

Comptroller of the Currency
Administrator of National Banks

LARGE BANK

PUBLIC DISCLOSURE

May 26, 1998

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Home State Bank, National Association
Charter #18763
40 Grant Street
Crystal Lake, Illinois 60014**

**Office of the Comptroller of the Currency
Chicago South Field Office
7600 County Line Road, Suite 3
Burr Ridge, Illinois 60521-6962**

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.

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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 **Home State Bank, National Association, Crystal Lake, Illinois** prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **May 26, 1998**. 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 the community credit needs."

The following chart indicates the performance level of **Home State Bank, National Association** with respect to the lending, investment and service tests.

Performance Levels	Home State Bank, National Association Performance Tests		
	Lending Test*	Investment Test	Service Test
Outstanding			
High Satisfactory	X		
Low Satisfactory			X
Needs to Improve		X	
Substantial Noncompliance			

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

Summary of Performance

Overall, our review found that Home State Bank, National Association:

- ◆ demonstrates good responsiveness to serving the credit needs within its assessment area;
- ◆ originates a substantial majority of their loans in their assessment area;
- ◆ has an overall good distribution of loans among borrowers of different income levels;
- ◆ originates an adequate level of community development loans;
- ◆ provides a poor level of investments in its assessment area;
- ◆ provides an adequate level of community services to low- and moderate-income families; and
- ◆ has reasonably accessible delivery systems within the entire assessment area.

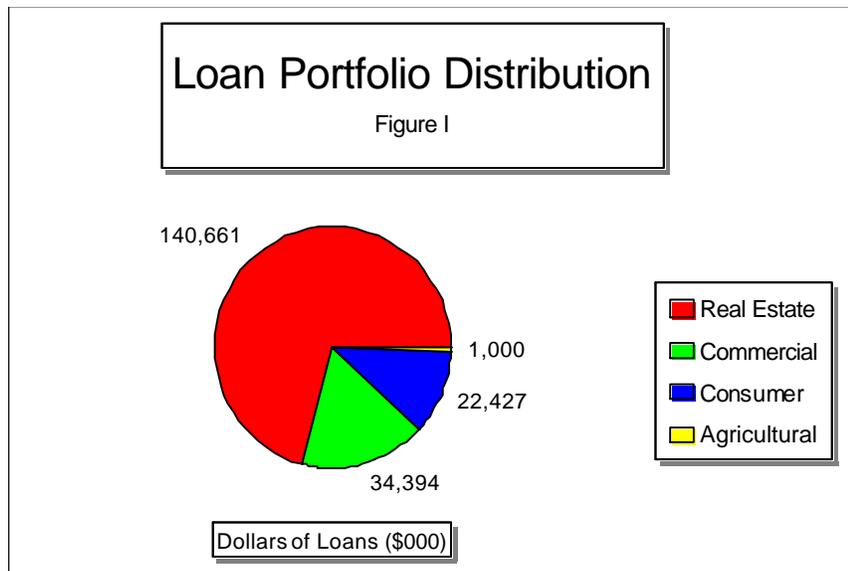
Performance Rating Period

This evaluation considered the bank's performance since its last CRA examination dated November 18, 1996. The bank's CRA performance was rated "Satisfactory Record of meeting the community credit needs" at that examination.

Description of Institution

Home State Bank is located in Crystal Lake, Illinois, approximately 45 miles northwest of Chicago. The bank is owned by Home State Bancorp, Inc., a one bank holding company. The bank has six offices located throughout its assessment area. These include the main office, four full services branches and one mobile branch located in a retirement community. The bank supplements its branch network with eight Automated Teller Machines (ATMs). Five of the ATM's are full service and are located at the main office and the four permanent branch sites. The three cash dispensing only ATM's are located at a Holiday Inn, Coventry Car Wash & Gas, and McHenry County College. As of the report date, the bank had under construction (renovating an old Post Office in Woodstock) another full service branch within their assessment area which will also provide ATM services.

