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Comptroller of the Currency  
Administrator of National Banks

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## **PUBLIC DISCLOSURE**

**March 16, 1998**

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

**Capstone Bank, N.A.  
Charter Number 15022**

**216 South 4th Street  
Watseka, Illinois 60970**

**Office of the Comptroller of the Currency  
Chicago-South Field Office  
7600 County Line Road, Unit 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.**

## GENERAL INFORMATION

*The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with the 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 Capstone Bank, N.A. (CBNA), Watseka, Illinois prepared by the Office of the Comptroller of the Currency, the institution's supervisory agency, as of March 16, 1998. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 C.F.R. Part 25.*

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

- **The majority of CBNA's lending is within its assessment area. From January 1, 1995 through March 31, 1998, 83% of the total number of loans were made within the assessment area.**
- **Lending to borrowers of different incomes and businesses of different sizes is reasonable. Twenty-seven percent (27%) of the number of residential real estate loans were to borrowers with low- and moderate-incomes and 63% of the number of business loans were to small businesses with revenues of less than \$1,000,000.**
- **The bank's geographic distribution of loans is reasonable considering only 1 of the bank's 3 assessment areas contains low- and moderate-income census tracts. In this assessment area (Kankakee), 23% of the number of residential real estate loans and 61% of the number of business loans were in low- and moderate-income census tracts.**
- **The bank's loan-to-deposit ratio at 64% is satisfactory and is comparable to other similarly situated institutions.**

## DESCRIPTION OF INSTITUTION

Capstone Bank, N.A. (CBNA), formerly known as Watseka National Bank, is a 100% owned subsidiary of First Affiliated Bancorp, Inc., a one bank holding company. First Affiliated merged its Goodland State Bank and Watseka National Bank subsidiaries under the name Capstone Bank, N.A., effective September 1997. CBNA is located in Watseka, Illinois approximately 30 miles south of Kankakee. CBNA offers full service banking, including commercial, real estate, and consumer lending as well as trust services. In addition to the main banking facility in Watseka, the bank has 4 full service branches located in Kankakee, Bourbonnais, Crescent City, and Goodland, Indiana. CBNA also has 6 Automated Teller Machines (ATM'S).

CBNA at December 31, 1997, had total assets of \$117 million. Gross loans comprised 57% of total assets. The loan portfolio is 32% residential real estate, 24% commercial, 18% commercial real estate, 12% agricultural and 14% loans to individuals.

There are no financial or legal impediments to prevent CBNA from helping to meet the credit needs in its assessment area. The last public evaluation was as of December 1994 and CBNA received a **“Satisfactory Record of Meeting Community Credit Needs”**.

## DESCRIPTION OF ASSESSMENT AREAS

CBNA has designated three assessment areas (AA). AA 1 includes geographies surrounding the bank's main office in Watseka and branch in Crescent City. AA 2 includes the metropolitan statistical area (MSA) of Kankakee and Bourbonnais. The third AA was added in September 1997, with the merger of Goodland State Bank into Watseka First National Bank, and includes geographies surrounding the bank's branch in Goodland, Indiana. Technically, these AA's do not meet the requirements of the regulation in that they, in a few instances, do not contain whole geographies. However, they do not reflect any illegal discrimination nor do they arbitrarily exclude any low- or moderate-income geographies. For purposes of our analysis, the bank's AA's were adjusted to include whole geographies. The bank has agreed to redraw its AA maps to reflect whole geographies.

### Assessment Area 1:

AA 1 consists of five block numbering areas (BNA'S) all of which are located in Iroquois County, Illinois, a non-MSA. The median family income of the AA is \$37,600 (based on 1990 US Census data). All of the BNA's in this AA are middle-income, however, low- and moderate-income families represent 18% and 21% of the population of the AA, respectively. The total population in the AA is 14,404 (based on 1990 US Census data).

The local economy is stable and is predominantly agricultural with some retail and light manufacturing. Major employers include T&D Metal Products, 500 employees; Uarco, Inc., 350 employees; Iroquois Memorial Hospital, 218 employees; and Unit #9 School District 150 employees. The unemployment rate is stable at 4.9%.

There are a few community banks and thrifts that serve the area. Two of these institutions are located within Watseka. Also, there are many other financial institutions outside the AA that compete with CBNA.

During the examination we contacted a representative from the local community involved in business development and housing. This individual identified flexible mortgage programs, home improvement loans and small business loans as the AA's primary credit needs. CBNA identified similar needs and currently offers (through the Rural Development Center) 100% fixed rate mortgage financing for low- and moderate-income borrowers, adjustable rate mortgage products, home equity loans, and a credit card program.

#### Assessment Area 2:

AA 2 consists of 22 census tracts within the Kankakee and Bourbonnais MSA. The median family income is \$43,600 (based on 1990 US Census data). The AA consists of 2 (8%) low-; 4 (15%) moderate-; 18 (69%) middle-; and 2 (8%) upper-income census tracts. Low- and moderate-income families represent 20% and 17% of the population of the AA, respectively. The total population in the AA is 96,255 (based on 1990 US Census data).

