



Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

October 21, 1996

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The First National Bank of Millstadt
Charter #8425**

**3 East Washington St.
Millstadt, Illinois 62260**

Office of the Comptroller of the Currency

**Fairview Heights Duty Station
13 Executive Drive, Suite 7
Fairview Heights, Illinois 62208**

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 First National Bank of Millstadt**, prepared by **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **October 21, 1996**. This evaluation is based on information since the last CRA examination dated March 18, 1993. 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.

The First National Bank of Millstadt satisfactorily meets the credit needs of its assessment area, as demonstrated by:

- a clear majority (83%) of loans to borrowers within its assessment area,
- a suitable loan distribution to borrowers of differing income levels, and
- a 40% average loan-to-deposit ratio over the last fifteen quarters.

The following table indicates the performance level of *The First National Bank of Millstadt* with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	<u>THE FIRST NATIONAL BANK OF MILLSTADT</u> PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does not meet Standards for Satisfactory Performance
Loan to Deposit Ratio		X	
Lending in Assessment Area	X		
Lending to Borrowers of Different Incomes and to businesses of Different sizes		X	
Geographic Distribution of Loans		X	
Response to Complaints	No complaints were received since the prior examination.		

DESCRIPTION OF INSTITUTION

The First National Bank of Millstadt (FNB Millstadt) is wholly owned by Millstadt Bancshares, Inc., a one-bank holding company. The bank operates solely out of its main office in Millstadt, Illinois. Bank assets as of September 30, 1996 total \$65,758,000. The bank owns one proprietary ATM at its main office. The loan portfolio consists of 64% residential real estate, 21% commercial, and 15% consumer loans.

No financial or legal constraints impede the bank's ability to meet community credit needs; the bank has adequate resources to provide for the credit needs of its designated assessment area. The type and level of CRA activities are consistent with the bank's size, financial capacity, and local economy. FNB Millstadt's prior CRA rating was a "Satisfactory Record of Meeting Community Credit Needs."

DESCRIPTION OF ASSESSMENT AREA

FNB Millstadt designates its assessment area as the southwest portion of St. Clair County and Monroe County. The assessment area is defined by census tracts 5016.03, 5031.01, 5031.02, 5032.02, 5032.03, 5033.04, 5039, and 5040.01 in St. Clair County and census tracts 6001, 6002, 6003 in Monroe County. FNB Millstadt's main office is located in St. Clair County. St. Clair and Monroe counties are in a Metropolitan Statistical Area (MSA 7040). The HUD MSA median family income for 1996 is \$46,900 and the 1990 US Census median family income for the assessment area is \$37,995. The income characteristics of the bank's assessment area reveal 17% of families are at low-, 20% at moderate-, 29% at middle-, and 34% at upper-income levels. All census tracts are middle-income geographies, with the exception of census tract 5031.01, which is a moderate-income geography. The bank is located in census tract 5032.03, a middle-income geography. There are ten other financial institutions in the bank's assessment area. The bank's assessment area meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income geographies.

The local economy is average. July 1996 figures obtained from the State of Illinois show unemployment rates for the state as 5.2%, St. Clair County as 6.4%, and Monroe County as 3.6%. There are limited opportunities for local employment in Millstadt with a significant number of residents working outside the bank's assessment area, primarily in the metropolitan St. Louis area. The major employer is Kerry Ingredients, a maker of breeding products, who employs 50 workers. Population of the bank's assessment area is 67,890. Of that population, 22,422 reside in Monroe County and 45,468 live in the bank-defined assessment area portion of St. Clair County. A local realtor was contacted to ascertain the credit needs of the community. The primary credit need of the community was cited as residential lending.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA :

Loan-to-Deposit Ratio: The bank’s loan-to-deposit ratio is reasonable. The loan-to-deposit ratio reached 47.50% at September 30, 1996. This ratio has grown steadily over the last 11 quarters from 33.62% at March 31, 1994 to its current ratio of 47.50%. The average loan-to-deposit ratio is 39.96% over the last 15 quarters since the previous CRA examination. Loan-to-deposit ratios of five similarly sized financial institutions within the assessment area were compared with that of the bank. Current loan-to-deposit ratios of the five banks ranged from 70% to 86%, and average ratios over the last 13 quarters ranged from 68% to 82%.

