



**SMALL BANK**

---

Comptroller of the Currency  
Administrator of National Banks

---

Washington, DC 20219

## **PUBLIC DISCLOSURE**

October 1, 2012

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

Herget Bank, NA  
Charter Number: 9788

33 South 4<sup>th</sup> Street  
Pekin, Illinois 61554

Office of the Comptroller of the Currency

Peoria Field Office  
211 Fulton Street, Suite 604  
Peoria, Illinois 61602

**NOTE:** This document is an evaluation of this 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. 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 financial supervisory agency concerning the safety and soundness of this financial institution.

## **INSTITUTION'S CRA RATING:**

**Herget Bank, NA (HB) is rated: Satisfactory.**

- The overall distribution of loans to borrowers of different income levels and businesses of different sizes is excellent.
- The geographic distribution of loans reflects reasonable dispersion throughout the assessment area (AA), including low- and moderate-income census tracts.
- A majority of the loans originated by HB are to customers within its AA.
- HB's quarterly average loan-to-deposit ratio of 57.97 percent over the evaluation period is reasonable.

## **Scope of Examination**

This Performance Evaluation assesses HB's record of meeting the credit needs of the communities in which it operates. We evaluated HB under the Small Bank performance criterion, which includes a lending test. The lending test evaluates a bank's record of helping to meet the credit needs of its AA through its lending activities. We used data from HB's primary loan products, residential mortgage loans and commercial business loans, to evaluate the bank's lending performance.

This evaluation covers the period from the date of the previous CRA examination, February 17, 2009, through October 1, 2012. The lending test evaluated residential mortgage loans originated between January 1, 2010 and August 31, 2012. In order to obtain an adequate sample, the lending test evaluated commercial loans originated or purchased between January 1, 2010 and October 1, 2012.

Prior to conducting this evaluation, we tested the accuracy of the bank's Home Mortgage Disclosure Act (HMDA) data for 2010, 2011, and year-to-date 2012. We found the data to be accurate, and therefore used all reported HMDA data while evaluating residential mortgage lending.

To evaluate commercial lending, we used a sample of 40 commercial loans originated during the evaluation period to assess the level of lending to businesses of different sizes within the bank's AA.

## **Description of Institution**

HB is an intrastate bank located in Pekin, Illinois, which is on the eastern shore of the Illinois River, approximately 15 miles south of Peoria, Illinois. As of June 30, 2012, HB had total assets of \$254 million and tier one capital of \$24.8 million. HB is wholly owned by Herget Financial Corporation, a one-bank holding company with consolidated assets

of \$254 million as of June 30, 2012. In addition to the main office located at 33 S. 4th Street, Pekin, IL, HB operates two full-service branches in Pekin: 2201 Broadway Street and 2900 Court Street. HB also has one limited-service office at 7800 N. Sommer in Peoria, Illinois. The bank has six Automated Teller Machines (ATMs), with one located at each full service location and three additional ATMs located at Pekin Hospital, Pekin Insurance, and Food Depot. The bank has not opened or closed any branches since the previous CRA examination. There have been no significant changes to HB's corporate structure, including merger or acquisition activities, since the previous CRA examination.

The bank offers a full range of deposit and loan products and services. Residential mortgages and business loans represent the largest portion of originations by dollar amount during the evaluation period, with consumer loans and HELOCs representing a smaller portion. Deposit products and services include regular checking, economy checking, interest checking, and multiple savings account products. Customers may also access their accounts through telephone, online, and mobile banking services.

<b>Table 1 – Loan Originations by Loan Type from January 1, 2010 through August 31, 2012</b>		
<b>Loan Category</b>	<b>\$ (000)</b>	<b>Percent</b>
Commercial Loans	\$ 21,358	10%
Residential Loans	\$ 180,324	82%
Consumer Loans	\$ 16,969	8%
Municipal and Agricultural	\$ 242	0%
<b>Total</b>	<b>\$ 218,893</b>	<b>100%</b>

Source: HMDA records from January 1, 2010 to August 31, 2012; Bank records on loans originated during 2010 through August 31, 2012.

As of June 30, 2012, HB reported net loans and leases of \$116 million and had a net loans and leases to total assets ratio of 45.6 percent. The loan portfolio composition is as follows:

<b>Table 2 – Loan Portfolio Summary by Loan Type June 30, 2012</b>		
<b>Loan Category</b>	<b>\$ (000)</b>	<b>Percent</b>
Commercial Loans	\$ 44,221	37%
Residential Loans	\$ 32,057	27%
Consumer Loans	\$ 40,899	35%
Agricultural Loans	\$ 679	1%
<b>Total</b>	<b>\$ 117,856</b>	<b>100%</b>

Source: June 30, 2012 Call Report.

