



LARGE BANK

Comptroller of the Currency Administrator of National Banks
Washington, DC 20219

Public Disclosure

October 15, 2007

Community Reinvestment Act

Performance Evaluation

**Home State Bank N.A.
Charter Number: 18763
40 Grant Street
Crystal Lake, IL 60014**

Office of the Comptroller of the Currency

**Chicago South Field Office
7600 South County Line Road - Unit 3
Burr Ridge, IL 60527**

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, and should not 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.

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Overall CRA Rating

Institution's CRA Rating: This institution is rated **Outstanding**.

The following table indicates the performance level of **Home State Bank N.A.** with respect to the Lending, Investment, and Service Tests:

| Performance Levels | Home State Bank N.A. Performance Tests | | |
|---------------------------|---|-----------------|--------------|
| | Lending Test* | Investment Test | Service Test |
| Outstanding | X | | |
| High Satisfactory | | X | X |
| Low Satisfactory | | | |
| Needs to Improve | | | |
| Substantial Noncompliance | | | |

* The lending test is weighted more heavily than the investment and service tests when arriving at an overall rating.

The major factors that support this rating include:

- The bank's level of lending is good;
- A substantial majority of home mortgage loans and small loans to businesses are originated within the bank's assessment area (AA);
- The borrower distribution of home mortgage loans is excellent and the borrower distribution of small business loans is good;
- Community Development loans had a positive impact on the lending test rating. The bank has an excellent level of community development loans and is responsive to the identified credit needs in the AA;
- The bank provides a good level of community development investments and community development services in its AA; and,
- Retail services are accessible to individuals of different income levels in the AA.

Definitions and Common Abbreviations

The following terms and abbreviations are used throughout this performance evaluation, including the CRA tables. The definitions are intended to provide the reader with a general understanding of the terms, not a strict legal definition.

Affiliate: Any company that controls, is controlled by, or is under common control with another company. A company is under common control with another company if the same company directly or indirectly controls both companies. A bank subsidiary is controlled by the bank and is, therefore, an affiliate.

Aggregate Lending: The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the MA/assessment area.

Census Tract (CT): A small subdivision of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan areas. Census tracts usually have between 2,500 and 8,000 persons, and their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

Community Development: Affordable housing (including multifamily rental housing) for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs (13 CFR 121.301) or have gross annual revenues of \$1 million or less; or, activities that revitalize or stabilize low- or moderate-income geographies.

Community Reinvestment Act (CRA): the statute that requires the OCC to evaluate a bank's record of meeting the credit needs of its local community, consistent with the safe and sound operation of the bank, and to take this record into account when evaluating certain corporate applications filed by the bank.

Consumer Loan(s): A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

Family: Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family, which is further classified into 'male householder' (a family with a male householder and no wife present) or 'female householder' (a family with a female householder and no husband present).

Full Review: Performance under the Lending, Investment, and Service Tests is analyzed considering performance context, quantitative factors (e.g., geographic distribution, borrower distribution, and total number and dollar amount of investments), and qualitative factors (e.g., innovativeness, complexity, and responsiveness).

Geography: A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

Home Mortgage Disclosure Act (HMDA): The statute that requires certain mortgage lenders that do business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applications, the amount of loan requested, and the disposition of the application (e.g., approved, denied, and withdrawn). Beginning in 2004, the reports also include additional data on loan pricing, the lien status of the collateral, any requests for preapproval and loans for manufactured housing.

Home Mortgage Loans: Such loans include home purchase, home improvement and refinancing, as defined in the HMDA regulation. These include loans for multifamily (five or more families) dwellings, manufactured housing and one-to-four family dwellings other than manufactured housing.

Household: Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

Limited Review: Performance under the Lending, Investment, and Service Tests is analyzed using only quantitative factors (e.g., geographic distribution, borrower distribution, total number and dollar amount of investments, and branch distribution).

Low-Income: Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent, in the case of a geography.

Market Share: The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the MA/assessment area.

Median Family Income (MFI): The median income determined by the U.S. Census Bureau every ten years and used to determine the income level category of geographies. Also, the median income determined by the Department of Housing and Urban Development annually that is used to determine the income level category of individuals. For any given area, the median is the point at which half of the families have income above it and half below it.

Metropolitan Area (MA): Any metropolitan statistical area or metropolitan division, as defined by the Office of Management and Budget and any other area designated as such by the appropriate federal financial supervisory agency.

Metropolitan Division: As defined by Office of Management and Budget, a county or group of counties within a Metropolitan Statistical Area that contains a population of at least 2.5 million. A Metropolitan Division consists of one or more counties that represent an employment center or centers, plus adjacent counties associated with the main county or counties through commuting ties.

Metropolitan Statistical Area: An area, defined by the Office of Management and Budget, as having at least one urbanized area that has a population of at least 50,000. The Metropolitan Statistical Area comprises the central county or counties, plus adjacent outlying counties having a high degree of social and economic integration with the central county as measured through commuting.

Middle-Income: Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 percent and less than 120 percent, in the case of a geography

Moderate-Income: Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 percent and less than 80 percent, in the case of a geography.

Multifamily: Refers to a residential structure that contains five or more units.

Other Products: Includes any unreported optional category of loans for which the institution collects and maintains data for consideration during a CRA examination. Examples of such activity include consumer loans and other loan data an institution may provide concerning its lending performance.

Owner-Occupied Units: Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

Qualified Investment: A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

Rated Area: A rated area is a state or multi-state metropolitan area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multi-state metropolitan area, the institution will receive a rating for the multi-state metropolitan area.

