

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 **Villa Grove State Bank, Villa Grove, Illinois** prepared by the **Federal Reserve Bank of Chicago**, the institution's supervisory agency, as of **January 27, 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 **Outstanding**.

The bank's loan-to-deposit ratio and loan portfolio mix indicate that the bank is providing products and services to meet the community credit needs. The bank originated a substantial majority of its loans within its assessment area. Based on demographic information and Consolidated Reports of Condition, the bank's record of lending to borrowers of different incomes, small businesses and small farms exceeds the standards for satisfactory performance. No prohibited discriminatory lending policies or practices which would intend to discourage loan applicants were detected during the examination. Further, no analysis of the geographic distribution of loans was performed as there are no low- or moderate-income census tracts or block numbering areas (BNAs) in the bank's assessment area. No complaints were received by the institution regarding its CRA performance since the previous examination.

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

SMALL INSTITUTION ASSESSMENT CRITERIA	VILLA GROVE 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 bank's assessment area.		
Response to Complaints	No CRA-related complaints have been received.		

DESCRIPTION OF INSTITUTION

Villa Grove State Bank is a subsidiary of Villa Grove Bancshares, Inc., a one-bank holding company in Villa Grove, Illinois. The bank, the only financial institution in Villa Grove, Illinois, has its main office at 10 North Main Street with a drive-up facility at 20 North Main Street. Credit services offered by the bank include consumer installment and single-payment, commercial, agricultural and residential real estate loans. The bank offers automated teller machine (ATM) services and has one ATM located at the drive-up facility; however, the machine is not connected to an ATM network and only accepts cards issued by the bank. On September 30, 1996, Villa Grove State Bank had total assets of \$42,552,000. The bank's primary competitors are the four financial institutions in Tuscola, Illinois, with the most prominent being Tuscola National Bank. Another competitor is Longview State Bank in Longview, Illinois.

DESCRIPTION OF BANK'S ASSESSMENT AREA

Villa Grove, Illinois is located in rural Douglas County in east central Illinois. The town is 15 miles south of the Champaign-Urbana metropolitan area, and 25 miles east of Decatur. Historically, Villa Grove prospered as the primary stop for crew changes on the Union Pacific Railroad freight line between Chicago, Illinois and St. Louis, Missouri. Because the railroad has changed its operational procedures and reduced the number of stops, the town is experiencing new growth as a bedroom community of the Champaign-Urbana area. Villa Grove has a population of 2,734, of which 0.08% are minority residents.

The bank has delineated its assessment area as BNAs 9520 and 9521 in Douglas County and Census Tract 108 in Champaign County. The assessment area encompasses the Villages of Homer, Sidney, Broadlands, Longview, Villa Grove, Camargo, Newman and Hindsboro. The northern portion of the assessment area in rural Champaign County is part of the Champaign-Urbana Metropolitan Statistical Area (MSA). According to 1990 U.S. Census Bureau data, the assessment area has a population of 11,278 with a 0.5% minority resident concentration. The median family income is \$29,694 for the non-metro State of Illinois and \$35,631 for the MSA. Of the assessment area's 3,263 families, 189 or 5.8% live below the poverty level. The median value and age of housing in the assessment area is \$44,713 and 39 years.

According to 1990 U.S. Census Bureau data, 63.54% of the workforce residing in Villa Grove work outside their area of residence. The City of Tuscola, located ten miles southwest of Villa Grove, has a number of manufacturing plants and a discount outlet mall. Major employers in the Champaign-Urbana area include the University of Illinois, Solo Cup, Inc., Textron Automotive Co., and Kraft Foods, Inc.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

The bank is in compliance with the substantive provisions of fair lending laws and regulations, including the Equal Credit Opportunity and Fair Housing Acts. No illegal discrimination or discouragement of credit applicants were detected during the examination.

Loan-to-Deposit Ratio Analysis

The following chart compares the bank’s net loan-to-deposit ratios over the seven most recent quarters to those of local competitors. The information was gathered from Consolidated Reports of Condition from the most recent seven quarters.

