

PUBLIC DISCLOSURE

January 5, 1998

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Teutopolis State Bank
RSSD# 134848**

**P.O. Box 249
Teutopolis, Illinois 62467-0249**

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 **Teutopolis State Bank** prepared by the **Federal Reserve System**, the institution's supervisory agency, as of January 5, 1998. 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.

An institution in this category has a reasonable performance record and adequate involvement in activities undertaken to help meet the credit needs of its entire assessment area, particularly in low- and moderate-income neighborhoods and to low- and moderate income borrowers, in a manner consistent with institutional capacity and constraints, assessment area credit needs and opportunities, relevant demographic and economic factors and safe and sound banking practices.

DESCRIPTION OF INSTITUTION

Teutopolis State Bank is located in Teutopolis, Illinois and is a subsidiary of Teutopolis Holding Company, a one-bank holding company also located in Teutopolis, Illinois. The bank has two branches, one located in Effingham County (main office) and the other located in Sigel, Illinois, Shelby County, about seven miles north of Teutopolis. Both branches offer complete banking services. The bank also has two Automatic Teller Machines (ATMs).

As of September 30, 1997, the bank reported total assets of \$89.3 million. Teutopolis State Bank is a commercial and retail institution whose primary loan products include residential real estate loans and commercial loans, which are comprised of small business and small farm loans. An analysis of the loan portfolio by dollar volume, as of September 30, 1997, shows that 64.4 percent of the loans are real estate secured; 22.2 percent are a combination of farm, commercial, and industrial loans; and 13 percent are consumer loans. In the real estate segment of the portfolio, 43.7 percent are 1-4 family residential loans. The bank considers itself to be competing with at least six other financial institutions in Effingham County, and to a lesser extent with several others in surrounding counties. As of September 30, 1997, competing institutions' assets range from \$59.1 million to \$679.6 million.

DESCRIPTION OF ASSESSMENT AREA

The bank defines its assessment area as all of Effingham County, which includes Block Numbering Areas (BNAs) 9501.00 through 9505.00, and BNAs 9597.00 through 9599.00. For evaluation purposes, BNA 9595.00 in Shelby County and BNA 9726.00 in Cumberland County were also included in the assessment area since the Sigel branch is located in Shelby County and adjacent to Cumberland County. The village of Teutopolis has a population of 1,417 and is three miles east of Effingham, the county seat of Effingham County. According to 1990 census data, Effingham County has a population of 31,704. BNA 9595.00 and 9726.00 have a combined population of 7,735.

Effingham's close proximity provides advantages for residents of Teutopolis, including sources of employment, entertainment, shopping, and other amenities. Effingham's recent growth, due to its location near two highways and two railroads, benefits Teutopolis and other surrounding towns as well. The city of Effingham continues to seek new industries by offering an Enterprise Zone, which allows tax and other advantages for new businesses. Teutopolis also has some employment opportunities, including businesses such as Three Z Printing, Stephens Inc., and Siemer Miller Company.

The town of Teutopolis is very conservative. This provides a unique environment for the bank because residents tend to save money rather than borrow money for purchases. As part of this and previous examinations, contacts were made with the community. These contacts confirmed the community's conservative nature, and provided other information about the assessment area. This information was used to provide a context in which to evaluate the bank's performance.

As of the 1990 census, the median family income of Effingham County was \$33,339, compared to the statewide non-metropolitan median family income of \$29,694. Based on these figures, nine of the BNAs included in the assessment area are classified as middle-income geographies, and one is classified as an upper-income geography.¹ Although the assessment area does not include any low- or moderate-income geographies, low- and moderate-income families and individuals are represented in the community. The following table illustrates the income characteristics of the population in the assessment area according to the 1990 census:

Income Characteristics of Assessment Area Population				
Income Level	Low-	Moderate-	Middle-	Upper-
Population Percentage	14.7%	17.1%	23.4%	44.8%

¹ 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 non-metropolitan 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 non-metropolitan 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 non-metropolitan 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 non-metropolitan family income.

According to several sources, including bank management and community contacts, the local economy is thriving. Local industries include services, farming, and manufacturing.

The affordability ratio for the assessment area is 0.52. This ratio represents the amount of single family owner-occupied housing that a dollar of income can purchase for the median household in the geography. Simply put, values closer to 1.0 indicate greater affordability. The following table shows the affordability ratio for the assessment area as compared to the state.

HOUSING AFFORDABILITY	
	Affordability Ratio (%)
Assessment Area	0.523
Cumberland County	0.619
Effingham County	0.499
Shelby County	0.672
State	0.403

As shown in the above table, housing is more affordable in the assessment area than in the rest of the state.

CONCLUSIONS WITH RESPECT TO THE PERFORMANCE CRITERIA:

Loan-to-Deposit Ratio

The bank's loan-to-deposit ratio meets the standard for satisfactory performance considering its capacity to lend, the capacity of other similarly-situated banks to lend, demographic and economic factors present, and lending opportunities available in the bank's assessment area. For the previous seven quarters, the bank's average loan-to-deposit ratio was 52.4 percent, as compared to average loan-to-deposit ratios ranging from 57.1 to 79.3 percent for the six competitor banks. In addition, the bank's loan-to-deposit ratio has increased each quarter since the previous examination with the most recent ratio being 63.0 percent, as of September 30, 1997. The increase in loans demonstrates management's efforts to lend to its community. The Uniform Bank Performance report also shows that the growth rate of loans has been consistently above peer group since 1994.