Small Loan(s) to Business(es): A loan included in 'loans to small businesses' as defined in the Consolidated Report of Condition and Income (Call Report) and the Thrift Financial Reporting (TFR) instructions. These loans have original amounts of \$1 million or less and typically are either secured by non-farm or nonresidential real estate or are classified as commercial and industrial loans.

Small Loan(s) to Farm(s): A loan included in 'loans to small farms' as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, or are classified as loans to finance agricultural production and other loans to farmers.

Tier One Capital: The total of common shareholders' equity, perpetual preferred shareholders' equity with non-cumulative dividends, retained earnings and minority interests in the equity accounts of consolidated subsidiaries.

Upper-Income: Individual income that is more than 120 percent of the area median income, or a median family income that is more than 120 percent, in the case of a geography.

Description of Institution

Home State Bank N.A. (HSB) is headquartered in Crystal Lake, Illinois. The bank has 8 office locations, which includes a mobile branch for a retirement community, and an operations center. All office locations have an ATM. In addition to the ATMs at the branch locations, there are 10 cash dispense only ATM machines.

All office locations, ATMs and the operation center are located in McHenry County; these facilities are dispersed throughout the assessment area (AA). All of the bank's offices are full-service facilities and offer a full range of traditional banking products. In addition they offer Telephone Banking, Bank by Mail, Internet Banking, and a 24-hour automated bank by computer service. There are no low- or moderate-income geographies in the bank's AA. There are 18 middle-income geographies and 16 upper-income geographies.

HSB is primarily considered a commercial bank and no change in strategy is planned. HSB plans to continue to grow the bank through their full range of banking products. As of June 30, 2007 HSB had total assets of \$715 million, total loans of \$481 million, total deposits of \$588 million, and Tier one capital of \$57 million. The bank's loan portfolio is primarily commercial and commercial real estate with 57 percent of the loan portfolio. Residential real estate is 25 percent, construction and land development is 14 percent, and loans to individuals make up 4 percent of the loan portfolio. Home State Mortgage Group is a subsidiary of the bank. HSB has chosen to have all home mortgages originated in HSB's AA by their subsidiary considered in this evaluation. The mortgage groups home mortgage originations are not included or evaluated in any other performance evaluations.

HSB's last Public Evaluation (PE) was dated January 05, 2004, and the overall CRA rating assigned was Outstanding. Since the previous PE, HSB has closed a branch operating under a temporary license in Carpentersville, Illinois on September 1, 2007. The bank has increased the number of ATMs at branches by 2 and by 3 of dispense only ATMs.

HSB is a wholly owned subsidiary of Home State Bancorp, Inc., a one bank holding company also headquartered in Crystal Lake. There are no legal, financial, or other factors that would impede the bank's ability to help meet the credit needs in the bank's AA. Home State NB was rated "Outstanding" using Large Bank CRA examination procedures at its last CRA evaluation dated January 5, 2004.

Scope of the Evaluation

Evaluation Period/Products Evaluated

The evaluation period for the Lending Test, with the exception of community development (CD) loans, is January 1, 2004 through December 31, 2006. Under the Lending Test, home mortgage loans, small loans to businesses, and CD loans were evaluated. Home improvement loans were not a significant portion of the bank's portfolio; therefore, an analysis of these loans is not meaningful. Home State Bank N.A. did not originate any small farm loans during this evaluation period. For CD loans, the Investment test and the Service Test, the evaluation period is January 5, 2004 to October 15, 2007.

Data Integrity

Prior to the commencement of the examination, HSB's publicly filed HMDA and collected small business data was examined by the OCC to verify the accuracy of the data. We found the loan data to be reliable.

In addition, community development loans, investments, and services were submitted by management and were reviewed during this examination to ensure they met the regulatory definition of community development. Some of the loans submitted by management have CD elements; but were reported as HMDA or small business loans.

Selection of Areas for Full-Scope Review

We performed a full scope review of the bank's AA, which consists of 34 geographies within McHenry County. Please refer to the table in Appendix B for additional information regarding this area.

Ratings

The bank's overall rating is based on a full-scope review. We placed more emphasis on small loans to businesses than home mortgage products in evaluating the lending test. Small loans to businesses represent 67 percent of the total loans originated during the evaluation period and are a primary credit need of the assessment area based on discussions with community contacts and our own research.

Other

During our examination, we contacted two community contacts that operate in the assessment area. One contact is the employee of a housing development organization and the other interviewee from a small community development organization. The discussions for our contacts were completed via telephone, and we were provided with information about the roles of the financial institutions within the AA. The contacts also provided an overview of demographic characteristics and economic conditions. During

our discussion and review, as well as from information obtained throughout the examination, we learned that the primary credit needs are for low-rate small loans for businesses, which would facilitate current business expansion as well as attract new small businesses. This, in turn, would add local jobs and tax revenue.

The contacts agreed that community banks in general are meeting these business needs as well as the mortgage needs of consumers. The contacts also mentioned that the financial institutions are always receptive and willing to assist the community and are committed to the development of this community. The local financial institutions work with local organizations to provide seminars geared to first time home buyers or to inform the community of the financial products that are available to them.

According to the interviewee there is a major opportunity that is being missed in the area of small business lending. One contact suggested a need for micro-financing business loans below \$25 thousand. This would further develop the community in that it would assist the first time business owners.

There are community development opportunities in the bank's AA, but competition for these investments is strong. Our contacts believed that the local financial institutions in general are satisfactorily involved in community development in the AA.

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.

Conclusions with Respect to Performance Tests

LENDING TEST

Conclusions for Areas Receiving Full-Scope Reviews

The bank's performance under the lending test is rated "**Outstanding**". Based on full-scope reviews, the bank's performance in its AA is excellent.

