

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 **August 11, 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 Farmers Bank generally promotes economic development in a manner consistent with its asset size, financial capacity and current assessment area economic conditions. The bank's loan-to-deposit ratio meets the standards of satisfactory performance. The distribution of loans by income level and geography is also reasonable. The bank's efforts are accomplished through the origination of residential real estate, consumer, small business and small farm loans. The examination loan sample, 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.

DESCRIPTION OF INSTITUTION

The Farmers Bank, with total assets of \$32.3 million as of March 31, 1997, is a locally-owned bank with its main office and drive-up facility in Mt. Pulaski, Illinois. The bank offers consumer, real estate, commercial and agricultural loans. The bank's primary competitors include the First National Bank of Mt. Pulaski, with total assets of \$44.9 million; the Bank of Chestnut, Chestnut, Illinois, with total assets of \$12 million; and the State Bank of Latham, Latham, Illinois, with total assets of \$7.2 million. 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 (number is 9536). The assessment area contains the rural townships of Chestnut, Aetna, Mount Pulaski, Laenna, and Lake Fork. The bank's customers reside 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 census data, 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 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 changed 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. Discussions with community representatives identified a need for home improvement loans, as 54.1% or 808 housing units were built prior to 1950.

According to the Illinois Labor Market Review the unemployment rate in Logan County has declined to 5.3% in May 1997 compared to 6.6% in May 1996. The State of Illinois unemployment rate has declined to 4.3% in May of 1997, from 5.2% in May of 1996.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

There was no evidence of prohibited discriminatory credit practices. The bank is in compliance with the substantive provisions of antidiscrimination laws and regulations, including the Equal Credit Opportunity and Fair Housing Acts.

LOAN-TO-DEPOSIT RATIO

A review of the bank's March 31, 1997 Consolidated Report of Condition revealed a loan-to-deposit ratio of 51.14%. This is consistent with the loan-to-deposit ratio noted in the previous report of examination of 49.28% (as of March 31, 1996). A review of the bank's

Consolidated Report of Condition over the most recent six quarters, beginning December 31, 1995, revealed an average loan-to-deposit ratio of 50.21%. According to the March 31, 1997 Uniform Bank Performance Report (UBPR), the bank's loan-to-deposit ratio of 51.14% ranks below the national peer group average loan-to-deposit ratio of 66.02%.

The following are the loan-to-deposit ratios of the bank and its competitors:

BANK NAME	LOCATION	ASSET SIZE*	LOAN-TO-DEPOSIT RATIO*
The Farmers Bank	Mt. Pulaski, IL	\$32.2 million	51.14%
First National Bank	Mt. Pulaski, IL	\$50.7 million	85.54%
State Bank of Latham	Latham, IL	\$6.4 million	61.29%
Bank of Chestnut	Chestnut, IL	\$11.6 million	74.41%

* as of June 30, 1997

** as of March 31, 1997

As the preceding table illustrates, the bank's loan-to-deposit ratio is less than its competitors. The change in the economy of Mt. Pulaski from agricultural-based to a bedroom community and less demand for agricultural loans is attributed to the bank's low loan-to-deposit ratio. 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 loan portfolio (Construction - \$112,000 or 54.37% and Residential 1-4 family - \$1,118,000 or 15.74%).

Based upon its asset size, lending opportunities and current economic factors, the bank's loan-to-deposit ratio meets the standards for satisfactory performance.

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	10	6	60.0
Consumer Installment	20	14	70.0
Consumer Single Payment	17	14	82.3
Commercial/Agriculture	10	5	50.0

Total Approved Loans	57	39	68.4
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As the preceding table illustrates, 68.4% of the sampled loans were made within the bank's assessment area. This compares favorably with the analysis of the six-month CRA sample, with 403 loans or 73.7% of the total loans made within the bank's assessment area.

In addition, analysis of loans made of the previous six months (March 11, 1997 through August 11, 1997) revealed the following:

The Farmers Bank, Mt. Pulaski, Illinois				
Loan Type	INSIDE ASSESSMENT AREA		TOTAL LOAN ORIGINATIONS	
	#	(000) \$	#	(000) \$
1-4 Family	24	1,539	89	4,130
Consumer	246	1,255	846	5,051
Total Consumer	270	2,794	361	3,908
Commercial R/E	8	129	8	208
Total Commercial	21	333	48	1,666
Agricultural Loans	19	621	78	2,349
Total Agricultural	19	621	28	1,051

As the preceding table indicates, 72.73% of consumer loans, 57.14% of commercial loans and 67.86% of agricultural loans were made within the assessment area. The level of lending within the assessment area is considered reasonable and meets the standards for satisfactory performance.

LENDING TO BORROWERS OF DIFFERENT INCOMES AND TO BUSINESS OF DIFFERENT SIZES

An analysis of the sampled loans, where income information was available, revealed the following distribution among borrowers of different income levels:

LOAN TYPE	LOW-INCOME Number of loans	MODERATE-INCOME Number of loans	MIDDLE-INCOME Number of loans	UPPER-INCOME Number of loans
Residential Real Estate	1	1	2	5
Consumer Installment	4	6	2	2

Consumer Single-Payment	0	2	0	2
Total	5	9	4	9
Percent	18.52%	33.33%	14.81%	33.33%

The above chart reveals that 18.52% (5 of 27) of the loans sampled were made to low-income borrowers, and 33.33 (9 of 27) were made to moderate-income borrowers.

A review of agricultural and commercial loans made since the previous examination revealed an average loan size of \$32,876 for agricultural loans and \$29,675 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, 1997 Consolidated Report of Condition, small business and small farm lending have increased since 1994, as the following chart reveals:

The Farmers Bank, Mt. Pulaski, Illinois						
Loan Type	1994		1995		1996	
	#	(000) \$	#	(000) \$	#	(000) \$
Commercial & Industrial	21	288	30	391	32	896
Total Commercial	34	605	45	692	40	1,187
Agricultural R/E	16	508	16	901	18	839
Agricultural Loans	38	863	37	760	47	1,298
Total Agricultural	54	1,371	53	1,661	65	2,137

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

There are no low- or moderate- income census tracts or BNAs in the banks assessment area; therefore, this criterion is not rated.

RESPONSE TO COMPLAINTS

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