

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 **Hartsburg State Bank, Hartsburg, Illinois** prepared by the **Federal Reserve Bank of Chicago**, the institution's supervisory agency, as of **May 21, 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.

Hartsburg State Bank's distribution of credit applications demonstrates a willingness to extend credit throughout its assessment area. The bank originates loans in amounts as small as is necessary to satisfy the borrower's request or as large as their legal lending limit will allow. The bank's loan-to-deposit ratio is reasonable considering its size and available resources. The geographic distribution of lending is reasonable, and 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 **Hartsburg State Bank, Hartsburg, Illinois** with respect to each of the five performance criteria:

SMALL INSTITUTION ASSESSMENT CRITERIA	HARTSBURG 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		X	
Response to Complaints	No complaints were received since the previous examination		

DESCRIPTION OF INSTITUTION

The Hartsburg State Bank, with assets of \$9.2 million as of December 31, 1995, is a locally owned bank that primarily serves the financial needs of the agricultural community. Its main products are farm operating and agricultural real estate secured loans; it also offers commercial and consumer loan products. Deposit products offered by the bank include time, demand and savings accounts. Hartsburg State Bank is the only financial institution in the Village of Hartsburg. There are no impediments limiting the bank's ability to meet the credit needs in its assessment area. The bank's primary competitors include: Farmers State Bank of Emden, located in Emden (\$27 million in assets); Logan County Bank, located in Lincoln (\$37 million in assets); and the State Bank of Lincoln, also located in Lincoln (\$142 million in assets).

DESCRIPTION OF HARTSBURG STATE BANK ASSESSMENT AREA

In order to effect compliance with the provision of the regulation that requires the bank to define its community using whole geographies, the bank has defined its assessment area as Block Numbering Area (BNA) 9530 in Logan County. However, the bank's primary service area consists of Orvil and Prairie Creek Townships. The assessment area is primarily agricultural with agriculturally-related financing needs. According to community representatives, the area's economy has been relatively stable.

Hartsburg, Illinois, according to the 1990 U. S. census data, has a population of 306. Hartsburg is located approximately 30 miles north of Springfield and 35 miles southwest of Bloomington, Illinois. The Village of Hartsburg is landlocked, as approximately 30,000 acres of land surrounding Hartsburg is owned by a family trust. This land is historically leased to area farming interests, rather than sold, limiting expansion and development. There are no minorities residing in the assessment area; however, Logan County has a minority population of 6%. According to 1990 Census data, Hartsburg has had a decline in population of almost 20% during the preceding decade. The population of Hartsburg is predominately elderly. Although approximately 20% of the households in the BNA are considered low-income, the BNA is categorized as middle-income.

There are 1,083 housing units in the assessment area, with a vacancy rate of 4.6%. There are no multi-family units located within the area, but there are 36 mobile homes. Approximately 80% of the owner-occupied housing units in the area are valued at \$60,000 or less, and approximately 58% exceed 50 years of age.

The following table depicts the State of Illinois Department of Unemployment figures for Logan County and the State of Illinois for February, March and April of 1995 and 1996:

Month	Logan County		State of Illinois	
	1995	1996	1995	1996
Feb.	4.9	6.4	5.7	5.8
Mar.	4.4	6.1	5.3	5.4
Apr.	4.5	6.2	5.2	5.2

The rise in the unemployment percentage in Logan County from 1995 to 1996 is attributable to the closing of two companies that employed a total of 900 people. Major employers located within a ten mile radius include: Meyers Industries, Lincoln, Illinois (store fixtures and movable storage units), employing 550; Eaton Corp., Lincoln, Illinois (electrical controls), employing 550; and Ball-Incon Glass Packaging Corp., Lincoln, Illinois (glass containers), employing 300.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

The bank was examined for compliance with the fair lending laws and regulations; no evidence of prohibited discriminatory credit practices was found.