Lending Activity

Refer to Tables 1- Lending Volume and Table 1- Other in Appendix C for the facts and 2004-2005 data used to evaluate the bank's lending activity.

Lending activity in the bank's AA is good. The bank's lending patterns are reflective of the credit needs of the community. The bank's lending is primarily small loans to businesses, which represents 67 percent of the total number of loans originated during this evaluation period. Home purchase and refinance loans represent 37 percent (2 percent and 61 percent) respectively, of the total number of home loans originated in the AA. Home improvement loans are not a focus of the bank, and therefore are not included in this analysis.

Based upon 2005 HMDA Peer Mortgage Data, HSB ranked 25 out of 455 lenders in this AA with a 1.00 percent market share. Large regional banks dominate the market. Market share for home purchase and refinance loans are 1.32 percent and .69 percent respectively. For home purchase loans HSB ranked 34 out of 331 lenders; and for home refinance loans HSB ranked 16 out of 365 lenders.

Small business loans are an identified credit need in the AA. Based on 2005 Peer Small Business Data, HSB ranked 6 out of 85 lenders with a market share of 8.17 percent. HSB originated a significant number of small business loans secured by residential real estate and therefore are not included in the small business tables, but are included in Table 1, Other Products

Distribution of Loans by Income Level of the Geography

HSB's assessment area does not contain any low- or moderate-income geographies, therefore a geographic analysis would not be meaningful.

Lending Gap Analysis

Reports detailing HSB's lending activity over the evaluation period for home mortgage loans and small loans to businesses were reviewed to identify gaps in the distribution of those loans. No unexplained, conspicuous gaps were identified.

Inside/Outside Ratio

A majority (about 74 percent of the total number) of home mortgage loans and small loans to businesses originated or purchased by HSB over the evaluation period are within the AA. Sixty-eight percent of the number and 66 percent of the dollar amount of total home loans were within the AA. Of the total number and dollar amount of small business loans 79 percent and 73 percent respectively were originated within the AA.

Distribution of Loans by Income Level of the Borrower

Home Mortgage Loans

Refer to Tables 8, 9, and 10 in Appendix C for the facts and data used to evaluate the borrower distribution of the bank's home mortgage loan originations.

The borrower distribution for home purchase loans is excellent. The percentage of home purchase loans made to low- and moderate-income borrowers (13.50 percent and 22.63 percent respectively) significantly exceeds the percentage of low- and moderate-income families (9.99 percent and 14.18 percent respectively) in the AA.

The borrower distribution for home refinances loans is excellent. The percentage of home refinance loans made to low-income borrowers is 13 percent, which significantly exceeds the demographics (9.99 percent). The percentage of home refinance loans made to moderate-income borrowers is 13.71 percent which meets the demographics (14.18 percent).

Small Loans to Businesses

Refer to Table 11 in Appendix C for the facts and data used to evaluate the borrower distribution of the bank's origination of small loans to businesses.

The borrower distribution of small loans to business is good. HSB's small loans to businesses with revenues of less than \$1 million is 58 percent, which is somewhat below the demographics of 69 percent. We note that a majority of the bank's small business loans are for amounts less than \$100 thousand (70 percent). Competition for small loans to businesses with revenues less than \$1 million is strong with large regional and large credit card banks ranking in the top 10 banks for market share in the HSB's AA.

Other Products

Refer to Table 1 in Appendix C for the facts and data used to evaluate the borrower distribution of the bank's origination/purchase of small business loans secured by residential real estate.

The other products have a small business purpose, but they are secured by real estate, therefore they are not included in the small business loan data. The greater majority of these loans are to business with less than \$1 million in revenue.

Small Loans to Farms

Refer to Table 12 in the Appendix C for the facts and data used to evaluate the borrower distribution of the bank's origination/purchase of small loans to farms.

A borrower distribution of small loans to farms will not be included in this analysis. HSB is not an active farm lender.

Community Development Lending

Refer to Table 1 Lending Volume in Appendix C for the facts and data used to evaluate the bank's level of community development lending. This table includes all CD loans, including multifamily loans that also qualify as CD loans.

Community development lending had a positive impact on the Lending Test. We determined that HSB made 36 loans totaling \$6.8 million during the evaluation period that qualified as community development loans. The following summarizes these loans over the 2004 – 2007 evaluation period.

- -Over the evaluation period \$3.7 million in loans were originated to a local community center. This center is recognized by the State of Illinois as generating small business development and stabilizing the area in downtown Crystal Lake. This area is targeted by the city for revitalization
- -The bank originated \$542 thousand in loans to an organization that provides affordable housing to low- and moderate-income individuals under Section 8.
- -A local county organization received \$572 thousand in loans that provided financing for low- and moderate-income first time homebuyers.
- -A non profit organization received \$535 thousand in loans that helped to provide shelter and other community development services to the homeless.
- -A local economic development organization received \$100 thousand in loans that encouraged growth in small businesses within the bank's AA.

- -An organization that targets its community development services to low-income and homeless veterans received \$247 thousand in loans that provided housing for veterans that have no or low paying jobs and are unable to care for themselves.
- -A non profit organization that provides housing for low-income mentally disabled individuals received \$632 thousand in loans.

Product Innovation and Flexibility

Product flexibility had a positive impact on the Lending Test conclusion. The bank offers flexible products that include home mortgage loan programs and small business lending programs.

The home mortgage products target low- and moderate-income borrowers. They include assistance for the Section 8 housing, down payment assistance from non-traditional sources, longer repayment terms, ITIN mortgages and FHA mortgages. The bank originated 70 loans under various flexible loan programs for a total of \$8.8 million. The bank offers a small business loan program with flexible terms and conditions. The bank originated 48 of these loans with a total dollar amount of \$5 million.