There are no impediments which would hamper the bank's ability to help meet the credit needs of its community. As of March 31, 1998, the bank had total assets of \$324 million and a net income of \$1.023 million. The bank's loan-to-deposit ratio was 74.34% with net loans representing 63% of total assets. The bank's average loan-to-deposit ratio since the last examination is 70.49% which is comparable to their national peer group average of 73.21%. The loan portfolio consists of 71% real estate; 17% commercial, 11% consumer, and 1% agricultural loans. **Figure I** displays the distribution of the bank's loan portfolio at March 31, 1998 by dollars.



The bank offers a variety of loan products which includes home purchase, home improvement, refinance, consumer, commercial, and small business loans. The bank is a Small Business Association (SBA) lender and started offering Federal National Mortgage Association (FNMA) mortgage loans in 1996. The bank recently began selling mortgage loans in the secondary market.

Description of Assessment Area

The bank's assessment area consists of 17 census tracts which comprise Grafton, Algonquin, Dorr, Nunda, Greenwood, and McHenry townships, adjusted by the Fox River as the eastern border. The assessment area complies with the regulation and does not arbitrarily exclude low- or moderate-income geographies. These townships are located in McHenry County which is part of the Chicago Metropolitan Statistical Area (MSA). The median family income for the MSA is \$42,758. The median housing value of the AA is \$113,315 with the median year built of 1969. The assessment area is composed of ten middle- and seven upper-income census tracts. The bank's assessment area does not have any low- or moderate-income geographies. Low- and moderate-income families represent 10.81% and 15.67% of the families within the assessment area, respectively. The total population of the assessment area is 128,000. McHenry County has been the fastest growing county in Illinois for the past several years.

The local economy is strong and diversified among services, retail trade, construction, and manufacturing. The assessment area consists of 5,960 businesses and farms which are detailed in **Figure II** by annual gross revenue level:

Business Demographic Information for Assessment Area Home State Bank Figure II			
Annual Gross Revenue	Businesses	Farms	Total
Less Than \$1 million (Small Business/Farms)	4,290	156	4,446
Over \$1 million (Large Business/Farms)	515	6	521
Unknown Annual Revenue	971	22	993
Total	5,776	184	5,960

Many financial institutions serve the assessment area. According to 1996 Home Mortgage Disclosure Act (HMDA) information, 394 financial institutions originated loans in the assessment area. The bank has identified approximately 38 banks and savings and loans and 38 non-bank mortgage companies with locations within the bank's assessment area as their primary competitors. Many of the banks in the area are branches of larger regional and money center banks. Based on the 1996 HMDA "Lender Market Share" analysis, Home State Bank is ranked 19 with a market share of 1%.

CRA-related community contacts indicated that the significant credit need is to provide loans for affordable housing and the construction and improvement of low- and moderate-income housing.

Conclusions with Respect to Performance Tests

LENDING TEST

The lending test provides the most substantive consideration in evaluating the bank's CRA performance. Consideration is given to the bank's origination of credit within its assessment area, the extension of credit to low- and moderate-income geographies within the assessment area, the level

of credit provided to low- and moderate-income borrowers, small businesses, and farms. In addition, credit provided for community development, and innovative or flexible products is also considered.

Performance Criteria:

Lending Activity

Home State Bank demonstrates a good responsiveness to serving the credit needs in its assessment area based on the number and dollar amount of loans inside its assessment area. **Table 1** shows the number and dollar amount of Home State Bank’s home mortgage, small business, other real estate (secured by non-farm residential real estate) and consumer loans originated. Home mortgage data represents the time period from January 1, 1997 to April 31, 1998. Small business, other real estate (secured by non-farm residential real estate) and consumer loans represent the time period from January 1, 1997 to February 28, 1998. The table demonstrates that a substantial majority of the bank’s loans are made inside its assessment area. The average percentage of loans by number within the bank’s assessment area is 80%. Farm loans were not considered in the bank’s lending activity. Farm lending is not a significant portion of the bank’s lending strategy.

