

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 **La Salle State Bank, La Salle, Illinois**, prepared by the **Federal Reserve Bank of Chicago**, the institution's supervisory agency, as of **March 17, 1997**. 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**.

La Salle State Bank's overall performance rating is supported by a reasonable loan-to-deposit ratio and a substantial percentage of loans originated within its assessment area. Furthermore, the bank's lending to borrowers of different income levels and businesses of different sizes, and geographic distribution of loans is also considered reasonable. The institution generally promotes economic revitalization and growth, consistent with its size, financial capacity, location, and current economic conditions utilizing the bank's main products which are small business, consumer, and real estate loans. No CRA-related complaints have been received by the bank since the previous examination.

DESCRIPTION OF INSTITUTION

With total assets of \$71,254,000 as of December 31, 1996, La Salle State Bank is a subsidiary of LSBancorp, Inc., a one-bank holding company. On March 10, 1997, the bank merged with the Community Bank of Utica, which became a full-service branch of La Salle State Bank. The institution offers a full range of deposit and loan services both at its main office located in La Salle, Illinois (approximately 60 miles south of Rockford, Illinois and 100 miles west of Chicago, Illinois), and its branch office located in Utica, Illinois (approximately 8 miles east of La Salle). The bank operates four automatic teller machines (ATMs); one at the main office in La Salle, two in Utica, Illinois, and one in Peru, Illinois. The institution also offers credit cards through Elan Financial Services of Illinois.

Primary competition for deposit and loan services is provided by La Salle National Bank (La Salle), Eureka Savings Bank (La Salle), Amcore Bank NA (Peru), and Citizens First National Bank (with offices in Peru and Oglesby).

According to the December 31, 1996 Uniform Bank Performance Report, one-to-four family residential lending comprises the majority (40.89%) of the bank's loan portfolio, while significant activity was also noted in loans to individuals (25.54%) and commercial real estate loans (21.84%).

DESCRIPTION OF BANK'S ASSESSMENT AREA

The bank's assessment area is defined as the counties of La Salle and Bureau, located in the north-central portion of the state of Illinois, and includes the major cities (more than 5,000 residents) of Spring Valley, Ottawa, Peru, Streator, Princeton, Mendota, and La Salle. This area consists of 37 block numbering areas (BNAs) of which one (9633) is designated as moderate-income, twenty-eight as middle-income, and eight as upper-income. According to 1990 census data, low-income families represent 15.9% of all families in the assessment area while moderate-income families represent 16.3%. The total population of the assessment area is 142,601, of which non-Hispanic Whites comprise 95.7%. Minorities represent 4.3% of the population, with those of Hispanic origin making up the largest of that percentage (2.9%).

The median family income for the assessment area is \$39,139, compared to the non-metro state median income of \$29,694. The assessment area median housing age is 45 years, while the median housing value is \$67,376. According to the 1990 census, owner-occupied units comprise 68.7% of the assessment area housing stock, with 88.1% of these units being one-to-four family residences.

Retail Trade, agriculture, and manufacturing are the primary industries in La Salle and Bureau Counties. Major employers in the assessment area include Carus Chemical Company (179 employees); Sauer-Sundstrand Corporation, an automotive parts manufacturer (250 employees); American Nickeloid Company, a metals, sheets and coils manufacturer (191 employees); and

Horizon Industries, an industry assembly and packaging sub-contractor (160 employees). According to the State of Illinois Department of Labor, the January unemployment rate for La Salle and Bureau Counties was 9.7% and 7.4%, respectively, compared to 5.7% for the State of Illinois.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

A review of loans and denied credit applications revealed that the bank is in compliance with the substantive provisions of anti-discrimination laws and regulations, including the Equal Credit Opportunity Act and the Fair Housing Act. No prohibited discriminatory lending practices or policies intended to discourage loan applicants were detected during the examination.

LOAN-TO-DEPOSIT RATIO

A five-quarter review of the bank’s loan-to-deposit ratio was performed using the bank’s consolidated reports of condition. The bank’s average quarterly loan-to-deposit ratio is 43.82%. According to the December 31, 1996 Uniform Bank Performance Report (UBPR), the bank’s ratio (50.09%) is less than that of its peer group(62.56%). A comparative analysis of the bank’s competitors was performed and is illustrated by the following chart, which shows the loan-to-deposit ratios of the bank and its primary competitors as of December 31, 1996:

LOAN-TO-DEPOSIT RATIO (LTD) ANALYSIS				
Bank Name	Main office location	Competitive Location(s)	Asset Size* (\$000s)	LTD Ratio
Eureka Savings Bank	La Salle, IL	La Salle, IL Oglesby, IL Mendota, IL	\$287,588	62.80%
La Salle State Bank	La Salle, IL	La Salle, IL Utica, IL	\$71,254	50.09%
The First National Bank of Ottawa	Ottawa, IL	Ottawa	\$230,027	52.80%
Ottawa Federal Savings and Loan Association	Ottawa, IL	Ottawa	\$91,282	73.55%
Amcore Bank NA North Central	Mendota	Mendota Peru Princeton	\$183,004	71.78%
First State Bank	Mendota	Mendota Peru	\$110,275	82.38%

