

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 **Farmers State Bank of Western Illinois, New Windsor, Illinois** prepared by the **Federal Reserve Bank of Chicago**, the institution's supervisory agency, as of **April 14, 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.

The bank generally provides credit consistent with its size, financial capacity, location, current economic conditions and the needs of its assessment area. The bank is a strong provider of consumer, small farm and small business loans. A significant majority of the bank's loans are originated within its assessment area. The bank's loan-to-deposit ratio and lending to borrowers of different incomes and businesses of different sizes meet the standards for satisfactory performance.

DESCRIPTION OF INSTITUTION

Farmers State Bank of Western Illinois, with assets of approximately \$78.6 million, is a subsidiary of Alpha Banco, Inc., a one-bank holding company. The bank operates six offices in four counties in northwestern Illinois. Although the bank's charter is located in New Windsor, the main office and the holding company are in Alpha, with one branch each in New Windsor, Aledo, Alexis, Viola and Woodhull. Competition is derived from AMCORE Bank, Aledo, in Aledo Illinois, The National Bank of Monmouth, in Monmouth, Illinois, The Farmers National Bank of Geneseo, in Woodhull, Illinois, and Norwest Bank Illinois, National Association, in Galesburg, Illinois.

The bank's primary products are agricultural, consumer installment and mortgage, commercial and government guaranteed loans. The bank's customers also have access to credit cards and long-term mortgages.

DESCRIPTION OF THE BANK'S ASSESSMENT AREA

The assessment area is comprised of portions of four counties located in the northwestern portion of Illinois. The area includes all four block numbering areas (BNAs) in Mercer County (401, 402, 403 and 404), two BNAs in Warren County (8701 and 8703), two BNAs in Knox County (001 and 002) and census tract 312 in Henry County. Henry County is part of the Davenport-Rock Island-Moline Metropolitan Statistical Area (MSA).

All geographies in the bank's assessment area are considered middle-income, with the exception of BNA 401 in Mercer County, which is considered upper-income. There are no geographic concentrations of minorities in the assessment area. The largely rural and agricultural assessment area contains small communities, with a total population of 32,727. According to 1990 Census data, minorities comprise 1.3% of the assessment area's total population, with the largest (.7%) being Hispanic individuals.

The nearby Quad Cities of Rock Island, Moline, Davenport and Bettendorf, in addition to the Cities of Galesburg and Monmouth provide significant employment opportunities to the residents of the assessment area. Community contacts indicated that the local economy is stable and performing well. A reduction in small farm operations as a result of increasing operational costs is expected to continue. A review of economic data for Mercer County, which represents the largest geographic portion of the assessment area, revealed that nonfarm employment increased between 1990 and 1994, while farm employment declined slightly.

The median family income for the assessment area is \$34,082, based upon current MSA figures. The median age of the housing stock is 45 years, with the majority consisting of owner-occupied units. Approximately 22% of the housing units are rental, with a gross median rent of \$291. According to U.S. Census Bureau data, approximately 16% of the families within the assessment area are considered low-income, 19% are moderate-income, 26% are middle-income and 39% are

upper-income.

The major employers within the assessment area include Pioneer International Seed Corporation and Grow Market/FS Corporation. Other employers include Alpha F S Inc., Alexis Fire Equipment Company, Moorman Manufacturing Company, Alpha Division and Midwest Fibre Products Inc.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

The bank is in compliance with the substantive provisions of antidiscrimination laws and regulations, including the Equal Credit Opportunity Act and Fair Housing Act.

Loan-to-Deposit Ratio

A review of the bank's December 31, 1996 Consolidated Report of Condition revealed a loan-to-deposit ratio of 64.51%. According to the December 1996 Uniform Bank Performance Report, the bank's peer group loan-to-deposit ratio is 69.63%. Although the bank's quarterly loan-to-deposit ratio is slightly below peer, it is considered favorable when compared to financial institutions within the local area. The following chart illustrates loan-to-deposit ratios of the bank's local competitors as of June 30, 1996:

Name of Bank	Loans	Deposits	Loan to Deposit Ratio
AMCORE (Aledo)	\$40,255,000	\$86,505,000	46.53%
FARMERS NATIONAL (Geneseo)	\$90,251,000	\$158,400,000	56.98%
NATIONAL BANK (Monmouth)	\$60,222,000	\$78,064,000	77.14%
NORWEST (Galesburg)	\$110,003,000	\$233,027,000	47.21%

An analysis of the bank's Consolidated Reports of Condition throughout the four quarter review period disclosed an average loan-to-deposit ratio of 65.04%. The following chart shows the bank's quarterly loan-to-deposit ratios since the previous examination.

