

PUBLIC DISCLOSURE

February 9, 1998

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First State Bank of St. Peter
RSSD# 426141**

**Third and Hollman Streets
St. Peter Illinois 62880**

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 **First State Bank of St. Peter** prepared by the **Federal Reserve System**, the institution's supervisory agency, as of February 9, 1998. The agency evaluates performance in the assessment area, as delineated by this institution, rather than individual branches. This assessment area evaluation may include visits to some, but not necessarily all of the institution's branches. 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

First State Bank of St. Peter is a wholly-owned subsidiary of St. Peter Bancshares, Inc., a one-bank holding company. The bank operates entirely out of its main office location in St. Peter, Illinois. The institution does not own or operate any automated teller machines (ATMs). As of September 30, 1997, the bank reported total assets of \$18.4 million. Total assets have grown at an annualized rate of 4.5 percent since the last examination, dated January 8, 1996. First State Bank of St. Peter is a commercial and retail institution whose primary credit products include agriculture loans, residential and farmland real estate loans, and consumer loans. Loans account for 40.8 percent of the bank's total assets.

For over 60 years, First State Bank of St. Peter has been the only financial institution located in St. Peter, Illinois. The bank currently competes for customers with at least four other institutions, each located in a different nearby community. The closest competing institution is located over six miles away. As of September 30, 1997, total assets of competing institutions ranged from \$15.9 million to \$121.3 million. The largest, a nationally chartered bank in Vandalia, Illinois, is the only competing institution with assets greater than \$27.0 million.

DESCRIPTION OF ASSESSMENT AREA

The bank defines its assessment area as block numbering area (BNA) 9511 in the southeast section of Fayette County, Illinois. This geography contains the towns of St. Peter, Farina, Loogootee, and Laclede. Farina, approximately six miles east of St. Peter, is the area's largest city with a population of 675. Based on the 1990 census, the population of the entire assessment area is 2,896.

The population of the assessment area, especially in the vicinity of St. Peter, is largely of German-Lutheran descent. Historically, the German-Lutheran population has exhibited a conservative borrowing nature, which has suppressed loan demand in the area. Bank officers and community contacts confirmed that the population continues to be conservative. Local officials did indicate, however, a recent increase in demand for some consumer loans.

As of the 1990 census, the median family income for the assessment area was \$28,616, compared to the statewide nonmetropolitan median family income of \$29,694. Based on these figures, BNA 9511 is classified as a middle-income geography.¹ Although the assessment area contains no low- or moderate-income geographies, low- and moderate-income families are present throughout the community. The following table depicts the income characteristics of the population in the assessment area per the 1990 census:

| Income Characteristics of Assessment Area Population | | | | |
|-------------------------------------------------------------|-------|----------|--------|-------|
| Income Level | Low | Moderate | Middle | Upper |
| Population Percentage | 20.1% | 18.4% | 28.3% | 33.1% |

Community contacts and bank officers characterized the local economy as stable. Agriculture remains the dominant industry of the area. On the whole, farming operations enjoyed a strong record of economic performance in 1997. Strong performance in the farming sector has been somewhat offset by retail industry contraction, especially in the immediate vicinity of St. Peter. Several retail establishments have relocated or ceased operations in the last few years. Over the

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 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.

same time period, no significant commercial or industrial expansion has occurred. As a result, the area has several vacant commercial properties, particularly in the St. Peter area.

The lack of commercial and industrial growth, coupled with the departure of retail trade, has made it increasingly difficult for residents within the assessment area to find employment in their communities. Nevertheless, the assessment area population remains largely employed. Increasingly, residents are travelling outside of the area to the cities of Effingham, Vandalia, Salem and Centralia, in order to remain employed. As of November 1997, the unemployment rate for Fayette County stood at 5.7 percent.² Historically, assessment area unemployment levels have been significantly lower than county levels. For example, at the time of the 1990 census, the county unemployment rate was 6.6 percent, while the assessment area unemployment rate was only 4.8 percent. Community contacts stated that the same situation exists today, with a low level of unemployment in the area surrounding and including St. Peter.

