

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 **Citizens First State Bank, Walnut, Illinois** prepared by the **Federal Reserve Bank of Chicago**, the institution's supervisory agency, as of **August 7, 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**.

Citizens First State Bank makes credit available consistent with its financial capacity, location and current economic conditions in its assessment area. Overall, the bank's CRA performance meets the standards for satisfactory performance. The bank is a strong provider of loans to small businesses and small farms, as well as to persons of differing income levels. Based on the examination loan sample, a substantial majority of the bank's lending was made within the assessment area. The bank's loan-to-deposit ratio meets the standards for satisfactory performance. The bank has received no CRA-related complaints since the previous examination and is in compliance with substantive provisions of anti-discrimination laws and regulations.

The following table indicates the performance level of **Citizens First State Bank, Walnut, Illinois** with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	Citizens First 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 census tracts or BNAs in the assessment area.		
Response to Complaints	No complaints have been received since the previous examination		

DESCRIPTION OF INSTITUTION

Citizens First State Bank, with total assets of \$32 million as of March 31, 1996, is a subsidiary of Citizens Bancshares, Incorporated, a one-bank holding company located in Walnut, Illinois. The bank is a rural community retail/agricultural bank, operating its main office at 105 North Main Street, Walnut and its branch office at 113 North Main Street, Ohio. The bank offers a mix of agricultural, commercial, direct and indirect consumer, municipal and real estate loans. The bank also offers Farmers Home Loan Administration (FmHA) loans, and deposit, trust and safety deposit box services. The bank has an automated teller machine (ATM) located at its main office that opened subsequent to the close of this examination.

Based on its financial condition and size, products offered, prior performance, legal impediments or local economic conditions, there are no apparent factors that would limit the bank's ability to meet the community's credit needs. The bank's primary competitors and their corresponding asset sizes, according to the spring of 1996 American Financial Directory (AFD), are the Walnut Branch of First Federal Savings Bank in Ottawa (\$274 million), Citizens First National Bank in Princeton (\$400 million), and First National Bank in Manlius (\$61 million).

DESCRIPTION OF ASSESSMENT AREA

The bank's assessment area includes five block numbering areas (BNA's): 9647, 9648, 9649, 7 and 8 and is not part of a Metropolitan Statistical Area (MSA). The communities included in these BNA's are Bureau County - Cherry, Dover, Kasbeer, Lamoille, Malden, Manlius, New Bedford, Ohio, Van Orin, Walnut, and Yorktown; Lee County - Harmon; Whiteside County - Deer Grove and Tampico. According to 1990 U.S. census data, the assessment area has a population of 14,781; minorities account for less than 2% of the population. Bureau County has a population of 35,688 and Walnut has a population of 1,463. All five BNA's in the assessment area are middle-income geographies. The median housing value in the assessment area is \$40,033 and the median housing age is 56 years.

The town of Walnut is approximately 20 miles north of Princeton, Illinois and is comprised mainly of small businesses and retail shops. Many residents commute to neighboring communities for employment. According to the Illinois Department of Employment Security, Bureau County's May 1996 unemployment rate was 6.1%, compared to 5.1% for the State of Illinois.

According to the 1996 Illinois Manufacturers Directory, the four major employers located in Walnut are Empire Level Manufacturing Corporation (aluminum/mahogany levels) - 70 employees; Walnut Custom Homes, Inc. (prefabricated wood and metal buildings) - 50 employees; Avanti Foods Company (cheese and frozen pizza manufacturer) - 45 employees and Production Engineered Product, Inc. (portable screens conveyors) - 25 employees. The Village of Walnut also depends on agricultural-related businesses such as grain processors, livestock auctioneers and farm product sales to contribute to its overall economy. Ohio has two employers: Ohio Grain Co. (mill products) - eight employees, and Sisler's Dairy Products Co.,

Inc. (Butter, ice cream, cottage cheese and frozen desserts) - six employees.

According to a community representative, a large percentage of the local workforce commutes to Rock Falls, Sterling or Princeton, areas just outside the bank's assessment area. The community representative also stated that the lack of new housing development continues to limit the area's growth.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

The institution is compliance with the substantive provisions of anti-discrimination laws and regulations, including the Equal Credit Opportunity Act and the Fair Housing Act.

Loan to deposit ratio

The bank's average quarterly loan-to-deposit ratio from June 1995 through June 1996 is 50.38%. The bank's loan-to-deposit ratio is lower than the peer's ratio of 64.13% [according to the March 31, 1996 Uniform Bank Performance Report (UBPR)]. The loan-to-deposit ratios of two local banks, according to the AFD spring 1996 edition, are as follows: First National Bank (Manlius) - 39.14% and Citizens First National Bank (Princeton) - 67.34%. While the bank's loan-to-deposit ratio is lower than peer's ratio listed on the UBPR, it compares favorably to the ratio of First National Bank (Manlius), a competitor of the bank with a similar asset size.

The bank is strong compared to peer in farmland, credit card and municipal loans. Also, the bank's gross loans and leases have increased by approximately \$1 million over the past year; while the bank's core deposits have decreased by approximately \$3 million. These factors have helped raise the bank's loan-to-deposit ratio since the previous examination from 44.56% (June 1995) to 52.56% (June 1996). The bank's loan-to-deposit ratio meets the standards for satisfactory performance.