The bank participates in the selling of loans to the Federal National Mortgage Association (FNMA) where the bank maintains the servicing rights. The volume of loans sold to FNMA in original principal balance terms totaled \$1,277,000 in 1993, \$1,375,000 in 1994, \$721,000 in 1995, and \$401,000 as of June 30, 1996. These loan sale figures are high relative to similarly situated institutions.

Table A - Comparison of loan-to-deposit ratios of this bank with similarly sized financial institutions within the assessment area

INSTITUTION	June 30, 1996	Average (13 Quarters)
FNB Millstadt	47.50% ^a	39.96% ^a
<i>Bank A</i>	74.15%	68.37%
<i>Bank B</i>	86.03%	80.62%
<i>Bank C</i>	82.39%	73.08%
<i>Bank D</i>	81.51%	82.32%
<i>Bank E</i>	69.96%	69.51%

(a) FNB Millstadt’s average loan to deposit ratio is calculated over a fifteen quarter period, 3/31/93-9/30/96; while the average loan to deposit ratios for the other five institutions were over a 13 quarter period, 6/30/93-6/30/96. FNB Millstadt’s loan to deposit ratio is 47.50% as of 9/30/96.

Lending in Assessment Area: A clear majority of the bank's loans are within its assessment area. This conclusion is based on the analysis performed by a bank-hired consulting firm, and our sample of all home purchase loans made during the period of June 30, 1995 through June 30, 1996. The consulting firm prepared an analysis of the bank's loan portfolio as of June 30, 1996 showing that 83.23%^b of these loans were located in the bank's assessment area. The consulting firm reported the loan amount of all originations and extensions from the bank's loan portfolio as of June 30, 1996.

The home purchase loan sample confirms that 82% of loan originations and 80% of the dollar volume of credit extensions are to borrowers within the bank's assessment area.

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

The distribution of borrowers reflects, given the demographics of the assessment area, reasonable penetration among individuals of different income levels including low- and moderate-income individuals. An analysis of 34 home purchase loans originated during the period of June 30, 1995 through June 30, 1996 reveals loans are extended to borrowers of all income levels. The home purchase loan sample shows a distribution of 29.87% in loan dollars extended to low- and moderate-income individuals.

Table B - Sample home purchase loan distribution by borrower income

	# of Loans	% of Loans	Loan \$	% of Loans \$
<i>Low income</i>	3	8.82%	\$128,000	6.23%
<i>Moderate income</i>	10	29.41%	\$486,000	23.64%
<i>Middle income</i>	16	47.06%	\$1,114,000	54.18%
<i>Upper income</i>	5	14.71%	\$328,000	15.95%

The consulting firm's analysis also shows loans are extended to borrowers of all income levels. During this 6-month period, the number of real estate and consumer loans originated to low- and moderate-income individuals totaled 50.96% (or 24.16% in loan dollars). The consulting firm used income information provided by the bank. However, gross income information could not be verified for all loans. A review of the bank's reporting of gross income for real estate loans is accurate; however, there were instances where net income was reported for certain consumer loans.

(b) The consulting firm defines "Outside Assessment Area" as the portion of St. Clair County not in the bank's assessment area and Randolph County. In order to determine the true "Inside Assessment Area" and "Outside Assessment Area" ratios, we also included all loans beyond St. Clair and Randolph counties that were outside the assessment area. Therefore, total portfolio loan dollars were calculated as \$36,231,479 instead of the consulting firm's figure of \$34,590,193.

The bank extended loans to small businesses and small farms of different sizes. The consulting firm defined small business as a business with annual revenues less than \$1,000,000 and a small farm as a farm with annual revenues less than \$500,000. The analysis of commercial and agricultural loans by revenue size over the first six months of 1996 revealed that approximately 97% were to small businesses and farms.

Geographic Distribution of Loans: The geographic distribution of loans reflects a satisfactory dispersion throughout the assessment area. This is supported by the census tract analysis performed by the consulting firm and the home purchase loan sample. The moderate-income census tract represents approximately 9% of the assessment area's population. Over the first six months of 1996, the census tract analysis shows approximately 11% of loan originations and 4% of the dollar volume of credit extensions are to the one moderate-income census tract. The home purchase loan sample confirms that 6% of loan originations and 4% of the dollar volume of credit extensions are to the moderate-income census tracts.

Compliance with Antidiscrimination Laws: In conjunction with the CRA evaluation, we performed a Fair Lending examination which included a review of the bank's compliance with the Equal Credit Opportunity Act and the Fair Housing Act. No substantive violations of these antidiscrimination laws and regulations were identified.