Bank Name	Avg.	03/95	06/95	09/95	12/95	03/96	06/96	09/96
Villa Grove State Bank	70.75%	69.31%	71.83%	72.50%	70.49%	66.89%	68.75%	75.50%
Longview State Bank	65.45%	64.36%	58.98%	67.05%	68.23%	65.66%	62.89%	70.95%
Tuscola National Bank	64.19%	65.53%	66.55%	67.78%	64.90%	59.07%	61.61%	63.91%

The bank’s average ratio is higher than the ratios of its local competitors. A 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	140	.50
Residential (1-4)	14,100	50.86
Commercial	1,485	5.36
Agricultural	1,900	6.85
Multi-family	0	0
CONSUMER		
Open-end Credit	0	0
All Other	3,285	11.85
COMMERCIAL AND INDUSTRIAL	3,445	12.43
AGRICULTURAL	3,232	11.66
STATE AND POLITICAL OBLIGATIONS	99	0.36
OTHER	38	0.14

A comparison of the bank's loan distribution with information contained in the previous report of examination (June 30, 1995) shows that total loans increased by \$2,002,000 or 7.78%. The increase is primarily in real estate loans; loans secured by 1-4 family residential property increased

by \$1,945,000 or 16%. Increases in the commercial and agricultural categories account for the remainder of the increase.

According to the September 30, 1996 Uniform Bank Performance Report (UBPR), the bank's loan-to-deposit ratio is 75.50% and the peer group's is 67.70%. The bank's loan portfolio has a higher concentration in loans secured by residential 1-4 family properties (50.76%) than other banks in its peer group (26.80%).

The loan-to-deposit ratio and loan portfolio mix are indicative of a bank that is meeting its community's demand for credit products and services and exceeds the standards for satisfactory performance.

Lending in the Assessment Area Analysis

A review of the bank's quarterly internal CRA lending analysis reports revealed the following level of lending within the assessment area:

Loan Type	Avg.	09/95	12/95	03/96	06/96	09/96	12/96
Commercial (%)	80.92%	84.90%	75.15%	76.96%	84.02%	79.82%	84.04%
Commercial (#)	929/1148	163/192	124/165	147/191	163/194	174/218	158/188
Installment (%)	76.31%	78.26%	67.95%	70.89%	84.21%	79.21%	75.86%
Installment (#)	409/536	90/115	53/78	56/79	64/76	80/101	66/87
Real Estate (%)	78.85%	86.21%	83.33%	75.00%	82.86%	63.16%	78.79%
Real Estate (#)	123/156	25/29	20/24	12/16	29/35	12/19	26/33

Over the most recent eighteen months, the bank made 1,461 of 1,840 or 79.40% of its loans within the assessment area. The bank has originated a substantial majority of all loan products within its assessment area. The bank's lending in its assessment area exceeds the standards for satisfactory performance.

Lending to Borrowers of Different Incomes/Businesses of Different Sizes

An analysis of 62 consumer real estate loans originated from July 1996 through December 1996 was performed, based on borrower income. Of the 62 loans, 41 were made within the assessment area. The distribution of the 41 loans, by borrower income, is as follows:

Income Category	# of Loans	% of Loans	% of Population*
Low-Income	3	7%	20%
Moderate-Income	2	5%	19%
Middle-Income	8	20%	24%
Upper-Income	28	68%	38%

*using the non-metro State of Illinois median family income

Combined, loans to low- and moderate-income borrowers account for 12% of the bank's consumer real estate loans made within the assessment area. The low- and moderate-income families in the assessment area account for 39% of the population. The significant difference in the percentages are a reflection of the assessment area's age demographics. According to community representatives, a significant percentage of the population is elderly, on fixed incomes, and has assets (homes and vehicles) that are unencumbered by debt. As a result, demand for new debt is low. The high percentage of loans to the upper-income group reflects the pattern of migration from the Champaign-Urbana metropolitan area to surrounding rural communities. Based on this loan distribution, the assessment area's demographics, and on information received from community representatives that relates to the bank's lending performance, the bank's record of lending to borrowers of different incomes is satisfactory.

The bank's Consolidated Report of Condition as of June 30, 1996 indicates that all or substantially all of the bank's 169 commercial loans are to small businesses (businesses with gross annual revenues under \$1,000,000). The June 30, 1996 Report of Condition also indicates that all or substantially all of the bank's 126 agricultural loans are to small farms (farms with gross annual revenues under \$500,000).

The bank's record of lending to borrowers of low- and moderate-income levels and to small businesses and small farms exceeds the standards for satisfactory performance.

Geographic Distribution Analysis

An analysis of the bank's record of lending in low- and moderate-income geographies was not performed as there are no low- and moderate income census tracts or BNAs in the assessment area.

Complaints

No formal complaints were received against the bank's fair lending or CRA performance.