



Comptroller of the Currency
Administrator of National Banks

SMALL BANK

PUBLIC DISCLOSURE

March 22, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The Herget National Bank of Pekin
Charter Number 9788**

**33 South Fourth Street
Pekin, Illinois 61554**

Comptroller of the Currency

**111 West Washington Street
East Peoria, Illinois 61611**

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 financial supervisory agency 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 The Herget National Bank of Pekin, Pekin, Illinois as prepared by **The Comptroller of the Currency**, the institution's supervisory agency, as of March 22, 1999. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.*

INSTITUTION'S CRA RATING: This institution is rated “Satisfactory Record of Meeting Community Credit Needs.”

- The distribution of loans to borrowers of different incomes is good. The Herget National Bank of Pekin made 6% of its home mortgage loans to low-income borrowers and an additional 18% of its home mortgage loans to moderate-income borrowers.
- The distribution of small business loans shows The Herget National Bank of Pekin made a significant amount of these loans to businesses with revenues of less than \$1 million.
- The Herget National Bank of Pekin made a substantial majority of its home mortgage and small business loans within its assessment area.

DESCRIPTION OF INSTITUTION

The Herget National Bank of Pekin (Herget) is a \$179 million institution located in Pekin, Illinois. Pekin is the county seat of Tazewell County in central Illinois. Herget is 100% owned by Herget Financial Corporation, a one-bank holding company. Herget continues to be a community oriented, retail lending bank. Retail lending activity is centered in residential real estate and indirect paper. The loan portfolio mix is 60% real estate secured (12% is 1- 4 family residential & 43% is commercial real estate), 23% loans to individuals, 13% commercial and industrial loans, 3% municipal loans, and 1% credit cards.

Herget operates from a main office in downtown Pekin and 2 branches also in the city of Pekin. All 3 locations have drive-up facilities. Herget also has 5 Automatic Teller Machines (ATM's) which provide customers 24-hour access.

There are no legal or financial impediments which hamper the bank's ability to meet the community's credit needs.

DESCRIPTION OF TAZEWELL COUNTY

The bank's assessment area is all of Tazewell County. This county is 1 of 3 counties which make up the Peoria Illinois MSA. The county is comprised of 6 (18%) moderate-income, 20 (61%) middle-income, and 5 (15%) upper-income census tracts. Two (2) of the census tracts are not designated by income level. There are no low-income census tracts.

The total population of the county is 123,692 people. Approximately 32,000 of these people are in the city of Pekin. Based on the 1998 HUD adjusted Median Family Income for the Peoria MSA of \$48,100, there are 19% low-income, 18% moderate-income, 25% middle-income, and 38% upper-income families in Tazewell County.

There are a total of 49,315 housing units in the assessment area. Sixty-nine percent (69%) or 33,757 of the homes are owner occupied. Fourteen percent (14%) of the owner occupied units are in the moderate-income census tracts, 68% are located in middle-income tracts and the remaining 18% of the owner occupied units are in upper-income census tracts. Twenty-seven percent (27%) or 13,414 of the housing units are rental occupied while the remaining 2,144 units (4%) are vacant. The median housing price for Tazewell county is \$50,595 and the average age of homes is approximately 39 years old.

Business demographic data from Dun & Bradstreet indicate there are 3,653 businesses in Tazewell county. Seventy-five percent (75%) or 2,753 of these businesses have gross revenues of less than \$1 million. Only 8% have revenues over \$1 million with the revenues of the remaining 17% of the businesses unknown. Of the businesses with revenue less than \$1 million, 20% are located in the moderate-income census tracts, 66% are in the middle-income tracts and 14% are in the upper-income tracts of the county. There are only 114 farms located in this county.

Major employers in Tazewell county include: Caterpillar, Inc., Pekin Insurance, Pekin Hospital, Midwest Grain and the Federal prison. A new Hanna Steel plant is scheduled to open in the local community in the next few months. The local economy has continued to grow slightly with both commercial and residential development. Unemployment in Tazewell county is very low as reflected in the rate of only 3.3% for the year during 1998.

There is a high level of competition in the financial services market in Tazewell county. There are a large number of both independent local financial institutions and branches of larger regional financial organizations. Bank management indicated their major competitors include Morton Community Bank, Pekin Savings Bank, First Federal Savings and Loan, First State Bank of Pekin, and Pekin National Bank.

We performed one community contact during this examination. This contact was involved in economic development projects. The contact indicated the major credit needs of the community include small business expansion and start-up funding.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Lending to Borrowers of Different Incomes and Businesses of Different Sizes

The distribution of lending to borrowers of different sizes shows reasonable penetration among individuals of different income levels and businesses of different sizes. The Herget National Bank made 6% of its HMDA loans to low-income borrowers and an additional 18% to moderate-income borrowers. Although this level of lending is somewhat below the demographic make-up of the community (19% low-income & 18% moderate-income families), the lending performance is better for home purchase loans to moderate-income individuals and home improvement loans to low-income individuals. Table I, "Distribution by Borrower's Income Level" provides additional details.

Table I - Distribution by Borrower's Income Level Inside the Assessment Area From January 1997 through December 1998								
Type of Loan	Income Level of Borrower							
	Low income		Moderate income		Middle income		Upper income	
	#	%	#	%	#	%	#	%
Home Purchase	4	5	20	26	25	33	27	36
Home Improvement	4	15	3	11	10	37	10	37
Refinance	8	6	21	14	56	39	60	41
Total HMDA Loans*	16	6	44	18	91	37	97	39

Source: Herget's HMDA-LAR for 1998 and 1997.