Loan-to-Deposit Ratio

A review of the bank's Consolidated Report of Condition over the past six quarters revealed a loan-to-deposit ratio averaging 50.6%. The following chart shows the net loan-to-deposit ratios since the previous examination.

12/94	3/95	6/95	9/95	12/95	3/96
46.7%	50.2%	54.1%	49.5%	52.0%	51.1%

The differences noted in quarterly percentages are attributed to municipal deposit and seasonal loan fluctuations. The loan-to-deposit ratio is reasonable when compared to the bank's competitors, the size of the bank (\$9 million) and the nature of the community in which the bank operates.

Based upon a comparison of the bank's loan portfolio as of March 31, 1996 with information contained in the previous report of examination (June 30, 1994), only commercial loans increased significantly. The increase was due to three large loans totaling \$400 thousand being made to area businesses.

According to the Uniform Bank Performance Report (UBPR), dated December 31, 1995, a comparison of the bank's loan types as a percentage of average total loans with peer is as follows:

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Loan Type	December 31, 1995 Bank Avg Loan Mix	December 31, 1995 Peer Avg Loan Mix
Construction & Development	1.41	.08
1-4 Family Residential	19.26	19.75
Other Real Estate Loans	30.30	13.07
Farmland	30.00	8.18
Non-farm non-residential	.30	2.74
Total Real Estate	50.97	36.35
Agricultural Loans	27.17	28.87
Commercial & Industrial loans	9.70	11.09
Municipal Loans	.00	.03
Loans to Individuals	12.16	17.44
Other Loans	.00	.12

The bank's net loan-to-deposit ratio of 51.96%, was below peer by 4.79%; however, the bank's performance exceeded peer in agricultural loans secured by farmland by 21.82%. This is attributed to the nature of the community in which the bank is located. The bank was reasonably consistent with peer in other loan categories.

Lending in Assessment Area

The bank conducts geographic analyses of its lending; these analyses include a review of loans made during a particular month and of all loans in the portfolio. An analysis of loans made during March of 1995 revealed that all 15 loans made during that month were within the assessment area. In May, 1996 the results of the analysis of all 200 loans in the bank's portfolio was presented to the board of directors; this analysis revealed that 88.5% of the loans in the portfolio were within the assessment area. In addition, the loan sample was reviewed to determine the bank's geographic distribution of credit. The following chart illustrates this distribution:

LOAN TYPE	TOTAL SAMPLED	WITHIN THE LOCAL ASSESSMENT AREA	PERCENT OF TOTAL
Installment	13	6	46.15%
Single Payment	14	9	64.29%
Agricultural	23	16	69.57%
Total	50	31	62.00%

The examination loan sample supports the fact that the majority of the bank's loan activity was within the assessment area. An analysis of the total dollar amount of sampled loans revealed that 78.97% were within the assessment area. Based upon our review and the information provided by management, the bank meets the standards for satisfactory performance within its assessment area.

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

The bank's small farm/business and consumer loans (there were no home mortgage loans) were reviewed to determine the bank's performance under this criteria. The bank does not consistently collect income information for these types of loans; however, loans of differing amounts were analyzed in order to determine the bank's performance. Approximately 68.0% of total loans reviewed were in amounts of \$10,000 or less, with loan amounts ranging from \$120 to \$50,000. Loans in these amounts indicate that loans are being made to borrowers of different income levels, including low-income borrowers.

Geographic Distribution of Loans

The bank's assessment area is comprised of one BNA (#9530); however, the bank's lending is concentrated in the portion of the BNA that is closest to the bank's only office. Of the 50 loans reviewed for geographic distribution, 19 (38%) were in Hartsburg and 11 (22%) were in Emden, with no presence in other areas of the BNA. Given the existence of several larger banks throughout the area, the geographic distribution is not unusual. Additionally, these larger banks are able to offer products that Hartsburg State Bank cannot, given its size and legal lending limit. The geographic distribution of the bank's loans meets the standards for satisfactory performance.

Response to Substantiated Complaints

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