

# **PUBLIC DISCLOSURE**

**February 10, 1997**

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**Effingham State Bank  
RSSD #773247**

**Effingham, Illinois**

**Federal Reserve Bank of St. Louis**

**P.O. Box 442**

**St. Louis, Missouri 63166-0442**

**NOTE:** This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the Federal Reserve concerning the safety and soundness of this financial institution.

## 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 operation 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 Community Reinvestment Act (CRA) performance of **Effingham State Bank** prepared by the **Federal Reserve System**, the institution's supervisory agency, as of February 10, 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 CRA RATING:** This institution is rated Satisfactory.

Effingham State Bank meets the necessary criteria to receive a satisfactory rating. The loan-to-deposit ratio is reasonable given the institution's size, its financial condition, and the credit needs of the assessment area. A majority of the bank's loans and other lending related activities are extended within its assessment area. The distribution of loans reflects outstanding penetration among individuals of different income levels, including low- and moderate-income, and businesses of different sizes. The geographic distribution of the bank's loans reflects a reasonable dispersion throughout the assessment area.

The following table indicates the performance level of Effingham State Bank with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	Effingham State Bank PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Standards	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 prior examination.		

## DESCRIPTION OF INSTITUTION

Effingham State Bank is owned by Midland States Bancorp, Incorporated, a multi-bank holding company. The institution operates three bank facilities: the main office, one branch located in Effingham, Illinois, and one branch in Altamont, Illinois. The main office and the Altamont branch are both full-service facilities, while the Effingham branch offers only deposit and teller services. In addition, the bank operates six automated teller machines (ATMs). Each office location has an ATM and the remaining three ATMs are located in the city of Effingham. The bank is a commercial and retail institution whose primary loan products include small business loans, motor vehicle secured loans, residential real estate loans, and agricultural loans.

As of September 30, 1996, the bank reported \$166.1 million in total assets. The institution exists in a highly competitive environment; currently, the bank considers itself to be competing with at least five other financial institutions in the city of Effingham, as well as several others in surrounding communities. The structure and size of financial institutions competing in the Effingham market vary widely with total assets ranging from \$50.3 million, as of September 30, 1996, for an independently owned institution to \$417.1 million for a larger subsidiary of a multi-bank holding company with a branch in Effingham.

## DESCRIPTION OF ASSESSMENT AREA

The bank defines its assessment area as all of Effingham County, which encompasses eight Block Numbering Areas (BNAs), 9501.00 through 9505.00 and 9597.00 through 9599.00. The assessment area includes the city of Effingham, the county seat of Effingham County, as well as the surrounding communities of Altamont, Dieterich, Mason, Shumway, Teutopolis, and Watson. The city of Effingham has a population of approximately 12,000 and is the largest city in the assessment area. Based on 1990 census data, the total population of the assessment area is 31,704.

As of the 1990 census, the median family income for the assessment area was \$33,339, compared to the statewide nonmetropolitan median family income of \$29,694. Based on these figures, BNA 9598.00 is classified as upper-income, while the remaining seven BNAs are middle-income geographies.<sup>1</sup> Although the assessment area includes no low- or moderate-income geographies, low- and moderate-income families are present throughout the community. The following represents the income characteristics of the population in the assessment area per the 1990 census:

<b>Income Characteristics of Assessment Area Population</b>				
<b>Income Level</b>	Low-	Moderate-	Middle-	Upper-
<b>Population Percentage</b>	14.6%	16.6%	23.4%	45.4%

According to bank management, visual observation, and community contact, the local economy is strong and expanding. Over the previous year, more than 300 jobs have been created as a result of industrial expansion. Given current industrial development projects, and the growing employment base available from surrounding areas, the growth of the economy is expected to continue. Agriculture and manufacturing are the predominant industries of the area. The area's major employers include Fedders U.S.A., Crossroads

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<sup>1</sup>Low-income is defined as individual income, or in the case of a geography, a median family income that is less than 50 percent of the statewide nonmetropolitan median family income.