Lending in Assessment Area

A review of the bank's internal tracking of total outstanding loans (by dollar amount), as of May 31, 1996, revealed that 71% of the loans, by dollar volume, were made within the bank's assessment area. The bank's internal analysis may be limited because it tracks the distribution of loans by dollar amount, not by number of loans.

A review of the examination loan sample revealed the following geographic distribution:

--	--	--	--

LOAN TYPE	TOTAL SAMPLED	WITHIN THE LOCAL ASSESSMENT AREA	PERCENT OF TOTAL
Consumer	43	41	95.35
Real estate	10	9	90.00
Commercial/Agriculture	20	16	80.00
TOTAL	73	66	90.41

As the preceding chart indicates, approximately 90% of the sampled loans were made within the bank's assessment area. The bank's internal analysis and the examination loan sample indicate that a substantial majority of the bank's lending is conducted within its assessment area. The bank's performance under this criterion exceeds the standards for satisfactory performance.

Lending to Borrowers of Different Incomes and to Businesses of Different Sizes

The bank is active in making loans to small businesses and small farms. Approximately 93.33% (14 of 15) of the sampled commercial loans, with income information available, were made to small farms (gross annual sales less than \$500,000) or small businesses (gross annual sales less than \$1 million). The dollar amounts of the 20 commercial and agricultural loans reviewed ranged from \$3,000 to \$33,000. The bank has seven business customers who have over \$1 million in gross annual sales and no agricultural customers with gross annual sales over \$500,000.

A review of the bank's 1994, 1995 and 1996 June call reports showed the following distribution of loans, by number and dollar amount, to small businesses and small farms:

LOAN TYPE	1994		1995		1996	
	#	\$	#	\$	#	\$
Loans Secured by Farmland:						
with original amounts of \$100,000 or less	22	891	22	822	23	946
with original amounts of more than \$100,000 through \$250,000	11	1,574	12	1,658	10	1,284
with original amounts of more than \$250,000 through \$500,000	1	245	1	243	1	240
Loans to Finance Agricultural Production:						
with original amounts of \$100,000 or less	180	3,051	154	2,479	160	2,303
with original amounts of more than \$100,000 through \$250,000	4	469	5	509	4	543
with original amounts of more than \$250,000 through \$500,000	1	54	0	0	0	0
Loans Secured by Nonfarm, Nonresidential Properties						
with original amounts of	15	412	15	524	18	791

LOAN TYPE	1994		1995		1996	
	#	\$	#	\$	#	\$
\$100,000 or less						
with original amounts of more than \$100,000 through \$250,000	1	31	2	276	1	176
with original amounts of more than \$250,000 through \$500,000	1	773	1	548	1	474
Commercial and Industrial Loans						
with original amounts of \$100,000 or less	44	699	56	931	61	741
with original amounts of more than \$100,000 through \$250,000	4	374	2	153	4	412
with original amounts of more than \$250,000 through \$500,000	0	0	0	0	0	0
Total	284	8,573	270	8,143	283	7,910

As the preceding chart indicates, the number of commercial and industrial loans in amounts under \$100,000 increased by approximately 39% (from 44 to 61) from 1994 to 1996. The commercial and industrial average loan size of \$17,738 in 1996 is 22.65% less than the average loan size of \$22,354 in 1994. Conversely, the average amount of loans (less than \$100,000) secured by nonfarm/nonresidential properties increased by 60% from \$27,467 in 1994 to \$43,944 in 1996. The bank attributed the increase to commercial borrowers taking advantage of lower interest rates for consolidating real estate secured debt, as well as increasing real estate values. Overall, loan sizes appear to meet the needs of small businesses. In addition, community representatives indicated that local area business and farm credit needs are being met.

For the four-month period from March 1, 1996 through June 30, 1996, the bank made 79 consumer loans, of which 10 or 12.66% were in amounts equal to or less than \$1,000. In total, 66% or (35 of 53) of applications for consumer loans were from low- or moderate-income borrowers. According to census data, approximately 32% of households in the assessment area are considered low- or moderate-income. The information obtained from the 12 real estate applications sampled further indicates that the bank offers loans to persons of all income levels; one to a low-income applicant, three to moderate-income applicants, one to a middle-income applicant and seven to high-income applicants. The bank also makes credit available to persons of all income levels through government sponsored loan programs. Seven FmHA loans totaling \$339,202 have been made since the previous examination.

As determined from the real estate loan sample, the statistical four-month loan sample, activity in government sponsored loan programs and the significant number of consumer loans in small dollar amounts, the bank makes credit available to borrowers of all income levels. Consequently, the bank's level of lending to borrowers of all income levels, and to small businesses and small farms is considered to exceed the standards for satisfactory performance.

Geographic Distribution of Loans

Because there are no designated low- or moderate-income geographies located within the assessment area in which lending activity could be analyzed, this criterion is not rated.

Response to Complaints

No CRA-related complaints were received since the previous examination.