LOAN-TO-DEPOSIT RATIO (LTD) ANALYSIS				
First Federal Savings Bank	Ottawa	Ottawa La Salle Mendota Peru Streator	\$273,780	109.58%
La Salle National Bank	La Salle, IL	La Salle, IL Peru, IL	\$104,557	49.09%
^financial information for this institution is as of June 30, 1996				

Although the bank’s loan-to-deposit ratio is low (50.09%), La Salle National Bank, located across the street from the bank, has a similar LTD ratio (49.09%). In addition, the bank’s LTD has steadily improved over the past six years. From a low of 29.19% in December of 1992, the bank’s loan-to-deposit ratio has increased 72% to its current December 1996 level of 50.09%.

Economic conditions have also had a negative impact on the bank’s ability to make quality loans. According to the State of Illinois Department of Labor, the La Salle County unemployment rate for the month of January 1997 was 9.7%; this was the 17th highest rate of the 102 counties in Illinois during that period and significantly higher than the 5.7% rate for the State of Illinois. Bank management stated that many of the industries that were within the area twenty years ago are no longer present, and the attraction of new businesses is limited. Several major area employers have closed or reduced their operations; however, smaller businesses are expanding.

Considering the bank’s improving loan-to-deposit ratio, the ratios of its local competitors, the economic condition in La Salle and Bureau Counties, and the available lending opportunities in the assessment area, the institution’s performance meets the standards for satisfactory performance.

LENDING IN ASSESSMENT AREA

In order to determine the bank’s lending performance within its assessment area, originations from the examination loan sample were reviewed for their distribution. The results are illustrated below:

Loan Type	Total number in sample	Number within the assessment area	Percent of Total
Commercial	10	10	100%
Home Equity Lines	10	10	100%
Single-Payment	8	8	100%
Real Estate	10	9	90%
Indirect Installment	11	9	82%
Direct Installment	20	13	65%
Total	69	59	86%

As the preceding chart illustrates, approximately 86% of the sampled loans are within the bank’s assessment area. All the commercial loans, home equity lines, and single-payment loans were within the assessment area. Overall, the bank’s performance exceeds the standards for satisfactory performance.

LENDING TO BORROWERS OF DIFFERENT INCOMES AND BUSINESSES OF DIFFERENT SIZES

An analysis of the bank’s lending to businesses and farms of different sizes, and borrowers of different incomes was performed to assess the bank’s performance. Because the bank does not always collect income information (or the most current financial information), a proxy based on loan amount was used to determine lending among the various income levels. Direct consumer installment loans originated between September 1996 and February 1997, inclusive, were used for the analysis. Of the 264 loans originated during this period, 24 (9%) were for amounts of \$1,000 or less, and 36 (14%) were for amounts greater than \$1,000 but less than or equal to \$2,500.

The number and dollar amount of small business and small farm loans originated during the six-month period from September 1996 to February 1997, inclusive, were also reviewed to further assess the bank’s lending performance. Of the 194 commercial loans reviewed, 181 or 94% were for original amounts of \$100,000 or less. A review of the bank’s small farm lending activity reveals that the bank has not originated any of these products since the previous examination. According to the December 31, 1996 UBPR, agricultural loans comprised 0% of the bank’s portfolio, compared to 12.16% for its peer group. According to USDA Rural Development, agriculture accounts for about 60% of the assessment area’s economy and more specifically, La Salle and Bureau Counties are among the top five farming counties in the state of Illinois.

According to management, competition and bank personnel are contributing factors to the lack of agricultural lending. State bank of Cherry, Spring Valley City Bank, and Illini State Bank (institutions located within the assessment area) have qualified agricultural credit personnel on

staff, and consider themselves to be agricultural lenders. Farm Credit Services is another competitor. This organization has monopolized a significant portion of the agricultural lending opportunities by offering below-market interest rates. The bank is willing to make agricultural loans; however, without the knowledgeable personnel and competitive rates, they have been unsuccessful.

The distribution of sample loans reflects a reasonable penetration of individuals of different income levels and businesses of different sizes. In addition, the bank's small business and farm lending is consistent with its size and resources. The bank's performance in this category is considered to meet the standards for satisfactory performance.

GEOGRAPHIC DISTRIBUTION OF LOANS

The bank's assessment area consists of 37 BNAs; one moderate-income, 28 middle-income, and eight upper-income geographies. The moderate income BNA (#9633) represents 2.7% percent of all the BNAs in the bank's assessment area; this is also where the bank's main office is located. An analysis using the examination loan sample revealed that 17% of these loans were made within the moderate-income BNA. More specifically, there were two direct installment, one indirect installment, one home equity, and six commercial loans made within this BNA. Based on the bank's performance in this category, the institution meets the standards for satisfactory performance.

RESPONSE TO SUBSTANTIATED COMPLAINTS

No CRA-related complaints have been received by the institution since the previous examination.