Moderate-income is defined as individual income, or in the case of a geography, a median family income that is at least 50 percent and less than 80 percent of the statewide nonmetropolitan median family income.

Middle-income is defined as individual income, or in the case of a geography, a median family income that is at least 80 percent and less than 120 percent of the statewide nonmetropolitan median family income.

Upper-income is defined as individual income, or in the case of a geography, a median family income that is 120 percent or more of the statewide nonmetropolitan median family income.

Press, Petty Company, St. Anthony Memorial Hospital, and Roadmaster Corporation. Total employment for Effingham County is approximately 18,200 individuals. According to the Illinois Department of Employment Security, the annual average unemployment rate for Effingham County was 4.7 percent for 1996, compared to 5.3 percent for the state.

## **CONCLUSIONS WITH RESPECT TO THE PERFORMANCE CRITERIA:**

### **Loan-to-Deposit Ratio**

The bank's average net loan-to-deposit ratio for the five quarters from September 30, 1995 through September 30, 1996 is 52.5 percent. For the same period, net loan-to-deposit ratios for competing institutions in the city of Effingham ranged from 58.0 percent to 78.2 percent. Although the bank's loan-to-deposit ratio is low in comparison to competing financial institutions, it is considered reasonable given the bank's performance context and the fact that the ratio is on an increasing trend. The performance context includes the bank's capacity to lend, the capacity of other similarly-situated banks to lend in the assessment area, demographic and economic factors in the assessment area, and lending opportunities available in the bank's assessment area.

The bank's loan-to-deposit ratio has steadily improved each quarter from a level of 48.8 percent at September 30, 1995 to 56.5 percent at September 30, 1996, an increase of 7.8 percent. Bank management plans to continue increasing the loan-to-deposit ratio, but considers this to be a slow process given the highly competitive market in which the bank operates. Given these factors, the bank's loan-to-deposit ratio meets the criteria for satisfactory performance.

### **Lending in the Assessment Area**

A review of statistical samples of motor vehicle and small business loans, two of the bank's primary lending products revealed that a majority of the bank's loans are originated within the assessment area. The samples included loans originated during the six-month period ended January 31, 1997.

The following table identifies, by loan type, the number, dollar volume and percentage of loans originated inside the assessment area.

<b>Distribution of Loans In/Out of the Assessment Area</b>					
<b>Loan Type</b>	<b>Sample Size</b>	<b>Inside Assessment Area</b>		<b>Outside Assessment Area</b>	
		<b>Number</b>	<b>Dollar</b>	<b>Number</b>	<b>Dollar</b>
Motor Vehicle	91	67 73.6%	\$530,937 61.8%	24 26.4%	\$327,624 38.2%
Small Business	65	54 83.1%	\$5,510,307 69.5%	11 16.9%	\$2,422,593 30.5%
<b>Totals</b>	156	121 77.6%	\$6,041,244 68.7%	35 22.4%	\$2,750,217 31.3%

As illustrated in the table above, 121, or 77.6 percent, of the 156 loans sampled were originated within the assessment area. By dollar volume, nearly 69 percent of the loans sampled were originated inside the assessment area. As a result, the bank's performance in this area meets the standards for satisfactory performance.

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

Consideration of the demographics of the assessment area and the dispersion of loans originated by the institution reveals the bank achieves outstanding loan penetration among individuals of different income levels and businesses of different sizes. This conclusion is based upon the analysis of the samples of motor vehicle and small business loans, by individual borrower income level and business revenue size.

The following table reflects the results of the review for motor vehicle loans.