The bank's loan-to-deposit ratio is lower than its competition's, due in part to Teutopolis' conservative operating environment. Area residents tend to be conservative borrowers and include higher proportions of net bank depositors, which lowers the overall loan-to-deposit ratio.

The bank's location affects its lending performance as well. Located three miles from Effingham, the bank must overcome the barrier of distance to obtain customers in Effingham. The city of Effingham accounts for approximately 36 percent of bank's loans.

Lending in the Assessment Area

The bank's lending in the assessment area exceeds the standards for satisfactory performance, as a substantial majority of sampled loans were located with the assessment area. Of all loans sampled, 89.1 percent were originated with the assessment area, while 90.5 percent of the dollar volume was located within the assessment area. The following table identifies, by loan type, the number, dollar volume and percentage of loans originated inside the assessment area.

Distribution of Loans In/Out of the Assessment Area					
Loan Type	Sample Size	Inside Assessment Area		Outside Assessment Area	
		Number	Dollar	Number	Dollar
Residential Real Estate	45	37 82.2%	\$1,905,814 84.0%	8 17.8%	\$363,100 16.0%
Commercial/ Agricultural	65	61 93.8%	\$3,244,590 94.7%	4 6.2%	\$175,704 5.3%
Totals	110	98 89.1%	\$5,150,404 90.5%	12 10.9%	\$5,38,804 9.5%

Geographic Distribution

The bank's assessment area includes all of Effingham County and portions of Shelby and Cumberland counties. According to 1990 U.S. Census Bureau data, nine BNAs are classified as middle-income and one as upper-income. Because there are no low- or moderate-income geographies in the assessment area, an analysis of the geographic distribution of the bank's loan originations would not provide any meaningful conclusions to this CRA evaluation. An analysis of the loans did show that 81.6 percent of the loans were in the middle-income census tracts and the remaining 18.4 percent were in the upper-income tract. This demonstrates a reasonable distribution of lending by income level of geography.

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

The distribution of loans extended to borrowers of various income levels and to businesses of different sizes meets the standards for satisfactory performance. Data in the first table below show that the bank extended 23.6 percent, or 7.1 percent of dollar volume, of its residential real estate loans to low- and moderate-income borrowers² in the previous six months. In comparison, 31.8 percent of the families in the assessment area are classified as low- and moderate-income. This percentage of real estate lending, while less than the low- and moderate income population, is reasonable given the bank's performance context. In addition, the lower percentage is mitigated by the high level of lending to small businesses, as illustrated in the second table below.

² The borrowers' income levels were compared to the 1997 statewide non-metropolitan median family income of \$37,600, as made available by the Department of Housing and Urban Development. Borrowers were categorized using the income definitions in footnote one.

Distribution of Loans (Number and Dollar Volume) Inside Assessment Area By Income Level of Borrower					
Loan Type	Borrower Income Classification				Totals
	Low-	Moderate-	Middle-	Upper-	
Residential Real Estate	2 5.9%	6 17.7%	13 38.2%	13 39.4%	34 100%
	\$43,400 2.5%	\$80,798 4.6%	\$721,614 41.1%	\$908,002 51.8%	\$1,753,814 100%
Assessment Area Population	14.7%	17.1%	23.4%	44.8%	100%

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

Distribution of Small Business Loans				
Gross Revenue	Loan Origination Amount \$(000's)			Total Loans
	#\$100	>\$100#\$250	>\$250<\$1,000	
Less than \$1 million	24 88.9%	1 100%	3 75.0%	28 87.5%
	\$622 90.5%	\$200 100%	\$1,000 71.4%	\$1,822 79.7%
\$1 million or more	3 11.1%	0 0%	1 25.0%	4 12.5%
	\$65 9.5%	\$0 0%	\$400 28.6%	\$465 20.3%
Total Loans	27 100%	1 100%	4 100%	32 100%
	\$687 100%	\$200 100%	\$1,400 100%	\$2,287 100%

The above table demonstrates that of the 32 commercial credits reviewed, 28 (87.5 percent) were originated to entities with gross annual revenues of \$1 million or less, for a total dollar amount of over \$1.8 million. Similarly, a significant portion of the loans, 24 of 32 (75.0 percent) were under \$100,000 and made to entities with revenues under \$1 million. This penetration to small businesses and significant amount of loans less than \$100,000 supports a conclusion that the bank's small business lending performance exceeds the standards for satisfactory performance. Overall for the performance criteria, the bank's performance meets the standards for satisfactory performance.

REVIEW OF COMPLAINTS

No CRA-related complaints have been received since the prior examination conducted as of January 18, 1996.

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 anti-discrimination laws and regulations. Further, results of the analysis suggested that applications were actively solicited from all segments of the bank's assessment area.