INVESTMENT TEST

Conclusions for Areas Receiving Full-Scope Reviews

The bank's performance under the Investment Test is rated "High Satisfactory." Refer to Table 14 in Appendix C for the facts and data used to evaluate the bank's level of qualified investments.

Based on a full-scope review, the bank's performance is good. Information obtained from bank management and the Community Development Specialist at the OCC indicated that investment opportunities in the area are limited.

HSB made approximately \$2.0 million in investments and grants during the evaluation period. Additionally, the present value of prior period investments total approximately \$300 thousand. Qualified investments total \$2.3 million.

The following are examples of qualifying investments and grants:

Investments:

\$1.2 million to purchase mortgage backed securities. All mortgages in the pools are to low- or moderate-income borrowers from within the bank's assessment area.

\$665 thousand for community development in the City of Harvard, Illinois. The population of the city is comprised mainly of low- or moderate-income households.

Grants:

In addition to the investments, HSB made more than \$127 thousand in cash and in-kind contributions and grants to organizations that met the definition of community development. These contributions included:

- \$22,417 to the local county economic development organization that promotes small business growth with emphasis on low-income individuals.
- \$14,406 to an organization that provides mentoring to low- and moderate-income youth.
- \$11,400 to an affordable housing organization in McHenry County that provides down payment assistance to low- and moderate-income individuals and families.
- \$10,000 to a local county college foundation that provides scholarships for low- and moderate-income students.

SERVICE TEST

Conclusions for Areas Receiving Full-Scope Reviews

The bank's performance under the Service Test is rated "**High Satisfactory**".

Retail Banking Services

Refer to Table 15 in Appendix C for the facts and data used to evaluate the distribution of the bank's branch delivery system and branch openings and closings.

HSB's delivery systems are accessible to individuals of different income levels in the bank's AA. There are no low- or moderate-income geographies in HSB's AA. However, there are low- and moderate-income individuals/families that reside within the bank's middle and upper Income geographies within the bank's AA. Fifty-eight percent of low- and moderate-income families reside in the Middle Income geographies in the bank's AA. Forty-two percent of low- and moderate-income families reside in the Upper Income geographies within the bank's AA. The current unemployment rate in McHenry County is 4.4 percent.

HSB operates 8 branches; 7 are full service and the 8th branch is a mobile branch open on Tuesdays and Thursdays from 10am-2pm. Since the prior examination, HSB opened a new office in December of 2004 in upper-income geography. HSB has not closed any full-service office locations during this evaluation period. Lobby hours and services provide good accessibility for all bank customers. Hours and services are standard among all locations.

HSB offers a low minimum, low cost checking account (ETA's) for low- to moderate-income individuals. The bank offers special no cost checking accounts to senior citizens, low cost youth (under 16 years of age) savings accounts (minimum \$50 balance), and a free checking account that only requires a \$100 minimum opening deposit.

There is a certificate of deposit (CD) product (Higher Learning Fund CD) that only requires \$50 minimum opening and balance, and additions can be made at any time. Low cost deposit accounts are also available for small businesses.

The distribution of automated teller machines (ATMs) is good. HSB operates 18 ATMs in their assessment area, an addition of six more ATM's from the last examination. Eight ATM's are full service; and, 10 ATM's offer dispensing services only. HSB offers other alternate delivery systems, which include Telephone Banking, Bank by Mail and Internet Banking, a 24-hour automated bank by computer service.

The bank has 24-hour telephone banking and Internet banking, known as Minuteman Home Banking. There is internet banking services for both personal and business customers, and bill payment services are offered. Since the bank does not collect specific data on how low- or moderate-income individuals are impacted by these services; significant weight was not placed on these alternate delivery systems when drawing conclusions under the Service test.

Community Development Services

HSB's performance in providing community development services in the assessment area is good. Several officers and employees of HSB serve on the boards of directors or as officers of various community development service organizations. Those programs include providing financial expertise in the form of assistance in approving loan requests to a small business development corporation and organizations providing educational services to children from low- and moderate-income households. While the community development services provided are non-complex, they are responsive to the needs of the community. Some of these services include:

- An Officer of HSB provides financial information and assistance through outreach services to low- or moderate-income seniors living in and around McHenry County.
- An Officer of HSB serves on the board of an organization that works specifically with 4 separate organizations that provide CD services to low- and moderate-income individuals and families.
- An Officer of HSB is a volunteer at an organization that offers the use of its building to several organizations that provide services such as financial education, affordable housing and counseling to low- or moderate-income individuals and families.

- An Officer of HSB conducts seminars at a small business development center. The purpose of the seminar is to provide assistance to small business owners in finding resources they need to start or expand their business.
- An Officer of HSB serves on the board and is treasurer of an organization that provides financial assistance and temporary housing to low- or moderate-income families or individuals.
- An Officer of HSB serves as a counselor and is treasurer of an organization that provides counseling and shelter for the homeless.
- An Officer of HSB serves on the board and is treasurer of an organization that provides financial and educational assistance for children of low-income families.
- An Officer conducts educational seminars for an underserved community of low- to moderate-income individuals on finance and banking topics.