Employment in the portion of the assessment area that includes and immediately surrounds St. Peter, the area from which the bank draws the majority of its business, is provided primarily by the service, retail trade and agriculture sectors. The vast majority of jobs from these sectors are lower wage positions. As a result, local sources described the population closest to the bank as more economically disadvantaged than that of the assessment area as a whole. In fact, community contacts estimated that 50 to 60 percent of the St. Peter population could be classified as low- and moderate-income.

CONCLUSIONS WITH RESPECT TO THE PERFORMANCE TESTS

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

To complete this review, statistical samples of motor vehicle loans and small farm loans, two of the bank's primary credit products were evaluated for penetration among individuals of different income levels and farms of different revenue sizes.³ The samples included loans originated during the six-month period ending January 31, 1998. Consideration of the demographics and economic conditions of the assessment area and the distribution of loans originated by the institution reveals the bank achieves excellent loan penetration among individuals of different income levels and farms of different revenue sizes. The following table reflects the penetration of motor vehicle loans among borrowers of different income levels:

| |
|----------------------------------------------------------------------------------------------------------------------------------------------------|
| <p style="text-align: center;">Distribution of Loans (Number and Dollar Volume) Inside Assessment Area by Income Level of Borrower</p> |
|----------------------------------------------------------------------------------------------------------------------------------------------------|

² Based on November 1997 statistics provided by the Illinois Department of Employment Security.

³The borrowers' income levels were compared to the 1997 statewide nonmetropolitan 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.

| Loan Type | Borrower Income Classification | | | | Totals |
|----------------------------|--------------------------------|-------------------|-------------------|-------------|-------------------|
| | Low- | Moderate- | Middle- | Upper- | |
| Motor Vehicle | 16 55.2% | 8 27.6% | 5 17.2% | 0 0.0% | 29 100% |
| | \$51,349 38.2% | \$46,209 34.4% | \$36,754 27.4% | \$0 0.0% | \$134,312 100% |
| Assessment Area Population | 20.1% | 18.4% | 28.3% | 33.1% | 100% |

The analysis illustrates the bank's noteworthy performance in lending to borrowers of different income levels. As illustrated in the table above, 82.8 percent of the bank's motor vehicle loans were originated to low- and moderate-income borrowers. By dollar volume, 72.6 percent of the motor vehicle originations were made to those borrowers with low and moderate incomes. In comparison, 38.5 percent of the assessment area population is classified as low- and moderate-income. Clearly, the bank's distribution of loans to those categories of borrowers substantially exceeds their proportion of the population.

The bank has also demonstrated strong performance in lending to farms of different sizes. The following table shows the distribution of the bank's small farm loans by loan size and by the gross annual revenue of the farming operations receiving credit:

| Distribution of Small Farm Loans | | | | |
|----------------------------------|-----------------------------------|--------------|----------------|-------------|
| Gross Revenue | Loan Origination Amount \$(000's) | | | Total Loans |
| | ≤\$100 | >\$100≤\$250 | >\$250<\$1,000 | |
| Less than \$1 million | 41 100.0% | 0 0.0% | 0 0.0% | 41 100% |
| \$1 million or more | 0 0.0% | 0 0.0% | 0 0.0% | 0 0.0% |
| Total Loans | 41 100% | 0 0.0% | 0 0.0% | 41 100% |

As the above table illustrates, all of the bank's small farm loans were originated to farms with gross annual revenues less than \$1 million. Further, all of these loans were originated in amounts of \$100,000 or less. These figures are reflective of the bank's willingness to meet the credit needs of farmers in the assessment area. Overall, the bank exceeds the standard for satisfactory performance under this criterion.

