

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 **The Farmers Bank, Mt. Pulaski, Illinois**, prepared by the **Federal Reserve Bank of Chicago**, the institution's supervisory agency, as of **May 13, 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**.

The bank's has an adequate loan-to-deposit ratio, and a reasonable distribution of loans by income level and geography, based upon the bank's asset size, available resources, economic conditions, and level of local competition. The bank's efforts are accomplished through the origination of residential real estate, consumer, small business, and small farm loans. The examination review of loans, and bank policies and procedures revealed no evidence of prohibited discriminatory lending practices. In addition, no CRA-related complaints were received by the bank, since the previous examination.

The following table indicates the performance level of **The Farmers Bank, Mt. Pulaski, Illinois**, with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	THE FARMERS 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 Farmers Bank, with total assets of \$30.5 million as of March 31, 1996, is a locally-owned bank with a main office and drive-up facility in Mt. Pulaski, Illinois. The bank offers consumer, real estate, installment, and single-payment loans, as well as commercial and agricultural loans. In Mt. Pulaski, the bank's primary competitors include the First National Bank of Mt. Pulaski and a branch of First Bank, a savings bank from Clayton, Missouri. Additional competition for deposits and loans is generated by the Bank of Chestnut, Chestnut, Illinois, and the State Bank of Latham, Latham, Illinois. Competition for agricultural loans also comes from Farm Credit Services in Lincoln, Illinois.

There are no apparent factors relating to the bank's financial condition and size, products offered, prior performance, legal impediments, or local economic conditions that would prevent the bank from meeting the various community credit needs.

DESCRIPTION OF BANK'S ASSESSMENT AREA

The bank's main office is located in the southeast portion of Logan County, Illinois, 135 miles southwest of Chicago. Logan County is divided into eight block numbering areas (BNAs). The bank has designated one BNA as its assessment area. The assessment area, as defined by the BNA, is rectangularly shaped and contains the rural townships of Chestnut, Aetna, Mount Pulaski, Laenna, and Lake Fork. The bank's customer base resides primarily in the southern portion of the BNA which includes the communities of Mt. Pulaski, Latham, Chestnut and Lake Fork, while the northern portion of the BNA consists mainly of farmland. According to 1990 U.S. census data and the Federal Reserve Bank's Community Lending Analysis System (CLAS), the population of Logan County is 30,798, while the bank's assessment area has a population of 3,661. Residents of Mt. Pulaski, Latham, Chestnut, and Lake Fork comprise 75.8% of the assessment area's total population, with Mt. Pulaski representing approximately 44% of the population. Whites constitute the majority (3,579 or 97.8%) of the assessment area's population. Opportunities for new lending within Logan County are limited based upon an aging population and the minimal addition of new residents to the county.

The BNA, with a median family income of \$34,804, is considered middle-income. Approximately 48% of the families in the assessment area are upper-income; 29% are middle-income; 12% are moderate-income; and 11% are low-income. There are no identified low- or moderate-income areas within the bank's assessment area.

Mt. Pulaski has evolved from a rural, agricultural community into a bedroom community, with many of its residents commuting to Lincoln, Decatur, and Springfield for employment. There are 495 housing units in Mt. Pulaski which have a median home value of \$46,600. There are 1,494 housing units within the assessment area, of which 1,018 (68.1%) are owner-occupied. The median age of the housing stock is 41 years. New housing construction is primarily of single family homes, and is most evident in the areas surrounding Mt. Pulaski. Two subdivisions are

currently under construction, with future plans to build an additional subdivision. Discussions with community representatives identified a need for home improvement loans, as 54.1% or 808 housing units were built prior to 1950.

Major employers in the Mt. Pulaski area include the Mt. Pulaski School District (200 employees); Vonderlieth Living Center (a nursing home with 120 employees); Mt. Pulaski Products (a manufacturer of industrial and absorbent waste treatment products with 50 employees); and Inland Tool Company (an automotive die and metal stamping company with 32 employees).

Historically, the unemployment rate in Logan County has remained stable at 5.4%; however, according to the Illinois Labor Market Review, the March 1996, unemployment in Logan County increased to 6.4%, compared to the State of Illinois unemployment rate of 5.4%. Logan County's higher unemployment rate is due to the closing of two manufacturing firms which employed 500 persons.