Appendix A: Scope of Examination

The following table identifies the time period covered in this evaluation, affiliate activities that were reviewed, and loan products considered. The table also reflects the metropolitan and non-metropolitan areas that received comprehensive examination review (designated by the term “full-scope”) and those that received a less comprehensive review (designated by the term “limited-scope”).

| | | |
|---|--|-------------------|
| Time Period Reviewed | Lending Test (excludes CD Loans): 01/01/2004 to 12/31/2006 Investment and Service Tests and CD Loans: 1/05/2004 to 10/15/2007 | |
| Financial Institution | Products Reviewed | |
| Home State Bank N.A. Crystal Lake, Illinois | Home Mortgages, Small Loans to Businesses, and CD loans | |
| Affiliate(s) | Affiliate Relationship | Products Reviewed |
| Home State Mortgage Group | Subsidiary of the Bank | Home Mortgages |
| List of Assessment Areas and Type of Examination | | |
| Assessment Area | Type of Exam | Other Information |
| Portions of McHenry County in the Chicago/Naperville/Joliet Metropolitan District 16974 | Full-Scope | |

Appendix B: Market Profiles for Full-Scope Areas

| Demographic Information for Full Scope Area: Home State | | | | | | |
|--|---------|------------|----------------------|---------------|--------------|------------|
| Demographic Characteristics | # | Low % of # | Moderate % of # | Middle % of # | Upper % of # | NA* % of # |
| Geographies (Census Tracts/BNAs) | 34 | 0.00 | 0.00 | 52.94 | 47.06 | 0.00 |
| Population by Geography | 190,461 | 0.00 | 0.00 | 44.70 | 55.30 | 0.00 |
| Owner-Occupied Housing by Geography | 54,566 | 0.00 | 0.00 | 43.01 | 56.99 | 0.00 |
| Business by Geography | 11,775 | 0.00 | 0.00 | 45.62 | 54.38 | 0.00 |
| Farms by Geography | 344 | 0.00 | 0.00 | 60.47 | 39.53 | 0.00 |
| Family Distribution by Income Level | 50,926 | 9.99 | 14.18 | 25.33 | 50.50 | 0.00 |
| Distribution of Low and Moderate Income Families throughout AA Geographies | 12,307 | 0.00 | 0.00 | 57.72 | 42.28 | 0.00 |
| Median Family Income | | 60,166 | Median Housing Value | | 169,461 | |
| HUD Adjusted Median Family Income for 2006 | | 72,100 | Unemployment Rate | | 5.5% | |
| Households Below Poverty Level | | 3% | (Current) | | | |

(*) The NA category consists of geographies that have not been assigned an income classification.

Source: 2000 US Census and 2006 HUD updated MFI

DESCRIPTION OF ASSESSMENT AREA

HSB is headquartered in Crystal Lake, Illinois. Crystal Lake is within the Chicago/Naperville/Joliet MD 16974. The AA consists of 34 geographies in McHenry County. There are no low- or moderate-income geographies, 18 middle-income geographies, and 16 upper-income geographies. HSB's AA meets the requirements of the CRA regulation and does not arbitrarily exclude low- or moderate-income areas.

As of June 30, 2007 all of HSB's deposits are derived from this AA. HSB deposits total \$587 million. Based on FDIC deposit market share data as of June 30, 2007, this equates to a 9.90 percent deposit market share ranking HSB 2nd out of 33 deposit taking institution in the McHenry County area. Sixty-eight percent of the bank's HMDA loans and seventy-nine percent of the bank's CRA loans are within the AA.

The updated Housing and Urban Development (HUD) 2006 median family income for the AA is \$72,100. A breakdown of family income levels in the AA shows 9.99 percent as low-income, 14.18 percent moderate-income, 25.33 percent middle-income, and 42.28 percent upper-income. A low-income family has a maximum income of \$34,850. In addition, three percent of households have incomes below the poverty level.

Of the 112,426 housing units in the AA, 89,745 (84.1 percent) are owner-occupied, 17,006 (15.9 percent) are rental-occupied, and 5,675 (5 percent) are vacant. The median housing value within the AA based on the 2006 census data is \$252,700

The outlook for the local economy is stable. The employment base in the AA are manufacturing oriented (16.64 percent), followed by educational services, health care and social assistance (16.64 percent), and retail trade (13.21 percent)

Based on the demographics of the AA and the low level of identified needs for affordable housing and small business financing, opportunities for community development needs in the AA are limited. A small number of partnership opportunities exist to facilitate activities to address the low level of credit and community development needs of the AA. These conclusions are based on discussions with local government officials, our review of CRA performance evaluations of other financial institutions operating in the AA and discussions with bank management.

Appendix C: Tables of Performance Data

Content of Standardized Tables

References to the “bank” include activities of any affiliates that the bank provided for consideration (refer to Appendix A: Scope of the Examination). For purposes of reviewing the lending test tables, the following are applicable: (1) purchased loans are treated as originations/purchases and market share is the number of loans originated and purchased by the bank as a percentage of the aggregate number of reportable loans originated and purchased by all lenders in the MA/assessment area; (2) Partially geocoded loans (loans where no census tract is provided) cannot be broken down by income geographies and, therefore, are only reflected in the Total Loans in Core Tables 2 through 7 and part of Table 13; and (3) Partially geocoded loans are included in the Total Loans and % Bank Loans Column in Core Tables 8 through 12 and part of Table 13. Tables without data are not included in this PE.

The following is a listing and brief description of the tables:

- Table 1. Lending Volume** - Presents the number and dollar amount of reportable loans originated and purchased by the bank over the evaluation period by MA/assessment area. Community development loans to statewide or regional entities or made outside the bank’s assessment area may receive positive CRA consideration. Refer to Interagency Q&As __.12(i) - 5 and - 6 for guidance on when a bank may receive positive CRA consideration for such loans. When such loans exist, insert a line item with the appropriate caption in the MA/Assessment Area column and record the corresponding numbers and amounts in the “Community Development Loans” column with the appropriate caption, such as: “Statewide/Regional,” “Statewide/Regional with potential benefit to one or more AAs” or “Out of Assessment Area.” “Out of Assessment Area” is used ONLY if the bank has otherwise adequately met the CD lending needs of its assessment area.
- Table 1. Other Products** - Presents the number and dollar amount of any unreported category of loans originated and purchased by the bank over the evaluation period by MA/assessment area. Examples include consumer loans or other data that a bank may provide, at its option, concerning its lending performance. This is a two-page table that lists specific categories.
- Table 2. Geographic Distribution of Home Purchase Loans** - Compares the percentage distribution of the number of loans originated and purchased by the bank in low-, moderate-, middle-, and upper-income geographies to the percentage distribution of owner-occupied housing units throughout those geographies. The table also presents market share information based on the most recent aggregate market data available.