Table 1 Ratios of Loans Inside Home State Bank’s Assessment Area (AA)					
1997 and YTD 1998	Home Mortgage	Small Business	Other Real Estate	Consumer	Total
Number					
# of Loans Inside the AA	309	350	113	1,263	2,035
Total # of Loans	362	415	126	1,648	2,551
% of Loans Inside/Total # of Loans	85%	84%	90%	77%	80%
Dollars (in \$000's)					
\$ of Loans Inside the AA	26,968	31,126	11,868	62,173	132,135
Total \$ of Loans	32,522	37,593	12,971	71,200	154,286
% of Loans Inside/Total \$ of Loans	83%	83%	92%	87%	86%

Source: Home State Bank, National Association prepared 1997 and 1998 HMDA Loan Application Register (LAR). 1997 and 1998 CRA Collection Register.

Geographic Distribution

- ◆ The geographic distribution of loans reflects good penetration in Home State Bank’s assessment area. This is based on the bank’s distribution of home mortgage, consumer, small business and other real estate (secured by non-farm residential real estate) loans in relationship to the demographics of the assessment area.

Home Mortgage Loans:

The geographic distribution of Home Mortgage Disclosure Act (HMDA) loans reflect a good distribution in the assessment area when compared to the demographic data of the census tracts. The level of loan activity in the middle- and upper-income census tracts, 51% and 49%, are similar to the demographic data of 59% and 41% and the owner occupied units of 57% and 43%, respectively. **Table 2** illustrates the number and dollar amount of HMDA loans that were originated in each of the income geographies in Home State Bank's assessment area along with demographic information.

1997 and YTD 1998 Income Geographies	Number (#) of Loans in the AA	Percent of Total Loans in the AA	Dollar (in 000's) of Loans in the AA	Percent of Total Dollars in AA	Percent of Tracts within AA	Percent of Owner Occupied Units
Low	0	0%	0	0%	0%	0%
Moderate	0	0%	0	0%	0%	0%
Middle	159	51%	14,304	53%	59%	57%
Upper	150	49%	12,664	47%	41%	43%
Total	309	100%	26,968	100%	100%	100%

Source: 1997 and 1998 HMDA LAR.

Consumer Loans:

The geographic distribution of consumer loans reflect a good distribution in the assessment area when compared to the demographic data of the census tracts. The level of loan activity in the middle- and upper-income census tracts, 45% and 55%, are similar to the demographic data of 59% and 41%, respectively. **Table 3** illustrates the number and dollar amount of consumer loans that were originated in each of the income geographies in Home State Bank's assessment area along with demographic information.

1997 and YTD 1998 Income Geographies	Number (#) of Loans in the AA	Percent of Total Loans in the AA	Dollar (in 000's) of Loans in the AA	Percent of Total Dollars in AA	Percent of Tracts within AA
Low	0	0%	0	0%	0%
Moderate	0	0%	0	0%	0%
Middle	569	45%	32,870	53%	59%
Upper	694	55%	29,303	47%	41%
Total	1,263	100%	62,173	100%	100%

Source: 1997 and 1998 CRA Data Collection Register

Small Business and Other Real Estate (secured by non-farm residential real estate):

The geographic distribution of small business and other real estate (secured by non-farm residential real estate) loans reflects a reasonable distribution in the assessment area when compared to the demographic data of the census tracts. The level of loan activity for small business and other real estate loans in the middle- and upper-income census tracts are 29% and 71% and 45% and 55%. This distribution is reasonable when compared to the demographic data of 53% and 47%, respectively. **Table 4** shows the geographic distribution of small business loans within the bank's assessment area. The bank did not originate any small farm loans during the assessment period.