The bank's assessment area meets the requirements of the regulation. It consists of contiguous political subdivisions, and includes a whole geography where the bank has its main office and a deposit-taking ATM.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

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

Loan-to-Deposit Ratio Analysis

The bank's average quarterly net loan-to-deposit ratio since the previous examination is 47.06%. The bank's March 31, 1996 Consolidated Report of Condition revealed a net loan-to-deposit ratio of 49.28%. According to the December 31, 1995 Uniform Bank Performance Report (UBPR), the bank's net loan-to-deposit ratio was 48.63%, compared to 60.22% for its peer group. The bank's ratio has been below peer group because of the bank's conservative approach towards asset-liability management; however, the bank has increased its loan-to-deposit ratio in the past three years.

The distribution of the bank's loan portfolio, by loan type, is as follows:

LOAN TYPE	DOLLAR AMOUNT OUTSTANDING (000'S)	PERCENT OF TOTAL LOANS
REAL ESTATE		
Construction	206	1.60%
Residential (1-4)	7,105	55.30%
Commercial	214	1.70%

LOAN TYPE	DOLLAR AMOUNT OUTSTANDING (000'S)	PERCENT OF TOTAL LOANS
Agricultural	836	6.50%
CONSUMER		
Open-end Credit	0	0.00%
All Other	2,596	20.20%
COMMERCIAL AND INDUSTRIAL	1,086	8.50%
AGRICULTURAL	755	5.90%
MUNICIPAL OBLIGATIONS	40	0.30%
TOTAL	12,838	100.00%

A comparison of the loan distribution in the preceding chart with information contained in the previous report of examination (Call Report data as of June 30, 1994) indicates that total outstanding loans increased by \$2,444,000 or 23.5%. During the same period, the bank's net loan-to-deposit ratio increased by 9.97% (from 39.31% to 49.28%). Increases were noted in the following categories:

- Residential Real Estate Loans - \$1,062,000 or 17.57%
- Commercial and Industrial Loans - \$798,000 or 277.08%
- Consumer Loans (All Other) - \$639,000 or 32.65%
- Agricultural Real Estate Loans - \$328,000 or 64.46%

The preceding chart also illustrates that residential real estate and consumer loans comprised 75.5% of the total loan portfolio.

According to the December 31, 1995 UBPR, the bank's performance compared to peer is illustrated in the following table:

LOAN TYPE	BANK AVERAGE LOAN MIX (%)	PEER AVERAGE LOAN MIX (%)
REAL ESTATE LOANS		
Construction/Development	2.34	0.67
1 - 4 Family Residential	55.96	22.04
Other Real Estate		
Farmland	6.57	9.20
Multi-family	0.00	0.13
Commercial	2.73	7.24
TOTAL REAL ESTATE LOANS	67.60	45.11
LOANS TO INDIVIDUALS	20.79	14.45

LOAN TYPE	BANK AVERAGE LOAN MIX (%)	PEER AVERAGE LOAN MIX (%)
CREDIT CARD LOANS	0.00	0.05
COMMERCIAL & INDUSTRIAL LOANS	20.79	14.45
AGRICULTURAL LOANS	6.95	19.66
MUNICIPAL LOANS	0.45	0.24
OTHER LOANS*	0.00	0.17
*Excludes Financial Institution Loans, Acceptances of Other Banks, Foreign Office Loans and Leases, and Lease Financing Receivables		

As the preceding table illustrates, the bank's performance in originating one-to-four family real estate loans, loans to individuals, and commercial/industrial loans is above peer. The change in the economy of Mt. Pulaski from being agriculturally based to a bedroom community, is also reflected in the lower percentage of agricultural loans secured by real estate and agricultural operating loans. With the increase in new residential homes in the Mt. Pulaski area, the bank continues to meet the credit needs of the community by originating residential mortgages, as evidenced by the increase in the mortgage portfolio.

The bank plans to continue the growth of its loan portfolio, as evidenced by the addition of an agricultural loan officer. The addition of an agricultural loan officer to the bank's staff in November of 1995 should result in new originations of agriculturally-related loans. Community contacts are aware of the bank's recent emphasis on farm loan originations.

A trend analysis of the bank's level of lending to small business and small farms using the 1993, 1994 and 1995 June 30 Consolidated Reports of Condition revealed that the bank's total commercial loan balances declined by 12.5% during the three-year period, while agriculturally-related loans grew 53.2% in total outstanding balances. In its efforts to increase its commercial loan portfolio, the bank made loans in nearby Lincoln and Decatur.

Additional considerations when assessing the bank's loan-to-deposit ratio include the number of small, accommodation loans in amounts less than \$1,000 that the bank makes; and the local competition provided from the two financial institutions in Mt. Pulaski and competing community banks located in Chestnut and Latham.

