

**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 **September 22, 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 Hartsburg State Bank has made a satisfactory effort to offer credit consistent with its size, financial capacity, location, and current economic conditions. The bank's efforts are primarily accomplished through the origination of agricultural loans. The loan-to-deposit ratio is reasonable. The bank originates the majority of its loans within its assessment area, and its lending to low- and moderate-income borrowers is adequate. The bank's assessment area consists of only one middle-income geography; therefore, an analysis of the geographic distribution of loans was not completed. In addition, no CRA-related complaints have been received since the previous examination, and there is no evidence of any prohibited discriminatory lending practices or policies intended to discourage loan applications. There are no legal or regulatory impediments which prohibit the bank from meeting the credit needs of its community.

**DESCRIPTION OF INSTITUTION**

The Hartsburg State Bank, with assets of \$9.5 million as of June 30, 1997, has one main office located in Hartsburg. The bank has lobby hours between 9:00am and 3:00pm Monday through Friday, and between 9:00am and 12:00pm on Saturday. The bank's primary competitor is the Farmers State Bank, with approximately \$27.4 million in assets, located in the neighboring town of Emden. The bank also faces competition from large financial institutions located approximately ten miles away in Lincoln.

The bank is primarily an agricultural lender, but also offers consumer, commercial and real estate loans. Agricultural loans represent the largest portion of the bank's loan portfolio at 52.51%.

**DESCRIPTION OF ASSESSMENT AREA**

The bank's assessment area consists of one block numbering area (BNA) located in rural Logan County. The BNA (number 9530) is defined as middle-income.

According to 1990 United States census data, the population of the assessment area is 2,783. The median family income for the assessment area is \$30,878. Low-income families represent 17.8%, moderate-income families represent 17.1%, middle-income families represent 24.9%, and upper-income families represent 40.1% of the assessment area's population. According to the census data, the housing stock of the assessment area is 67.4% owner-occupied, 28% rental, and 4.9% vacant/boarded-up. Within the assessment area, the median housing value is \$38,300.

According to census data, the population of the Village of Hartsburg is 350. Growth is not expected because the village is landlocked, as approximately 30,000 acres of the land surrounding Hartsburg is owned by the Skully family trust. This land is leased to farmers who purchase the right to live and farm on the property.

According to the Illinois Department of Employment Services, the unemployment rate in Logan County as of June 1997 was 5.8%. The unemployment rate decreased since June 1996 when it was 7.4%. Over the same time period the state average unemployment rate declined from 5.3% in 1996 to 4.4% in 1997. The local economy, as described by community representatives, is not doing as well as it has historically. Unemployment in the county is higher than the state average, and crop yields are lower due to a lack of rainfall.

Hartsburg and the surrounding areas are agricultural; however, residents also commute to work in nearby Lincoln, and to Springfield and Bloomington, both of which are approximately thirty-five miles away. Lincoln lost some jobs over the past year when a factory closed, but the losses were minimized when Eaton Corporation added approximately 100 jobs at its plant. The two largest employers in Lincoln are Cutler-Hammer (Eaton Corporation) a manufacturer of circuit breaker panels employing approximately 650 people;

and Ball-Foster Glass Packaging Corporation, a manufacturer of glass containers employing approximately 250 people.

Census data indicates that the number of farm proprietors was down 8.26% over the four-year period ending in 1994. This trend was confirmed by community representatives who stated that the farms are consolidating because of a lack of family continuity, and the need for high crop yields in order to make a living.

**CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:**

The bank is in compliance with the fair lending laws and regulations, including the Equal Credit Opportunity Act and the Fair Housing Act.

**LOAN-TO-DEPOSIT RATIO**

In order to assess the bank's performance in this category, an analysis was performed of its loan-to-deposit ratio over a specific time period, and a comparison was made of its loan-to-deposit ratio to that of its primary competitor and its peer group.