- Table 3. Geographic Distribution of Home Improvement Loans** - See Table 2.
- Table 4. Geographic Distribution of Home Mortgage Refinance Loans** - See Table 2.
- Table 5. Geographic Distribution of Multifamily Loans** - Compares the percentage distribution of the number of multifamily loans originated and purchased by the bank in low-, moderate-, middle-, and upper-income geographies to the percentage distribution of multifamily housing units throughout those geographies. The table also presents market share information based on the most recent aggregate market data available.
- Table 6. Geographic Distribution of Small Loans to Businesses** - The percentage distribution of the number of small loans (less than or equal to \$1 million) to businesses originated and purchased by the bank in low-, moderate-, middle-, and upper-income geographies compared to the percentage distribution of businesses (regardless of revenue size) throughout those geographies. The table also presents market share information based on the most recent aggregate market data available. Because small business data are not available for geographic areas smaller than counties, it may be necessary to use geographic areas larger than the bank's assessment area.
- Table 7. Geographic Distribution of Small Loans to Farms** - The percentage distribution of the number of small loans (less than or equal to \$500,000) to farms originated and purchased by the bank in low-, moderate-, middle-, and upper-income geographies compared to the percentage distribution of farms (regardless of revenue size) throughout those geographies. The table also presents market share information based on the most recent aggregate market data available. Because small farm data are not available for geographic areas smaller than counties, it may be necessary to use geographic areas larger than the bank's assessment area.
- Table 8. Borrower Distribution of Home Purchase Loans** - Compares the percentage distribution of the number of loans originated and purchased by the bank to low-, moderate-, middle-, and upper-income borrowers to the percentage distribution of families by income level in each MA/assessment area. The table also presents market share information based on the most recent aggregate market data available.
- Table 9. Borrower Distribution of Home Improvement Loans** - See Table 8.
- Table 10. Borrower Distribution of Refinance Loans** - See Table 8.

Table 11. Borrower Distribution of Small Loans to Businesses - Compares the percentage distribution of the number of small loans (less than or equal to \$1 million) originated and purchased by the bank to businesses with revenues of \$1 million or less to the percentage distribution of businesses with revenues of \$1 million or less. In addition, the table presents the percentage distribution of the number of loans originated and purchased by the bank by loan size, regardless of the revenue size of the business. Market share information is presented based on the most recent aggregate market data available.

Table 12. Borrower Distribution of Small Loans to Farms - Compares the percentage distribution of the number of small loans (less than or equal to \$500,000) originated and purchased by the bank to farms with revenues of \$1 million or less to the percentage distribution of farms with revenues of \$1 million or less. In addition, the table presents the percentage distribution of the number of loans originated and purchased by the bank by loan size, regardless of the revenue size of the farm. Market share information is presented based on the most recent aggregate market data available.

Table 13. Geographic and Borrower Distribution of Consumer Loans (OPTIONAL) - For geographic distribution, the table compares the percentage distribution of the number of loans originated and purchased by the bank in low-, moderate-, middle-, and upper-income geographies to the percentage distribution of households within each geography. For borrower distribution, the table compares the percentage distribution of the number of loans originated and purchased by the bank to low-, moderate-, middle-, and upper-income borrowers to the percentage of households by income level in each MA/assessment area.

Table 14. Qualified Investments - Presents the number and dollar amount of qualified investments made by the bank in each MA/AA. The table separately presents investments made during prior evaluation periods that are still outstanding and investments made during the current evaluation period. Prior-period investments are reflected at their book value as of the end of the evaluation period. Current period investments are reflected at their original investment amount even if that amount is greater than the current book value of the investment. The table also presents the number and dollar amount of unfunded qualified investment commitments. In order to be included, an unfunded commitment must be legally binding and tracked and recorded by the bank's financial reporting system.

A bank may receive positive consideration for qualified investments in statewide/regional entities or made outside of the bank's assessment area. See Interagency Q&As __.12(i) - 5 and - 6 for guidance on when a bank may receive positive CRA consideration for such investments. When such

investments exist, insert a line item in the MA/Assessment Area column and record the corresponding numbers and amounts in the “Qualified Investments” column with the appropriate caption, such as: “Statewide/Regional,” “Statewide/Regional with potential benefit to one or more AAs” or “Out of Assessment Area.” “Out of the Assessment Area” is used ONLY if the bank has otherwise adequately met the qualified investment needs of its assessment area.

Table 15. Distribution of Branch Delivery System and Branch Openings/Closings
-Compares the percentage distribution of the number of the bank’s branches in low-, moderate-, middle-, and upper-income geographies to the percentage of the population within each geography in each MA/AA. The table also presents data on branch openings and closings in each MA/AA.