Loan to Deposit Ratio

The bank's average net loan-to-deposit ratio for the seven quarters reported from March 31, 1996 through September 30, 1997, is 45.8 percent. For the same period, the average net loan-to-deposit ratios for the bank's four main competitors range from 56.4

percent to 83.2 percent. Although the bank's ratio is significantly lower than those of competing institutions, it is still considered reasonable given the bank's performance context. The performance context includes the bank's capacity to lend, the capacity of other similarly situated banks to lend, demographic and economic factors, and lending opportunities available in the bank's assessment area.

Since the last examination, the bank's average net loan-to-deposit ratio has decreased from a level of 48.6 percent. Over the same time period, competitors' ratios have increased slightly. First State Bank's loan-to-deposit ratio has, however, exhibited an upward trend over the last four reported quarters. Furthermore, preliminary data for the quarter ended December 31, 1997 indicates that the bank's loan-to-deposit ratio held steady at 48.3 percent from the preceding quarter. The ratio remained steady despite a historical record of significant contraction in the fourth quarter of each year and unexpected prepayments of \$305,000 in the agriculture loan portfolio during the quarter.

A number of demographic and economic factors in the St. Peter area continue to limit the bank's ability to elevate its loan-to-deposit ratio. The bank must draw the majority of its business from the immediate St. Peter area. Given the area's small population of 265, the bank's marketing opportunities to expand its business and customer base are quite limited. The population surrounding the bank is older and, as previously mentioned, conservative in nature with respect to borrowing. As a result, the bank enjoys a high level of loyal depositors, but faces relatively low consumer loan demand. Furthermore, the area's lack of commercial and retail development impedes the bank's ability to originate commercial loans or purchase dealer paper.

The bank's size and structure limit its opportunities further. The bank has one large deposit that fluctuates from \$600,000 to \$1.2 million. Given the bank's total asset size of \$18.4 million and total deposits of \$15.5 million, this single deposit has a considerable impact on the bank's loan-to-deposit ratio. Moreover, the bank is not part of a large bank holding company nor does it have affiliate or correspondent relationships with larger institutions. As a result, the bank's opportunities to become involved in loan participations are limited.

Due to the limitations discussed above, it is reasonable to expect that the bank's loan-to-deposit ratio will be somewhat depressed. As such, with a loan-to-deposit ratio of 45.8 percent, the bank's performance under this criterion remains marginally satisfactory. Nevertheless, the bank should continue to seek opportunities to elevate this ratio, as any further deterioration could impact the bank's CRA performance.

Lending in the Assessment Area

A review of the samples of motor vehicle and small farm loan originations revealed that a majority of the bank's loans were originated 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 |
|---------------|-----|---------------|--------------------|---------------|--------------------|
| Motor Vehicle | 44 | 29 65.9% | \$134,312 55.9% | 15 34.1% | \$106,021 44.1% |
| Small Farm | 61 | 41 67.2% | \$749,047 64.8% | 20 32.8% | \$407,419 35.2% |
| Totals | 105 | 70 66.7% | \$883,359 63.2% | 35 33.3% | \$513,440 36.8% |

As depicted in the table above, 70 of the 105 loans sampled (66.7 percent) were located within the assessment area. By dollar volume, over 63 percent of the loans sampled were located within the assessment area. As a result, the bank's performance under this criterion meets the standard for satisfactory performance.

Geographic Distribution

Because the bank's assessment area consists of only one middle-income geography (BNA 9511), an analysis of loan dispersion among geographies of different income levels within the assessment area is not relevant. Any such analysis of the geographic distribution of the bank's loan originations would fail to provide additional meaningful conclusions to this CRA evaluation.

Review of Complaints

No CRA-related complaints have been received since the prior examination, conducted on January 8, 1996.

Additional Information

A fair lending analysis focusing on Regulation B (Equal Credit Opportunity) and the Fair Housing Act was performed during the examination. The analysis revealed that the bank is in compliance with the substantive provisions of 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.