The local economy is improving. Several new businesses have opened, salaries are increasing, and homes are affordable. The major employers are health care providers. These include St. Mary's Hospital, Riverside Hospital, and Shapiros. Unemployment is stable at 4.9%.

Competition is strong. The bank faces competition from many locally based financial institutions and from branches of much larger national financial institutions.

A local housing organization also indicated flexible mortgage programs as a credit need of the community. The financing programs described above are available at the Kankakee branch.

#### Assessment Area 3:

AA 3 consists of eight BNA's surrounding the bank's branch in the town of Goodland, Indiana. The median family income is \$39,000 (based on 1990 US Census data). The AA consists entirely of middle-income tracts. However, low- and moderate-income families represent 15% and 17% of the population of the AA, respectively. The total population in the AA is 15,743 (based on 1990 US Census data).

The economy is good. The AA is rural in nature and agriculture is the major local industry, although several light manufacturing employers (Magnatech, Viskase, and Capital Products) are present. The unemployment rate is 4.7%. The bank's major competitors include Kentland State Bank, DeMontte State Bank and The Banking Center of Fowler.

A local community organization whose focus is economic development described a need for flexible loan financing programs. This is due in part to rising housing costs. The financing programs described earlier are available at the Goodland branch.

**CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:**

**A majority of CBNA's lending is within its assessment area.**

As the table below indicates, 83% of the number of loans and 84% of the dollar volume of loans are within the bank's assessment area. Our analysis is based on all loans originated by the bank since our prior evaluation as of December 31, 1994.

**Table 1**  
**Analysis of Lending Within the Assessment Area**  
**January 1, 1995 through March 31, 1998**

Loan Product	AA 1		AA 2		AA 3		Total Combined Assessment Areas	
	# of Loans	\$ of Loans (in 000's)	# of Loans	\$ of Loans (in 000's)	# of Loans	\$ of Loans (in 000's)	# of Loans	\$ of Loans (in 000's)
<b>Commercial</b>	467	\$14,929	214	\$8,818	191	\$8,075	872	\$31,822
<b>Residential Real Estate</b>	122	\$5,333	139	\$14,777	92	\$3,343	353	\$23,454
<b>Consumer</b>	223	\$2,428	203	\$1,683	184	\$945	610	\$5,055
<b>Total Loans % in AA</b>	812	\$22,690	556	\$25,278	467	\$12,363	1,835 <b>83%</b>	\$60,331 <b>84%</b>

Source: Bank generated reports from the commercial and real estate loan trials.

**The bank has a satisfactory record of lending to borrowers of different incomes and businesses of different sizes.**

The table below details CBNA's distribution of loans to individuals by borrower income level. Based on a sample of residential real estate loans from the bank's 1997 and year-to-date 1998 loan trial, 27% of the number of these loans were to borrowers with low- and moderate-incomes. This level of lending to borrowers of different incomes is reasonable in relation to the distribution of such borrowers in the assessment area and the fact that two of the bank's three assessment areas (AA 1 and 3) have no low- and moderate-income census tracts or BNA's.

**Table 2**  
**Borrower Income Level Distribution**  
**Residential Real Estate Loans**  
**January 1, 1997 through March 31, 1998**

Borrower Income Level	AA 1		AA 2		AA 3		Total Combined Assessment Areas		
	# of Loans	\$ of Loans (in 000's)	# of Loans	\$ of Loans (in 000's)	# of Loans	\$ of Loans (in 000's)	# of Loans	% of # of Loans	% of \$ of Loans
	%	%	%	%	%	%			
<b>Low</b>	0	0	3	\$112	2	\$28	5	11%	3%
	0%	0%	14%	3%	17%	6%			
<b>Moderate</b>	2	\$73	2	\$101	3	\$153	7	16%	8%
	20%	18%	9%	3%	25%	35%			
<b>Middle</b>	2	\$78	4	\$161	4	\$158	10	23%	9%
	20%	20%	18%	5%	33%	36%			
<b>Upper</b>	6	\$245	13	\$3,130	3	\$103	22	50%	80%
	60%	62%	59%	89%	25%	23%			
<b>Total</b>	10	\$396	22	\$3,504	12	\$442	44	100%	100%
	100%	100%	100%	100%	100%	100%			

Source: Bank generated reports from the commercial and real estate loan trials.

Note : Analysis is based on a sample of residential real estate loans taken from bank reports for the period 1/1/97 thru 3/31/98.

CBNA, also has a reasonable distribution of loans to small businesses. Table 3 below shows that 40% of the number of loans are to businesses with revenues below \$250,000. Sixty-three percent (63%) are to businesses with revenues below \$1,000,000.