Table 1. Lending Volume

| LENDING VOLUME | | Geography: ILLINOIS | | | | | | Evaluation Period: JANUARY 1, 2004 TO DECEMBER 28, 2006 | | | | |
|------------------------------|---|---------------------|------------|---------------------------|------------|----------------------|------------|---|------------|----------------------|------------|--|
| MA/Assessment Area : | % of Rated Area Loans (#) in MA/AA [*] | Home Mortgage | | Small Loans to Businesses | | Small Loans to Farms | | Community Development Loans ^{**} | | Total Reported Loans | | % of Rated Area Deposits in MA/AA ^{***} |
| | | # | \$ (000's) | # | \$ (000's) | # | \$ (000's) | # | \$ (000's) | # | \$ (000's) | |
| Full Review: | | | | | | | | | | | | |
| Chicago/Naperville/Joliet MD | 100.00 | 770 | 145,146 | 1,569 | 211,767 | 0 | 0 | 36 | 6,796 | 2,375 | 363,712 | 100.00 |

^{*} Loan Data as of December 28, 2006. Rated area refers to either state or multi-state MA rating area.

^{**} The evaluation period for Community Development Loans is from January 01, 2006 to December 31, 2006.

^{***} Deposit Data as of October 17, 2007. Rated Area refers to either the state, multi-state MA, or institution, as appropriate.

ID: Institution ID

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Table 1. Other Products

| LENDING VOLUME | | Geography: ILLINOIS | | | | | | Evaluation Period: JANUARY 1, 2004 TO DECEMBER 28, 2006 | | | | | | |
|------------------------------|---|------------------------------------|------------|--|------------|---------------------------|------------|---|------------|---------------------------|------------|--------------------------------------|-----------|---|
| MA/Assessment Area : | % of Rated Area Loans (#) in MA/AA [*] | Total Optional Loans ^{**} | | Small Business Real Estate Secured ^{**} | | Home Equity ^{**} | | Motor Vehicle ^{**} | | Credit Card ^{**} | | Other Secured Consumer ^{**} | | % of Rated Area Deposits in AA ^{***} |
| | | # | \$ (000's) | # | \$ (000's) | # | \$ (000's) | # | \$ (000's) | # | \$ (000's) | # | \$(000's) | |
| Full Review: | | | | | | | | | | | | | | |
| Chicago/Naperville/Joliet MD | 100.00 | 547 | 105,146 | 547 | 105,146 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 100.00 |

^{*} Loan Data as of December 28, 2006. Rated area refers to either state or multi-state MA rating area.

^{**} The evaluation period for Optional Product Line(s) is from January 01, 2004 to December 28, 2006.

^{***} Deposit Data as of October 17, 2007. Rated Area refers to either the state, multi-state MA, or institution, as appropriate.

Table 8. Borrower Distribution of Home Purchase Loans

| Borrower Distribution: HOME PURCHASE | | Geography: ILLINOIS | | | | | | Evaluation Period: JANUARY 1, 2004 TO DECEMBER 28, 2006 | | | | | | | |
|--------------------------------------|---------------------------|---------------------|----------------------|------------------|---------------------------|----------------|-------------------------|---|------------------------|------------------|--------------|------|------|------|------|
| MA/Assessment Area: | Total Home Purchase Loans | | Low-Income Borrowers | | Moderate-Income Borrowers | | Middle-Income Borrowers | | Upper-Income Borrowers | | Market Share | | | | |
| | # | % of Total** | % Families*** | % BANK Loans**** | % Families ¹ | % BANK Loans** | % Families*** | % BANK Loans**** | % Families** | % BANK Loans**** | Overall | Low | Mod | Mid | Upp |
| Full Review: | | | | | | | | | | | | | | | |
| Chicago/Naperville/Joliet MD | 285 | 100.00 | 9.99 | 13.50 | 14.18 | 22.63 | 25.33 | 21.90 | 50.50 | 41.97 | 0.79 | 2.01 | 1.09 | 0.71 | 0.62 |

* Based on 2005 Peer Mortgage Data (Western)

** As a percentage of loans with borrower income information available. No information was available for 3.9% of loans originated and purchased by bank.

*** Percentage of Families is based on the 2000 Census information.

**** Home purchase loans originated and purchased in the MA/AA as a percentage of all home purchase loans originated and purchased in the rated area.

¹ Data shown includes only One to Four-family and manufactured housing. (Property type of 1 or 2)

Table 9. Borrower Distribution of Home Improvement Loans

| Borrower Distribution: HOME IMPROVEMENT 2006 | | | Geography: ILLINOIS | | | | | | Evaluation Period: JANUARY 1, 2004 TO DECEMBER 28, 2006 | | | | | | |
|---|---------------------------------|-----------------|-------------------------|---------------------|------------------------------|---------------------|----------------------------|---------------------|--|---------------------|--------------|------|------|------|------|
| MA/Assessment Area: | Total Home Improvement Loans | | Low-Income Borrowers | | Moderate-Income Borrowers | | Middle-Income Borrowers | | Upper-Income Borrowers | | Market Share | | | | |
| | # | % of Total** | % Families*** | % BANK Loans**** | % Families ² | % BANK Loans**** | % Families* ** | % BANK Loans**** | % Families* ** | % BANK Loans**** | Overall | Low | Mod | Mid | Upp |
| Full Review: | | | | | | | | | | | | | | | |
| Chicago/Naperville/J oliet MD | 13 | 100.00 | 9.99 | 8.33 | 14.18 | 8.33 | 25.33 | 33.33 | 50.50 | 50.00 | 0.55 | 0.00 | 0.86 | 0.88 | 0.29 |

* Based on 2005 Peer Mortgage Data (Western)

** As a percentage of loans with borrower income information available. No information was available for 7.7% of loans originated and purchased by bank.

*** Percentage of Families is based on the 2000 Census information.

**** Home improvement loans originated and purchased in the MA/AA as a percentage of all home improvement loans originated and purchased in the rated area.