3/96	6/96	9/96	12/96
65.35%	65.96%	64.33%	64.51%

As shown in the preceding chart, the bank's loan-to-deposit ratio has shown a slight decline since the previous examination. Although the bank's loan-to-deposit ratio is slightly lower than peer, it

compares favorably with its local competition. The bank's loan-to-deposit ratio is reasonable, given the bank's size, financial condition and credit needs of the assessment area.

Lending in Assessment Area

According to the bank's CRA Assessment Area Profile, lending activity for consumer, consumer mortgage and commercial/agricultural loans revealed that a substantial majority of the bank's lending activity is within the assessment area. As of April 7, 1997, 85.5% of the bank's loan portfolio was within the assessment area. The Profile also revealed that a majority of the bank's loan activity is located within Mercer County.

The examination sample of approved loans was reviewed to determine lending activity within the assessment area. The examination loan sample revealed the following:

LOAN TYPE	TOTAL SAMPLED	WITHIN THE LOCAL ASSESSMENT AREA	PERCENT OF TOTAL
Real Estate Mortgage	10	9	90
Consumer Installment	20	17	85
Single Payment	20	16	80
Overdraft Protection	10	9	90
Commercial/Agricultural	20	17	85
Total	80	68	85

The examination loan sample further supports the fact that a substantial majority of the bank's loan activity is within the assessment area.

Activity for the bank's major loan products since the previous examination was reviewed. The bank originated a total of 1,956 loans totaling \$21,978,288. Consumer installment was the bank's major loan product by volume (978 of 1,956 or 50%) and agricultural loans were the major product by total dollar amount (\$10.66 million of \$21.97 million or 49%). The bank originated 400 or 92.8% of the agricultural loans within the assessment area. Similarly, the bank originated 879 or 89.9% of its consumer installment loans within the assessment area.

Based upon information provided by management and the examination loan samples, the bank originates a substantial majority of its loans within the assessment area.

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

The bank does not retain income information in all loan application files; therefore, loan amounts were used as a proxy to determine the bank's level of lending among borrowers of different income levels. Management stated that the bank has no minimum loan amount.

From April 1, 1996 to April 1, 1997, the bank originated 978 consumer installment loans totaling \$3,683,298, for an average loan amount of approximately \$3,766. Approximately 15.9% (140 of 978) of the installment loans originated had a loan amount of \$1,000 or less.

An analysis of a sample of loans approved since the previous examination in which income information was available was conducted. The analysis revealed the following:

LOAN TYPE	LOW-INCOME \$'s/Number	MODERATE- INCOME \$'s/Number	MIDDLE- INCOME \$'s/Number	UPPER-INCOME \$'s/Number
Real Estate	\$0/0	\$18,500/1	\$204,000/5	\$176,000/3
Installment	\$9,045/3	\$3,813/1	\$0/0	\$1,220/1
Overdraft Protection	\$500/1	\$0/0	\$0/0	\$0/0
Total	\$9,545/4	\$22,313/2	\$204,000/5	\$177,220/4

As illustrated in the preceding chart, the greatest number of loans were to middle-income borrowers (five loans), with four loans each to low and upper-income borrowers. The greatest dollar volume of loans were originated to middle (\$204,000) and upper (\$177,220) income borrowers. Although the sample size is small, it is a reasonable representation the bank's lending activity. The majority of the loans were granted to middle and upper-income individuals, which is consistent with the income distributions, as the majority of the family incomes within the assessment area are considered middle and upper-income, 26% and 39%, respectively.

Management stated that the bank's primary business and agricultural borrowers are small businesses and farms, with revenues from \$400,000 to \$700,000. The bank's agricultural lending activity since the previous examination revealed loan amounts ranging from \$425 to \$370,000. Since the previous examination, the bank originated 431 agricultural loans totaling approximately \$10.7 million, for an average loan of approximately \$24,825. Additionally, the bank originated 229 business loans totaling approximately \$3.9 million or an average loan of about \$17,030.

A sample of approved commercial and agricultural loans was reviewed to ascertain whether the bank was lending to businesses and farms of different sizes. Small business loans are defined as those with original amounts of \$1 million or less. Small farm loans are defined as those with original amounts of \$500,000 or less. For 20 loans sampled, revenues ranged from \$120,000 to \$620,000, with only one business having a gross annual income figure in excess of \$1 million.

According to the bank's June 30, 1996 Consolidated Report of Financial Condition, 325 loans to small businesses and 601 agricultural loans were in the bank's loan portfolio. The bank's commercial/agricultural lending activity is primarily to small businesses and farms.

The majority of the analyses are based upon loan amounts and not income information; however, the low loan amounts reflect a reasonable penetration among individuals of different income levels and businesses and farms of different sizes.

Geographic Distribution of Loans

There are no low- or moderate-income geographies within the bank's assessment area; therefore, this criterion is not rated.

Response to Complaints

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