Table 4 Geographic Distribution of Small Business Loans/Other Real Estate Originated in the Assessment Area (AA)										
1997 and YTD 1998	Small Business Loans in AA				Other Real Estate in AA				Small Businesses	
Income Geographies	# Loans in AA		\$ Loans in A A		# Loans in A A		\$ Loans in AA		# of Small Business	% of Small Business
	#	%	\$	%	#	%	\$	%	#	%
Low	0	0	0	0	0	0	0	0	0	0
Moderate	0	0	0	0	0	0	0	0	0	0
Middle	102	29	9,461	30	10	45	606	21	2,285	53
Upper	248	71	21,665	70	12	55	2,240	79	2,005	47
Total	350	100	31,126	100	22	100	2,846	100	4,290	100

Source: 1997 and 1998 CRA Collection Register

Borrower Characteristics

- ◆ The distribution of Home State Bank's home mortgage, small business, other real estate (secured by non-farm residential real estate) and consumer loans based on borrower characteristics is good. This is based on the excellent penetration among retail customers of various income levels for consumer loans which is the majority of the bank's lending activity (65% based on number of loans originated) . The distribution of loans is reasonable for home mortgages and businesses of different sizes during the assessment period.

Consumer Loans:

Home State Bank's distribution of consumer loans in their assessment area to persons with low- and moderate-income is excellent based on the demographics of low- and moderate-income families within the assessment area. The bank's percentage of loans to low- and moderate-income families from January 1, 1997 to February 28, 1998 is 25% and 21% verses the percentage of low- and moderate-income families of 11% and 16%, respectively. **Table 5** shows the distribution of consumer loans to low- and moderate-income families within the bank's assessment area.

Table 5 Income of Borrower Distribution of Consumer Loans Originated in the Assessment Area (AA)					
1997 and YTD 1998 Income Level	Number (#) of Loans in the AA	Percent of Total	Dollar (\$) of Loans in the AA	Percent of Total	AA Demographic Information
Low	309	25%	2,908	5%	11%
Moderate	266	21%	3,609	6%	16%
Middle	245	19%	14,570	23%	28%
Upper	422	33%	26,515	43%	45%
N/A*	21	2%	14,571	23%	N/A
Total	1,263	100%	62,173	100%	100%

Source: 1997 and 1998 CRA Collection Register.

* N/A = Income of the borrower was not available.

Home Mortgage Loans:

Home State Bank's distribution of home mortgage loans in their assessment area to persons with low- and moderate-income is reasonable based on the demographics of low- and moderate-income families within the assessment area. The bank's percentage of loans to low- and moderate-income families from January 1, 1997 to April 31, 1998 is 5% and 17% versus the percentage of low- and moderate-income families of 11% and 16%, respectively. **Table 6** shows the distribution of HMDA loans to low- and moderate-income families within the bank's assessment area.

Table 6 Income of Borrower Distribution of HMDA Loans Originated in the Assessment Area (AA)					
1997 and YTD 1998 Income Level	Number (#) of Loans in the AA	Percent of Total	Dollar (\$) of Loans in the AA	Percent of Total	AA Demographic Information
Low	17	5%	959	4%	11%
Moderate	53	17%	3,493	13%	16%
Middle	76	25%	5,124	19%	28%
Upper	158	51%	16,966	63%	45%
N/A*	5	2%	426	1%	N/A
Total	309	100%	26,968	100%	100%

Source: 1997 and 1998 HMDA LAR.

* N/A = Income of the borrower was not available.

Small Business and Other Real Estate (secured by non-farm residential real estate):

The distribution of Home State Bank’s small business and other real estate lending in their assessment area is reasonable based upon borrower characteristics. The bank originated 58% and 93% of business loans and other real estate loans respectively to businesses with annual gross revenues less than \$1 million. **Table 7** shows that a majority of business loans are made to businesses with revenues of less than \$1 million. The majority of loans for small businesses and other real estate, 78% and 73% respectively, were for less than \$100,000. **Table 8** shows that a majority of small business/other real estate loans are less than \$100,000.