<b>Distribution of Loans (Number and Dollar Volume) Inside Assessment Area by Income Level of Borrower</b>					
<b>Loan Type</b>	<b>Borrower Income Classification <sup>2</sup></b>				<b>Totals</b>
	<b>Low-</b>	<b>Moderate-</b>	<b>Middle-</b>	<b>Upper-</b>	
Motor Vehicle <sup>3</sup>	16 34.0%	11 23.4%	13 27.7%	7 14.9%	47 100%
	\$76,805 23.7%	\$79,054 24.3%	\$92,039 28.3%	\$77,037 23.7%	\$324,935 100%
Assessment Area Population	14.6%	16.6%	23.4%	45.4%	100%

As illustrated in the table above, 57.4 percent of the number of motor vehicle loans originated and 48 percent of the dollar volume are to low- and moderate-income borrowers. In comparison, only 31.2 percent of the assessment area population is classified as low- and moderate-income.

All commercial loans reviewed met the definition of small business loans, which is defined as loans that have an origination amount of \$1 million or less.

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<sup>2</sup>The income level of the borrower was compared to the 1996 statewide nonmetropolitan median family income of \$36,000, as made available by the Department of Housing and Urban Development, and is categorized using the income definitions in footnote one.

<sup>3</sup>Distribution percentages exclude loans where income information was unavailable.

The following table illustrates the level of lending to businesses of different sizes.

<b>Distribution of Small Business Loans</b>				
<b>Gross Revenue</b>	<b>Loan Origination Amount (000's)</b>			<b>Total Loans</b>
	<b>≤100</b>	<b>100&lt;x≤250</b>	<b>250&lt;x&lt;1,000</b>	
Less than \$1 million	20 51.3%	3 7.7%	0 0.0%	23 59.0%
\$1 million or more	8 20.5%	5 12.8%	3 7.7%	16 41.0%
Total Loans	28 71.8%	8 20.5%	3 7.7%	39 100%

The above table reveals that 59 percent of small business loans were originated to businesses with gross annual revenues of less than \$1 million. Further, a significant number of loans originated, 71.8 percent, were for small dollar amounts of \$100,000 or less. The analysis reveals the bank's lending to borrowers of different income levels and businesses of different sizes exceeds the criteria for satisfactory performance.

### **Geographic Distribution**

The bank's assessment area (Effingham County) contains eight BNAs. According to 1990 U. S. Census Bureau data, seven BNAs are middle-income and one is upper-income. There are no low- or moderate-income areas in Effingham County.

The following chart depicts the distribution of motor vehicle and small business loans by income level of the BNA.

<b>Geographic Distribution of Loans (Number and Dollar Volume) Across Assessment Area by Income Level of BNAs</b>			
<b>Loan Type</b>	<b>BNA Income Classification</b>		<b>Total</b>
	<b>Middle-</b>	<b>Upper-</b>	
Motor Vehicle	56 83.6%	11 16.4%	67 100%
	\$432,630 81.5%	\$98,308 18.5%	\$530,938 100%
Small Business	45 83.3%	9 16.7%	54 100%
	\$4,380,016 79.5%	\$1,130,291 20.5%	\$5,510,307 100%
<b>Total Loans Sampled</b>	101 83.5%	20 16.5%	121 100%
	\$4,812,646 79.7%	\$1,228,598 20.3%	\$6,041,244 100%
Population	86.9%	13.1%	100%

As the above table indicates, the bank's origination of 83.5 percent of the number of loans made and 79.7 percent of the dollar volume in middle-income BNAs is representative of the middle-income population of 86.9 percent. The statistical review of the distribution of loans within the assessment area reveals that the bank's loans are reasonably dispersed throughout the assessment area. As such, the geographic distribution of the bank's loans meets the standards for satisfactory performance.

### **Review of Complaints**

No CRA-related complaints have been received since the prior examination, conducted on September 11, 1995.

**Additional Information:**

A fair lending analysis was performed to assess compliance with the Equal Credit Opportunity and the Fair Housing Acts. The analysis revealed that the bank is in compliance with the substantive provisions of the antidiscrimination laws and regulations. Further, results of the analysis suggested that applications were actively solicited from all segments of the bank's assessment area.