Source: HMDA records from January 1, 2010 to August 31, 2012; Bank records on loans originated during 2010 through August 31, 2012.

There are no legal or financial impediments to HB's ability to meet the credit needs of its

AA. We rated the bank Satisfactory at our previous CRA examination dated February 17, 2009.

## Description of Assessment Area

HB has one assessment area in Central Illinois, which is described below.

### Tazewell/Peoria Assessment Area

The Tazewell/Peoria AA is comprised of two complete counties, Tazewell and Peoria. These counties are located in Central Illinois and are inside the Peoria MSA. This AA meets the requirements of the regulation and does not arbitrarily exclude any low-or moderate-income areas. We reviewed loans from 2010, 2011, and 2012; we compared loans originated in 2010 and 2011 to census data from 2000, and we compared loans originated in 2012 to census data from 2010.

Table 3 - Demographic Information for the Tazewell/Peoria AA (2010 & 2011)					
Demographic Characteristics	#	% Low	% Moderate	% Middle	% Upper
Geographies (Census Tracts)	78	12.82%	14.10%	53.85%	19.23%
Population by Geography	311,918	6.93%	14.52%	57.28%	21.28%
Owner-Occupied Housing by Geography	87,601	3.70%	11.67%	62.36%	22.27%
Businesses by Geography	16,595	9.25%	13.59%	52.63%	24.53%
Farms by Geography	1,175	0.60%	3.66%	73.70%	22.04%
Family Distribution by Income Level	83,279	19.72%	18.74%	23.42%	38.13%
Household Distribution by Income Level	123,113	23.30%	17.45%	19.07%	40.19%
Census Median Family Income (MFI)		\$52,122	Median Housing Value		\$88,979
Median Household Income		\$43,463	Families Below the Poverty Level		7.55%
HUD-Adjusted MFI: 2010		\$66,700	Unemployment Rate Tazewell		7.60%
HUD-Adjusted MFI: 2011		\$68,200	Unemployment Rate Peoria		8.80%

\*Source: 2000 U.S. Census Data

\*\*Unemployment Data from August 2012 - Illinois Department of Employment Security

Table 4 - Demographic Information for the Tazewell/Peoria AA (2012)					
Demographic Characteristics	#	% Low	% Moderate	% Middle	% Upper
Geographies (Census Tracts)	78	11.54%	19.23%	51.28%	17.95%
Population by Geography	321,888	6.09%	17.27%	53.39%	23.25%
Owner-Occupied Housing by Geography	93,005	2.82%	15.86%	57.62%	23.70%
Businesses by Geography	23,193	8.13%	16.82%	50.33%	24.73%
Farms by Geography	1,406	0.57%	6.19%	62.30%	30.94%
Family Distribution by Income Level	83,750	17.76%	18.43%	25.39%	38.42%
Household Distribution by Income Level	128,738	21.62%	16.98%	21.13%	40.27%
Census Median Family Income (MFI)		\$66,038	Median Housing Value		\$123,833
Median Household Income		\$53,543	Families Below the Poverty Level		8.53%
HUD-Adjusted MFI: 2012		\$69,100	Unemployment Rate Tazewell		7.60%
			Unemployment Rate Peoria		8.80%

\*Source: 2010 U.S. Census Data

\*\*Unemployment Data from August 2012 - Illinois Department of Employment Security

## Economic Data

The local economy is weak, with slow economic recovery that is in line with the rest of the nation. The August 2012 unemployment number increased from the previous CRA examination in February 2009, from 6.0 percent (data from November 2008) to 7.6 percent in Tazewell County. Unemployment in Peoria County is 8.80 percent. The unemployment rate of Tazewell County is slightly below the national average, while Peoria County is above the national average. The national unemployment rate as of August 2012 was 8.1 percent, with the state of Illinois unemployment rate at 9.1 percent. The economy of the AA is concentrated in manufacturing and service related industries. Caterpillar is the AA's largest employer, employing an estimated 22 thousand people in the area. Other major employers include Pekin Insurance Company, the Pekin Federal Prison, local hospitals, school districts, and governments.

We contacted a director of a local community development organization in the Tazewell/Peoria AA during the examination. While our contact did not comment specifically on HB's performance meeting the credit needs of the community, they did mention that their organization works with HB to provide owner-occupied home rehab loans to low- and moderate-income borrowers. From the interview, we determined that credit needs in the AA include home loans and commercial loans, which would help create jobs. The contact indicated that poverty in the AA is a concern as the rate continues to grow. In the AA, 8.53 percent of families are below the poverty level.

Competition from other financial institutions is heavy. The bank's competitors include local community banks, branches of large regional institutions, and a large regional credit union.