Table 7 Loans to Businesses by Revenue Sizes												
1997 & YTD 1998	Revenues less than \$1 million				Revenues more than \$1 million				Unknown Revenue		Total	
	#	%	\$	%	#	%	\$	%	#	\$	#	\$
Small Business	198	58%	18,593	61%	143	42%	11,720	39%	9	813	350	31,126
Other Real Estate	98	93%	9,847	88%	7	7%	1,392	12%	8	629	113	11,868

Source: 1997 and 1998 CRA Collection Register

Table 8 Small Business/Other Real Estate Loans by Loan Amount								
Amount (000)	Small Business				Other Real Estate			
	#	%	\$	%	#	%	\$	%
0 - 100	155	78%	4,574	25%	71	73%	1,964	20%
100 - 250	24	12%	3,793	20%	15	15%	2,372	24%
250 - over	19	10%	10,226	55%	12	12%	5,511	56%
Total	198	100%	18,593	100%	98	100%	9,847	100%

Source: 1997 and 1998 CRA Collection Register

Community Development Lending

A community development loan is a loan that has as its primary purpose 1) affordable housing for low- or moderate-income individuals, 2) community services targeted to low- or moderate-income individuals, 3) activities that promote economic development by financing businesses or farms that meet the size eligibility standards or have annual gross revenues less than \$1 million, or 4) activities that revitalize or stabilize low- or moderate-income geographies. These loans must not have been

reported by the bank for consideration in the bank's assessment area as a home mortgage, small business, small farm, or consumer loan, unless it is a multifamily dwelling loan.

- ◆ The bank originates an adequate level of community development loans. The bank made 5 loans totaling \$778,000 during the evaluation period. McHenry County is the fastest growing county in Illinois over the past several years. This growth provides many opportunities for lender's to participate in or originate community development type loans.

The bank originated the following community development loans from January 1, 1997 to April 31, 1998:

- ◆ \$380,000 loan for the construction of a senior citizens housing complex for low- and moderate-income individuals.
- ◆ \$160,000 loan for the purchase of a building to provide shelter for homeless individuals.
- ◆ \$148,000 loan to purchase a building to provide transitional housing for battered and abused women. The service is directed toward low- and moderate-income families.
- ◆ \$60,000 loan for the purchase of land to build a home for a low- or moderate- income family.
- ◆ \$30,000 line of credit to provide interim funding for a first time home buyers program. The program is restricted to low- and moderate-income families.

Innovative or Flexible Lending Practices

This characteristic assesses an institution's use of innovative or flexible lending practices in a safe and sound manner to address the credit needs of low- and moderate-income individuals or geographies.

- ◆ Home State Bank makes limited use of innovative lending practices in order to serve the credit needs of its assessment area. However, they participate in several flexible lending practices which are listed below:

McHenry County Housing Authority: The bank provided financing (5.75%) at below market rates (7%) which reduced the cost by \$86,790 over a 15 year loan term. The loan was for the construction of a senior citizens complex for low- and moderate-income individuals. The below market loan was designed to equate to a tax exempt bond issue. Refer to **Community Development Lending** for details of loan.

Small Business Administration: The bank originated 5 loans totaling \$435,000 from January 1, 1997 to April 31, 1998.

Corporation for Affordable Homes of McHenry County: *First Time Home Buyers Program.* Provides financing to first time home buyers of low- and moderate-income levels in McHenry County. The bank has started this program within the last month and has not originated any loans as of this report's date.

INVESTMENT TEST

The investment test evaluates a bank's record of helping to meet the credit needs of its community through qualified investments that benefit its assessment area. A qualified investment means a lawful investment, deposit, membership share, or grant that has as its primary purpose community development. We assessed the bank's performance under the Investment Test by evaluating the bank's level of investments and grants, the capacity to obtain qualified investments, and investment opportunities available in its Assessment Area.

- ◆ Home State Bank provides a poor level of investments in its assessment area.

Qualified Investments

The bank has no qualified investments. McHenry County is the fastest growing county in Illinois over the past several years. This growth has provided various opportunities for lender's to participate, invest, or donate funds to community development investments. The bank was not aware of these various opportunities at the start of the evaluation period.

Grants/Contributions

- ◆ The bank donated \$3,000 to support a first time home buyers program for McHenry County. The program is restricted to low- and moderate-income individuals.
- ◆ The bank provides investments in its communities through an annual donation to various organizations that provide medical, educational assistance, shelter, credit counseling, and other services to low- and moderate income residents within its assessment area. During 1997, the bank made a contribution of \$1,800.