**Table 3**  
**Small Business Loan Distribution by Business Size**  
**January 1, 1997 through March 31, 1998**

Gross Revenue Levels	AA 1		AA 2		AA 3		Total Combined
	# of Loans %	\$ of Loans (in 000's) %	# of Loans %	\$ of Loans (in 000's) %	# of Loans %	\$ of Loans (in 000's) %	% of #
Less than \$100,000	4 33%	\$214 7%	1 8%	\$881 32%	6 60%	\$59 8%	31%
\$100,000- \$249,999	1 9%	\$65 2%	0 0%	0 0%	2 10%	\$221 29%	9%
\$250,000- \$999,999	3 25%	\$425 14%	3 23%	\$710 26%	2 30%	\$480 63%	23%
Over \$1,000,000	4 33%	\$2,316 77%	9 69%	\$1,145 42%	0 0%	0 0%	37%
<b>Total</b>	12 100%	\$3,020 100%	13 100%	\$2,736 100%	10 100%	\$760 100%	100%

Source: Bank generated reports from the commercial and real estate loan trials.

Note : Analysis is based on a sample of commercial loans taken from bank reports for the period 1/1/97 thru 3/31/98.

**The geographic distribution of CBNA loans shows reasonable penetration among low- and moderate-income census tracts.**

The level of lending in the different income level census tracts is reasonable in relation to the distribution of such tracts in the assessment area. Twenty-three percent (23%) of the number of residential real estate loans made from January 1, 1997 through March 31, 1998 were in low- and moderate-income census tracts.

Since Assessment Areas 1 and 3 consists solely of middle-income BNA's, a geographic distribution analysis of these areas would not be meaningful. As such, the analysis of this factor is based on Assessment Area 2 only. Table 4 illustrates the distribution of residential mortgage loans in the different income level census tracts in the assessment area.

**Table 4**  
**Geographic Distribution - Income Level of Census Tracts**  
**Residential Mortgage Loans**  
**January 1, 1997 through March 31, 1998**  
**Assessment Area 2**

<b>Census Tract Income Level</b>	<b># of Loans</b>	<b>% of Number of Loans</b>	<b>\$ Amount of Loans (in 000's)</b>	<b>% of \$ Amount of Loans</b>
<b>Low</b>	1	5%	\$10	<1%
<b>Moderate</b>	4	18%	\$1,506	43%
<b>Middle</b>	13	59%	\$756	22%
<b>Upper</b>	4	18%	\$1,232	35%
<b>Total</b>	22	100%	\$3,504	100%

Source: Bank generated reports from the commercial and real estate loan trials.

Note : Analysis is based on a sample of residential real estate loans taken from bank reports for the period 1/1 /97 thru 3/31/98.

CBNA's small business lending also shows a reasonable penetration in different income level census tracts. Sixty-one per cent (61%) of the number of small business loans were in low- and moderate-income census tracts. Table 5 shows the distribution of these loans by income level designation of the census tract.

**Table 5**  
**Geographic Distribution - Income Level of Census Tracts**  
**Small Business Loans**  
**January 1, 1997 through March 31, 1998**  
**Assessment Area 2**

Census Tract Income Level	# of Loans	% of Number of Loans	\$ Amount of Loans	% of \$ Amount of Loans
Low	3	23%	\$65	2%
Moderate	5	38%	\$1,015	37%
Middle	4	31%	\$1,506	55%
Upper	0	0	0	0
Unknown	1	8%	\$150	6%
<b>Total</b>	13	100%	\$2,736	100%

Source: Bank generated reports from the commercial and real estate loan trials.

Note : Analysis is based on a sample of commercial loans taken from bank reports for the period 1/1/97 thru 3/31/98.

**The bank's loan-to-deposit ratio is satisfactory.**

CBNA's loan-to-deposit ratio is reasonable at 64% on December 31, 1997. The average loan-to-deposit ratio for the past twelve quarters since the last examination is 59%. The loan-to-deposit ratio has shown a steady increase from 55% at December 31, 1994. Similarly situated institutions' loan-to-deposit ratios ranged from 64% to 67%. Similarly situated institutions consist of banks in the assessment area with similar asset size.

**CBNA has not received any consumer complaints related to community reinvestment since the last examination.**

**CBNA is in compliance with the substantive provisions of the fair lending laws.**

# State Ratings

## **CRA Rating for Illinois: Satisfactory**

CBNA's performance in meeting the credit needs of its assessment area within the state of Illinois is consistent with the overall rating assigned to the bank. See description of AA's 1 and 2, on page 3 and 4 of this Public Evaluation.

## **CRA Rating for Indiana: Satisfactory**

CBNA's performance in meeting the credit needs of its assessment area within the state of Indiana is consistent with the overall rating assigned to the bank. See description of AA 3 on page 4 of this Public Evaluation.

## **Conclusions with respect to Performance Tests in Kankakee, Illinois MSA- #3740**

CBNA's lending performance in Kankakee, Illinois MSA-#3740, is consistent with the bank's overall lending performance. See description of AA 2 on page 4 of this Public Evaluation.