## Conclusions with Respect to Performance Tests

### Lending Test

**HB meets the standards for satisfactory performance.**

- HB's average loan-to-deposit ratio is reasonable given the bank's size, financial condition, and comparison to similarly situated institutions.
- A majority of the loans originated during the evaluation period are within the AA.
- The distribution of loans to borrowers of different income levels and businesses of different sizes is excellent.
- The geographic distribution of loans reflects reasonable dispersion throughout the assessment area, including low- and moderate-income census tracts.

### Loan-to-Deposit Ratio

HB's loan-to-deposit ratio is reasonable given the bank's size, financial condition, and the credit needs of the AA. HB's quarterly loan-to-deposit ratio averaged 58 percent over 14 quarters from March 31, 2009, to June 30, 2012, with a low of 49 percent and a high of 71 percent. HB ranks third among five similarly situated banks. Similarly situated banks had average loan-to-deposit ratios ranging between 45 percent and 88 percent over the same period, with an overall group average of 64 percent.

### Lending in Assessment Area

The distribution of loans reflects a reasonable penetration in the AA. A majority of the loans originated by HB are to customers inside its AA. The following table details the bank's lending within its AA based on the number and dollar volume of loan originations during the evaluation period.

Table 5 – Borrower Distribution of Loans in the AA										
Loan Type	Number of Loans				Total	Dollars of Loans				Total \$ (000s)
	Inside		Outside			Inside		Outside		
	#	%	#	%		\$ (000s)	%	\$ (000s)	%	
RE - Home Purchase	743	90%	82	10%	825	\$74,944	85%	\$13,184	15%	\$88,128
RE - Home Improvement	9	100%	0	0%	9	\$504	100%	\$0	0%	\$504
RE - Home Refinance	471	85%	81	15%	552	\$59,765	83%	\$12,591	17%	\$72,356
Commercial Loans	39	98%	1	3%	40	\$10,295	99%	\$153	1%	\$10,448
<b>Totals</b>	<b>1262</b>	<b>89%</b>	<b>164</b>	<b>12%</b>	<b>1426</b>	<b>\$145,508</b>	<b>85%</b>	<b>\$25,928</b>	<b>15%</b>	<b>\$171,436</b>

*Source: HMDA records from January 1, 2010 to August 31, 2012; Bank records on new commercial loans originated during 2010 through October 1 2012.*

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

The distribution of loans to borrowers of different income levels and businesses of different sizes reflects excellent penetration. The number of loans made to low- and moderate-income borrowers, and businesses of different sizes, was significantly higher than the corresponding demographic comparator. In addition, we accounted for the high and increasing poverty rate of the AA in our determination.

### Residential Mortgage Loans

The distribution of residential mortgage loans to borrowers of different income levels reflects excellent penetration for the 2010/2011 and 2012 time periods, exceeding the demographic percentage of low- and moderate-income families in the AA. In making this determination, we considered that over eight percent of families in the AA are below the poverty level.

The following tables illustrate the distribution of residential mortgage loans among borrowers of different income levels compared to the percent of families in each income category.

<b>Table 6 – Borrower Distribution of Residential Mortgages (2010/2011) Tazewell/Peoria AA</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number	% of AA Families	% of Number	% of AA Families	% of Number	% of AA Families	% of Number
Residential	20%	23%	19%	29%	23%	22%	38%	24%

Source: HMDA records from January 1, 2010 to August 31, 2012; 2000 Census Data.  
\*0.84 percent of HB's residential mortgage loans had unknown income.

<b>Table 7 – Borrower Distribution of Residential Mortgages (2012) Tazewell/Peoria AA</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number	% of AA Families	% of Number	% of AA Families	% of Number	% of AA Families	% of Number
Residential	18%	21%	18%	34%	25%	25%	38%	20%

Source: HMDA records from January 1, 2010 to August 31, 2012; 2010 Census Data.  
\*0.37 percent of HB's residential mortgage loans had unknown income.

### Commercial Loans

The distribution of loans to businesses of different sizes reflects excellent penetration within the bank's AA. In the 2010/2011 period, 90 percent of commercial loans sampled were made to small businesses, and in the 2012 period, 100 percent of loans sampled

were made to small businesses. Small businesses are businesses with gross annual revenues of one million dollars or less.

The results are considered excellent compared to demographic data that show 72.75 percent the area’s businesses in 2010/2011 are small businesses, and 68.71 percent in the 2012 period are small businesses. All of the commercial loans in our sample included revenue information. However, the demographic information did not include revenue information for all of the businesses in the AA as outlined in the table below.

The following tables show the distribution of commercial loans among different sized businesses in the AA for the periods 2010/2011 and 2012.