² Data shown includes only One to Four-family and manufactured housing. (Property type of 1 or 2)

Table 10. Borrower Distribution of Home Mortgage Refinance Loans

| Borrower Distribution: HOME MORTGAGE REFINANCE 2006 | | Geography: ILLINOIS | | | | | | | | Evaluation Period: JANUARY 1, 2004 TO DECEMBER 28, | | | | | |
|--|---|---------------------|-------------------------|---------------------|------------------------------|---------------------|----------------------------|---------------------|---------------------------|--|--------------|------|------|------|------|
| MA/Assessment Area: | Total Home Mortgage Refinance Loans | | Low-Income Borrowers | | Moderate-Income Borrowers | | Middle-Income Borrowers | | Upper-Income Borrowers | | Market Share | | | | |
| | # | % of Total** | % Families*** | % BANK Loans**** | % Families ³ | % BANK Loans**** | % Families* ** | % BANK Loans**** | % Families* ** | % BANK Loans** | Overa ll | Low | Mod | Mid | Upp |
| Full Review: | | | | | | | | | | | | | | | |
| Chicago/Naperville/J oliet MD | 468 | 100.00 | 9.99 | 13.00 | 14.18 | 13.71 | 25.33 | 26.24 | 50.50 | 47.04 | 1.33 | 3.35 | 0.96 | 1.01 | 1.56 |

* Based on 2005 Peer Mortgage Data (Western)

** As a percentage of loans with borrower income information available. No information was available for 9.6% of loans originated and purchased by bank.

*** Percentage of Families is based on the 2000 Census information.

**** Home refinance loans originated and purchased in the MA/AA as a percentage of all home refinance loans originated and purchased in the rated area.

³ Data shown includes only One to Four-family and manufactured housing. (Property type of 1 or 2)

Table11. Borrower Distribution of Small Loans to Businesses

| Borrower Distribution: SMALL LOANS TO BUSINESSES | | | | Geography: ILLINOIS | | Evaluation Period: JANUARY 1, 2004 TO DECEMBER 28, 2006 | | | |
|--|---------------------------------|--------------------------|---|------------------------------|--|---|---------------------------|--------------|-------------------------|
| MA/Assessment Area: | Total Small Loans to Businesses | | Businesses With Revenues of \$1 million or less | | Loans by Original Amount Regardless of Business Size | | | Market Share | |
| | # | % of Total ^{**} | % of Businesses ^{***} | % BANK Loans ^{****} | \$100,000 or less | >\$100,000 to \$250,000 | >\$250,000 to \$1,000,000 | All | Rev\$ 1 Million or Less |
| Full Review: | | | | | | | | | |
| Chicago/Naperville/Joliet MD | 1,569 | 100.00 | 69.38 | 57.74 | 69.98 | 12.87 | 17.14 | 6.53 | 8.47 |

^{*} Based on 2005 Peer Small Business Data -- US and PR

^{**} Small loans to businesses originated and purchased in the MA/AA as a percentage of all small loans to businesses originated and purchased in the rated area.

^{***} Businesses with revenues of \$1 million or less as a percentage of all businesses (Source D&B - 2006).

^{****} Small loans to businesses with revenues of \$1 million or less as a percentage of all loans reported as small loans to businesses. No information was available for 0.00% of small loans to businesses originated and purchased by the bank.

Institution ID

Home State NA Charter 18763

Table 14. Qualified Investments

| QUALIFIED INVESTMENTS | | Geography: ILLINOIS | | | | Evaluation Period: JANUARY 1, 2004 TO DECEMBER 28, 2006 | | | |
|------------------------------|---------------------------------------|---------------------|----------------------------|-----------|-------------------|---|------------|------------------------------------|-----------|
| MA/Assessment Area: | Prior Period Investments [*] | | Current Period Investments | | Total Investments | | | Unfunded Commitments ^{**} | |
| | # | \$(000's) | # | \$(000's) | # | \$(000's) | % of Total | # | \$(000's) |
| Full Review: | | | | | | | | | |
| Chicago/Naperville/Joliet MD | 2 | 334,692 | 3 | 1,900,487 | 5 | 2,235,179 | 100.00 | 0 | 0 |

^{*} 'Prior Period Investments' means investments made in a previous period that are outstanding as of the examination date.

^{**} 'Unfunded Commitments' means legally binding investment commitments that are tracked and recorded by the institution's financial reporting system.

Table 15. Distribution of Branch Delivery System and Branch Openings/Closings

| DISTRIBUTION OF BRANCH DELIVERY SYSTEM AND BRANCH OPENINGS/CLOSINGS | | | | | | | | | | Geography: ILLINOIS | | | | Evaluation Period: JANUARY 1, 2004 TO DECEMBER 28, 2006 | | | |
|---|--------------------------------|--------------------|--------------------------------|---|------|-----|-----|--------------------------|----------------------|---|-----|------------|-----|---|------|-------|-------|
| MA/Assessment Area: | Deposits | Branches | | | | | | Branch Openings/Closings | | | | Population | | | | | |
| | % of Rated Area Deposits in AA | # of BANK Branches | % of Rated Area Branches in AA | Location of Branches by Income of Geographies (%) | | | | # of Branch Openings | # of Branch Closings | Net change in Location of Branches (+ or -) | | | | % of Population within Each Geography | | | |
| | | | | Low | Mod | Mid | Upp | | | Low | Mod | Mid | Upp | Low | Mod | Mid | Upp |
| Full Review: | | | | | | | | | | | | | | | | | |
| Chicago/Naperville/Joliet MD | 100.00 | 7 | 0.00 | 0.00 | 0.00 | 2 | 5 | 0 | 0 | 0 | 0 | 0 | 0 | 0.00 | 0.00 | 44.70 | 55.30 |