SERVICE TEST

The service test evaluates a bank's record of helping to meet the credit needs of its assessment area by analyzing both the availability and effectiveness of a bank's system for delivering retail banking services and the extent of its community development services.

- ◆ Home State Bank's delivery systems are reasonably accessible to the bank's entire assessment area. Accessibility to the bank's delivery systems has improved with the opening of branches and ATM's.

Retail Banking Services

Office Locations

The bank has six offices located throughout its assessment area which includes the main office, four full service branches and one mobile branch located in a retirement community. As of the report date, the bank had under construction (renovating an old Post Office) another full service branch within their assessment area. **Table 9** indicates that the distribution of the bank's branches in the assessment area is reasonable.

Table 9 Distribution of Branches					
Census Tract Characteristic:	% of Geographies	# of Branches	% of Branches	# of ATMs	% of ATMs
Middle Income	59%	2	33%	2	25%
Upper Income	41%	4	67%	6	75%
Total	100%	6	100%	8	100%

Branch hours are reasonable and convenient to customers. Branch lobby hours range from 8:00 a.m. to 6:00 p.m. Monday through Friday. All of the bank offices offer Saturday hours from 8:00 a.m. to 12:00 noon.

Home State Bank's record of opening and closing branches has improved the accessibility of its delivery services. The bank opened one during the Assessment period in a middle-income CT. The bank has not closed any branches during the Assessment period.

Alternative Delivery Systems

The bank supplements its branch network with eight Automated Teller Machines (ATMs). Five of the ATM's are full service and are located at the main office and each of the four permanent branch sites. The bank has three cash dispensing ATM's which are located at a Holiday Inn, Coventry Car Wash & Gas, and McHenry County College.

The bank's drive-up facility hours range from 7:00 a.m. to 7:00 p.m. Monday through Friday and 8:00 a.m. to 12:00 p.m. on Saturdays. These facilities are opened an extra hour per day to offer financial services to the bank's customers.

The bank offers a 24 hour bank by phone service. Customers can obtain account information on deposit accounts, transfer funds between accounts, and get current rates on loan and deposit products.

The bank also has a web-site on the Internet which provides customers and non-customers with current rate information and explanation of the various products offered by the bank. In addition, the bank offers computer banking for commercial customers allowing them to make payroll tax transactions and obtain account information.

Community Development Services

Community development services are activities that have as its primary purpose community development, is related to the provision of financial services, and have not been considered in the evaluation of the bank's retail banking services.

- ◆ Home State Bank provides an adequate level of community services to low- and moderate-income families.

The following are services provided by the bank:

- ◆ **McHenry County Housing Authority** - The bank has a member on the board of this organization. The bank plays a leadership role in providing financial advice, preparing/filing paperwork to obtain state/private funding. The organizations focus is providing housing for low- and moderate-income families.
- ◆ **McHenry County Head Start** - The bank has a member on the board of this organization who acts in the capacity of Treasurer. The organizations focus is providing educational services to poverty level children.
- ◆ **McHenry County Credit Counseling** - The bank has a member on the board of this organization who provides assistance in administering credit counseling services to low- and moderate-income individuals.
- ◆ **Corporation for Affordable Home in McHenry County** - The bank has a member on the board of this organization who provides a leadership role. The bank member is the CRA officer at the bank and is responsible for providing financial advice, assisting with fund raising, and obtaining community involvement in various projects. The primary focus of this organization is to provide housing to low- and moderate-income individuals.
- ◆ **Salvation Army of McHenry County** - The bank has a member on the board of this organization who provides financial advise and establishes a communication link to various other community groups. The primary focus of this organization is to provide services to low- and moderate-income individuals.
- ◆ **Main Street Program** - The bank has a member on the board of this program who acts in the capacity of Treasurer. The programs is a state sponsored program to re-vitalize the downtown areas of small communities.

FAIR LENDING REVIEW

No violations of the substantive provisions of the anti-discrimination laws and regulations were identified during our review. Home State Bank's fair lending policies, procedures, training and internal controls are effective.