<b>Table 8 - Borrower Distribution of Loans to Businesses of Different Sizes Tazewell/Peoria AA (2010/2011)</b>				
<b>Business Revenues (or Sales)</b>	<b>≤\$1,000,000</b>	<b>&gt;\$1,000,000</b>	<b>Unavailable/ Unknown</b>	<b>Total</b>
% of AA Businesses	73%	5%	22%	100%
% of Bank Loans in AA by #	90%	10%	0%	100%
% of Bank Loans in AA by \$	84%	16%	0%	100%

Source: Bank records on new commercial loans originated during 2010 through October 1 2012; 2000 Census Data.

<b>Table 9 - Borrower Distribution of Loans to Businesses of Different Sizes Tazewell/Peoria AA (2012)</b>				
<b>Business Revenues (or Sales)</b>	<b>≤\$1,000,000</b>	<b>&gt;\$1,000,000</b>	<b>Unavailable/ Unknown</b>	<b>Total</b>
% of AA Businesses	69%	5%	26%	100%
% of Bank Loans in AA by #	100%	0%	0.00%	100%
% of Bank Loans in AA by \$	100%	0%	0%	100%

Source: Bank records on new commercial loans originated during 2010 through October 1, 2012; 2010 Census Data.

## Geographic Distribution of Loans

The overall geographic distribution of loans reflects reasonable dispersion throughout the Peoria/Tazewell AA. We determined this based on the number of loans originated in low- and moderate-income census tracts, compared to owner-occupied housing and



the percent of businesses in low- and moderate-income census tracts. We accounted for the relatively low number of low-income census tracts in our determination. For instance, there are no low-income census tracts in Tazewell County, where most of the bank’s branches are located.

Residential Mortgage Loans

The bank’s geographic distribution of home loans in their AA reflects a reasonable dispersion throughout census tracts of different income levels, specifically moderate-income census tracts.

Although the percentage of loans made to low-income census tracts is below the demographic comparator for both periods, lending in moderate-income census tracts significantly exceeds the percent of owner occupied housing in these tracts. In making this determination, we found that in the 2010/2011 period, 15.37 percent of owner occupied housing was in low- and moderate-income census tracts, while the number of loans originated in these census tracts totaled 17.94 percent.

<b>Table 10 – Geographic Distribution of Residential Mortgages (2010/2011) Tazewell/Peoria AA</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Owner Occupied Housing	% of Number	% of AA Owner Occupied Housing	% of Number	% of AA Owner Occupied Housing	% of Number	% of AA Owner Occupied Housing	% of Number
Residential	4%	1%	12%	17%	62%	60%	22%	22%

Source: HMDA records from January 1, 2010 to August 31, 2012; 2000 Census Data.

<b>Table 11 – Geographic Distribution of Residential Mortgages (2012) Tazewell/Peoria AA</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Owner Occupied Housing	% of Number	% of AA Owner Occupied Housing	% of Number	% of AA Owner Occupied Housing	% of Number	% of AA Owner Occupied Housing	% of Number
Residential	3%	2%	16%	15%	58%	66%	24%	17%

Source: HMDA records from January 1, 2010 to August 31, 2012; 2010 Census Data.

Commercial Loans

HB’s geographic distribution of commercial loans reflects reasonable dispersion throughout census tracts of different income levels for both time-periods.

During the 2010/2011 time-period, the bank did not originate any commercial loans in low-income census tracts, with over nine percent of businesses being located there. However, during the same time-period, management originated 40 percent of the loans we sampled to moderate-income census tracts, which is significantly higher than the percent of AA businesses located there.

In the 2012 time-period, commercial lending throughout census tracts of different income levels reflects reasonable dispersion as well. From our sample of business loans, we found that the percent of loans made to businesses in low- and moderate-income census tracts exceeds the percent of businesses in low- and moderate-income census tracts.

Table 12 - Geographic Distribution of Loans to Businesses Tazewell/Peoria AA (2010/2011)								
CT Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number	% of AA Businesses	% of Number	% of AA Businesses	% of Number	% of AA Businesses	% of Number
Business	9%	0%	14%	40%	53%	60%	25%	0%

Source: Bank records on new loans originated between January 1, 2010 and October 1, 2012; 2000 Census Data.

Table 13 - Geographic Distribution of Loans to Businesses Tazewell/Peoria AA (2012)								
CT Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number	% of AA Businesses	% of Number	% of AA Businesses	% of Number	% of AA Businesses	% of Number
Business	8%	10%	17%	20%	50%	50%	25%	20%

Source: Bank records on new loans originated between January 1, 2010 and October 1, 2012; 2010 Census Data.

## Responses to Complaints

HB did not receive any CRA related complaints during this evaluation period.

## Fair Lending or Other Illegal Credit Practices Review

We found no evidence of discriminatory or other illegal credit practices related to the credit needs of the community.