The overall level of the bank's lending is consistent with its size, resources, and lending opportunities within the assessment area and is considered reasonable.

Lending in the Assessment Area

A review of the examination loan sample revealed the following level of lending within the assessment area.

LOAN TYPE	TOTAL SAMPLED	WITHIN THE ASSESSMENT AREA	PERCENT OF TOTAL
Residential Real Estate	11	7	63.6
Consumer Installment	20	11	55.0
Consumer Single Payment	19	16	84.2
Commercial/Agriculture	11	6	54.5
Total Approved Loans	61	40	65.6

As the preceding table illustrates, 65.6% of the sampled loans were made within the bank's assessment area. This compares favorably with the analysis of the entire loan portfolio, with 1,120 loans or 67.2% of the total loans made within the bank's assessment area. The consumer and commercial/agriculture loans outside the assessment area are primarily made in Logan County.

In addition, analysis of loans made since the previous examination (August 15, 1994 through March 31, 1996) revealed the following:

The Farmers Bank, Mt. Pulaski, Illinois						
Loan Type	INSIDE ASSESSMENT AREA		OUTSIDE ASSESSMENT AREA		GROSS LOAN ORIGINATIONS	
	#	(000) \$	#	(000) \$	#	(000) \$
1-4 Family	59	2,548	30	1,582	89	4,130
Consumer	580	3,431	266	1,620	846	5,051
Total Consumer	639	5,979	296	3,202	935	9,181
Commercial R/E	7	138	1	151	8	289
Comm'l & Indust'l	14	195	26	1,182	40	1,377
Total Commercial	21	333	27	1,333	48	1,666
Agricultural R/E	12	920	5	179	17	1,099
Agricul Production	51	1,426	27	923	78	2,349
Total Agricultural	63	2,346	32	1,102	95	3,448

As the preceding table indicates, 68.34% of consumer loans, 43.75% of commercial loans and 66.32% of agricultural loans were made within the assessment area. The bank made new commercial loans outside its assessment area during the past nine months.

The level of lending within the assessment area is considered reasonable and meets the standards for a satisfactory rating.

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

Analysis of a sample of loans (which had borrower income figures available), revealed the following distribution among borrowers of different income levels:

LOAN TYPE	LOW-INCOME \$000s/Number	MODERATE-INCOME \$000s/Number	MIDDLE-INCOME \$000s/Number	UPPER-INCOME \$000s/Number
Residential Real Estate	\$0/0	\$25,420/1	\$69,400/2	\$161,406/4
Consumer Installment	\$1,000/1	\$0/0	\$5,796/1	\$20,000/1
Consumer Single Payment	\$0/0	\$0/0	\$1,000/1	\$55,777/3
Loans with Income reported	\$1,000/1	\$25,420/1	\$76,196/4	\$237,183/8

As the preceding chart indicates, the majority of the sampled loans, by number and dollar amount, were to upper- or middle-income borrowers within the bank's assessment area.

An analysis (conducted as of March 31, 1996) of residential real estate mortgage loans, the bank's major loan product, revealed that ten or 9.4% of the 106 real estate loans outstanding made within the bank's assessment area, were to moderate-income borrowers and seven or 6.6% were to low-income borrowers. These percentages are consistent with the market demographics within the assessment area.

A review of agricultural and commercial loans made since the previous examination revealed an average loan size of \$37,238 for agricultural loans and \$15,857 for commercial loans. According to management, all agricultural loans were to borrowers with annual gross revenues of less than \$1 million. Based on the June 30 Consolidated Reports of Condition, small business and small farm lending have increased since 1993 with the trend being as follows:

The Farmers Bank, Mt. Pulaski, Illinois						
Loan Type	1993		1994		1995	
	#	(000) \$	#	(000) \$	#	(000) \$
Comm-l & Indust-l	21	440	21	288	30	391
Total Commercial	33	791	34	605	45	692
Agricultural R/E	8	418	16	508	16	901

Agricultural Production	47	666	38	863	37	760
Total Agricultural	55	1,084	54	1,371	53	1,661

The distribution of loans reflects a reasonable penetration among individuals of different income levels, and businesses and farms of different sizes.

Geographic Distribution of Loans

With the exception of commercial/industrial loans, a review of the bank's total outstanding loans, by loan type, revealed a reasonable geographic distribution within the assessment area. The distribution of commercial/industrial loans is based on limited commercial lending opportunities within Mt. Pulaski; however, opportunities to originate commercial loans in Logan County to business owners who reside within the bank's assessment area are present.

Response to Complaints

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