According to the June 30, 1997 Uniform Bank Performance Report (UBPR), the bank's loan-to-deposit ratio was 48.50%. This represents a decline of 2.03% from the loan-to-deposit ratio of 50.53%, noted in the previous report. However, after adjusting for seasonal variations, the bank has not experienced a significant change in the amount of loans outstanding since the previous examination. As illustrated in the following chart, the bank's six-quarter average loan-to-deposit ratio was compared to that of its primary competitor and its peer group:

BANK	LOCATION	ASSET SIZE * (000)	3/96	6/96	9/96	12/96	3/97	6/97	LOAN-TO-DEPOSIT RATIO **
<b>Hartsburg State Bank</b>	Hartsburg, IL	\$9,560	50.53%	49.70%	47.55%	45.78%	51.63%	48.50%	48.95%
<b>Farmers State Bank</b>	Emden, IL	\$27,402	21.86%	23.92%	25.47%	25.30%	21.09%	21.75%	23.23%
<b>PEER GROUP</b>	N/A	N/A	56.16%	58.57%	58.65%	56.55%	56.00%	59.12%	57.51%

\*Asset size based upon the June quarterly consolidated report of condition (Call report)

\*\*Loan-to-Deposit Ratio is the average of the previous six quarters as reported on the Uniform Bank Performance Report (UBPR)

While the bank's loan-to-deposit ratio is lower than that of its peer group, there are

compensating factors adversely impacting the ratio which support a satisfactory rating in this performance category. The bank's average loan-to-deposit ratio of 48.95% is below peer by 8.56%; however, according to the March 31, 1997 UBPR the bank's performance exceeded peer in agricultural related loans by 20.93%, while it was reasonably consistent with peer in other loan categories. This is caused by the highly agricultural nature of the community in which the bank is located. Furthermore, as the chart indicates, the bank's loan-to-deposit ratio is higher than that of its primary competitor indicating that the bank is making an effective effort to extend credit.

The bank's deposit levels increased during the review period, and the bank extends credit in small loan amounts. During the six-quarter review period, deposit levels increased approximately \$.5 million during the quarter ending December 31, 1996, and remained higher than normal for the next two quarters negatively impacting its loan-to-deposit ratio. In addition, a six-month review of consumer installment loans revealed that 14 (37.84%) of 37 loans were extended in amounts of \$1,000 or less. Small loan amounts demonstrate the bank's commitment to serving its community, and supplement its loan-to-deposit ratio.

Based upon this review, the bank's loan to deposit ratio is reasonable and meets the standards for satisfactory performance in this category.

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

A six-month sample of small business/farm and consumer loans was reviewed and compared with the bank's current assessment area in order to assess the bank's performance in this category. This sample encompassed every loan extended by the bank in the six-month period preceding the examination. A sample of 39 small business and farm loans indicated that 30 or 76.92% were made within the assessment area. In addition, a sample of 51 consumer loans indicated that 37 or 72.56% were made inside the assessment area. Combining the products sampled, a total of 74.44% (67 of 90) were made within the assessment area.

Based upon this review, the bank makes the majority of loans within its assessment area and meets the standards for satisfactory performance under this category.

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

Call report data and a six-month sample of consumer loans were reviewed in order to assess the bank's performance in this category.

Discussions with management and information contained in the June 30, 1996 Consolidated Report of Income (Call Report) indicates that a substantial majority of the bank's commercial/agricultural loans are made to small business and farms. The bank reported five commercial and industrial loans, six loans secured by farmland, and 67 loans to finance agricultural production and other loans to farmers on the June 30, 1996 Call Report.

Since the bank does not collect income information for consumer loan applicants, original loan amounts were analyzed and used as proxies for income to assess the bank's consumer lending performance. Discussions with the bank's management indicated that many low- and moderate-income borrowers request credit in amounts under \$2,500, and many financial institutions will not extend closed-end credit in amounts under \$2,500. A sample of 37 consumer loans revealed that 21 or 57% of the extensions were under \$2,500. Loans in these amounts indicate that credit is available to low- and moderate-income borrowers.

Based upon this analysis, the bank meets the standards for satisfactory performance under this category.

**Geographic Distribution of Loans**

The bank's assessment area does not include any low- or moderate income geographies; therefore, the bank was not evaluated under this category.

**Response to Complaints**

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