The distribution of small business loans to businesses of different sizes is reasonable. Based on a sample of 30 small business loans made during the evaluation period, The Herget National Bank made 57% of its loans to businesses with revenue less than \$1 million and 43% to businesses with revenue greater than \$1 million. This performance is below the business demographic information which indicates that 75% of the businesses in the assessment area have revenues of less than \$1 million.

We also considered the original amount of all small business loans made during the evaluation period (available through new loan reports). This analysis showed that Herget made 79% of its loans for original amounts of \$100,000 or less. An additional 13% of these loans were for original amounts between \$100,000 and \$250,000. Table II, "Distribution of Small Business Originations" provides additional details.

**Table II - Distribution of Small Business Originations
From January 1996 through December 1998 (Based on Sample of 20 Loans)
Inside the Assessment Area By Loan Size and Business Revenues**

Loan Size					Annual Revenues*		
	less than \$100,000	\$100,000 to \$250,000	\$250,000 to \$1,000,000	Total Loans	< \$1 Million	> \$1 Million	Unknown
Number	201	34	21	256	17	13	0
% of #	79%	13%	8%	100%	57%	43%	0%
Dollars (in 000's)	6158	5584	12278	24020	836	1081	0
% of \$	26	23	51	100	44%	56%	0%
Distribution of Businesses in the Assessment Area by Annual Revenues of the Business:				Revenues <\$1 Million			75%
				Revenues > \$1 Million			8%
				Revenues Unknown			17%

Source: Bank New Loan Reports sorted by call report code.

* Based on a sample of ##? small business loans made during 1997 and 1998.

Geographic Distribution of Loans

The geographic distribution of loans made by The Herget National Bank reflects reasonable dispersion throughout the assessment area. As illustrated in Table III, "Geographic Distribution of Loans by Census Tract Income Level," Herget made 18% of its HMDA loans in moderate-income census tracts. Since only 14% of the owner occupied units in the assessment area are located in moderate-income tracts, this level of performance is considered good.

For small business loans, we reviewed 20 loans to estimate the geographic distribution of these loans. Only 15 of these loans (75%) were within the bank's assessment area. Of the loans made inside the bank's assessment area, 40% of the small business loans were made in the moderate-income census tracts. This compares very favorably with the business demographic data which indicates that only 20% of the businesses with revenue less than \$1 million are located in moderate-income census tracts. This level of performance for small business lending is considered excellent. Additional details are included in Table III, "Geographic Distribution of Loans by Census Tract Income Level."

Table III - Geographic Distribution of Loans by Census Tract Income Level Inside the Assessment Area From January 1997 through December 1998						
Type of Loan	Moderate income		Middle income		Upper income	
	#	%	#	%	#	%
Home Purchase	17	22%	50	66%	9	12%
Home Improvement	11	41%	15	56%	1	3%
Refinance	17	12%	120	83%	8	5%
Total HMDA Loans	45	18%	185	75%	18	7%
Small Business	6	40%	7	47%	2	13%
Total Loans	51	19%	192	73%	20	8%

Source: Bank reports and HMDA-LAR for 1998 and 1997.

Note: Percentages may not equal 100% since the income level of the census tract is unavailable for some loans.

Lending Inside the Assessment Area

Herget has extended a significant amount of its loans inside the assessment area. Eighty-one (81%) of the number of HMDA and small business loans were extended inside the assessment area. Based on total dollars, 78% of the loans were within the assessment area. Table IV, "Loans Inside the Assessment Area vs Total Loans," provides additional details.

Table IV - Loans Inside the Assessment Area vs Total Loans From January 1997 through December 1998						
Type of Loan	Total Loans		Loans Inside Assessment Area			
	#	\$ (000's)	#	% of #	\$ (000's)	% of \$
Home Purchase	90	5882	76	84%	4671	79%
Home Improvement	35	378	27	77%	308	81%
Refinance	179	11913	145	81%	9172	77%
Total HMDA Loans	304	18173	248	82%	14151	78%
Small Business	20	1493	16	80%	1257	84%
Total Loans	324	19666	264	81%	15408	78%

Source: Bank reports, HMDA-LAR, and CRA Data Listing reports for 1998, 1997 and 1996.

Loan to Deposit Ratio

Herget's loan-to-deposit ratio is reasonable considering the size and condition of the institution and the credit needs of the community. The average loan-to-deposit ratio for the last 12 quarters (since our last CRA evaluation) is 49%. The loan-to-deposit ratio has declined from 59% on March 31, 1996 to only 43% on December 31, 1998. However, Herget's ratio is not representative of their overall lending efforts due to the volume of home mortgages they sell in the secondary market. These loans are not reflected in this ratio.

When compared to other financial institutions in their assessment area, Herget's loan-to-deposit ratio is reasonable. The 12-quarter average loan-to-deposit ratios for the banks which management considered their major competitors and a few other institutions in Tazewell County ranged from 40% up to 100%. Of the 7 other institutions, only 2 had 12 quarter average loan-to-deposit ratios below Herget's ratio of 49%. The other 5 institutions have 12-quarter average loan-to-deposit ratios of 65% or higher.

Response to Complaints

The Herget National Bank has not received any CRA related complaints since our last CRA evaluation.

Compliance with Anti-discrimination Laws

During our review, we sampled the used car applications received by Herget during the last 3 months. Due to the area being racially homogeneous, we tested applicants' treatment based on gender. We compared 16 denied individual female applicants to 68 approved individual male applicants during the period from December 1998 through February 1999. We compared the denied applicants qualifications with the borrowers whose request was approved. We did not find any evidence of disparate treatment based on gender.