deposit ratios are the result of stiff competition from area banks and nonaggressive loan marketing. Recognizing the need to stay competitive the bank has instituted a program to increase its loan-to-deposit ratio to at least 50%. Management began offering home equity lines of credit, VISA credit cards and real estate loans with 5-year balloon payments and 30-year amortization to help increase its lending. The bank also has instituted a more active customer call program and has become more aggressive in obtaining agriculture-related loans. From June 1995 to September 1996 the bank

increased its agricultural-related loans from \$1.6 million to \$2.7 million; an increase of 68.75%. Since the previous examination the loan-to-deposit ratio has increased from 37.97% in June 1995 to 46.25% in September 1996; an increase of 8.28%. Based on the bank's efforts to improve its loan-to-deposit ratio, and the results of these efforts, the bank's loan-to-deposit ratio meets the standards for satisfactory performance.

Loans in Assessment Area

The bank does not perform a self-analysis of credits made inside its assessment area, but it does refer periodically to a loan report that shows the zip codes in which credit is distributed. Bank records indicated that of the 210 loans originated during the six months prior to the examination, 178 (84.76%) were located within the assessment area. An analysis of 1995 Home Mortgage Disclosure Act (HMDA) data for the bank indicated that of 24 applicable loans 19 (79.17%) were made in the assessment area. This data indicates that the bank originates the substantial majority of its loans within its assessment area; its performance in this criterion exceeds the standards for satisfactory performance.

Lending to Borrowers of Different Incomes and Businesses of Different Sizes

According to 1990 U.S. Census data the family median income for the assessment area is \$36,048. Income information from 52 loans originated in the assessment area was analyzed.

The following chart illustrates the income distribution:

Loan Type	Low/Mod	Middle	High	Total
Single Payment	1	3	4	8
Installment	2	3	3	8
Real Estate	0	1	7	8
VISA	10	2	6	18
Home Equity	3	1	6	10
Total for each level	16	10	26	52
% of Total Loans	30.77%	19.23%	50.00%	

An analysis of the income level distribution of 17 loans reported on the 1995 HMDA Loan Application Register and originated in the assessment area showed that nine (52.94%) loans were to middle-income borrowers and the remaining eight (47.06%) were to upper income borrowers. According to the Consolidated Reports of Condition the bank's agricultural loans to small farms increased from 66 loans in June 1995 to 84 loans in June 1996; an increase of 27.27%. During this same period the bank's loans to small businesses decreased from 84 to 83 loans.

Given the composition of the assessment area, loans are reasonably distributed among borrowers of different income levels and to businesses/small farms of different sizes. The bank also demonstrated a willingness to extend credit to small businesses and farms.

Geographic Distribution of Loans

There are no low or moderate income geographies within the assessment area; therefore, this criterion is not rated.

Response to Complaints

No complaints were received since the previous examination regarding the bank's CRA performance.