



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## **PUBLIC DISCLOSURE**

**March 1, 2010**

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

Bluestem National Bank  
Charter Number 14417

104 East Locust Street  
Fairbury, IL 61739-1547

Office of the Comptroller of the Currency

North Central Illinois and Eastern Iowa Field Office  
111 West Washington Street, Suite 300  
East Peoria, IL 61611-2559

**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, 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.

## **INSTITUTION'S CRA RATING: This institution is rated Satisfactory**

- Bluestem National Bank's (BNB's) lending to borrowers of different income levels regarding farms and residential real estate is satisfactory.
- A majority of BNB's loan originations are to customers from within the assessment area (AA).

## **SCOPE OF EXAMINATION**

The Performance Evaluation assesses BNB's record of meeting the credit needs of the communities in which it operates. We evaluated BNB under the Small Bank performance criterion, which includes a lending test. The lending test evaluates a bank's record of helping to meet the credit needs of its AA through its lending activities.

The evaluation period for this examination is from October 26, 2004, through March 1, 2010. The lending test is based on BNB's primary loan products. To determine the primary loan products, we reviewed both originated and purchased loan volumes from January 1, 2008, through December 31, 2009. During that timeframe, by dollar volume, agricultural loans represented 53 percent of all loan originations or purchases and residential real estate loans represented 24 percent. We used a sample of 20 of each of these loan products in our analysis.

## **DESCRIPTION OF INSTITUTION**

BNB is an \$84 million intrastate financial institution located on U.S. Route 24, in Livingston County, approximately 35 miles northeast of Bloomington, Illinois. BNB has three offices, two in Fairbury and one in Forrest, Illinois, and two ATMs located in Fairbury. The bank is a wholly owned subsidiary of Bluestem Financial Corporation. The holding company also owns Bluestem Financial Services, Inc., a limited service brokerage company.

BNB has not opened or closed any facilities since the previous CRA examination. BNB continues to operate under the business strategy of serving the financial needs of their customers by providing quality banking service with specific and separate focus on the agricultural, commercial, and individual segments of their total customer base.

BNB's two primary lending products are agricultural and residential real estate loans. These two products account for 77 percent of the dollar amount of all loans originated from January 1, 2008 through December 31, 2009. These two products were used for the analysis of this evaluation. As of December 31, 2009, the bank reported \$37 million in outstanding loans and had a net loans and leases to total assets ratio of 43 percent.

There are no financial conditions, legal constraints, or other factors that would hinder

the bank's ability to meet the credit needs of the communities within its AA. The bank's previous CRA rating as of October 1, 2004, was satisfactory.

**DESCRIPTION OF ASSESSMENT AREA(S)**

BNB's AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income areas. The AA includes the three census tracts (CT's) within Livingston County where BNB's branches are located. This represents no change from the prior evaluation. The 2000 U.S. Census data indicates this AA does not contain any low- or moderate-income CT's. All CT's in the AA are designated as middle- and upper-income.

Per the Federal Deposit Insurance Corporation (FDIC) market share report dated June 30, 2009, BNB ranks fifth and serves 7 percent of the market share. While there are 17 institutions included in the market share report, we only compared BNB to the three similarly situated financial institutions located in the AA.

The following is demographic information for the AA:

		Low	Moderate	Middle	Upper
Demographic Characteristics	#	% of #	% of #	% of #	% of #
Geographies (Census Tracts/BNAs)	3	0.00	0.00	66.67	33.33
Population by Geography	10,900	0.00	0.00	45.65	54.35
Owner-Occupied Housing by Geography	2,994	0.00	0.00	46.03	53.97
Business by Geography	803	0.00	0.00	43.84	56.16
Farms by Geography	269	0.00	0.00	57.25	42.75
Family Distribution by Income Level	2,943	12.30	14.78	23.21	49.71
Distribution of Low and Moderate Income Families throughout AA Geographies	797	0.00	0.00	49.06	50.94
Median Family Income		43,613	Median Housing Value		84,677
HUD Adjusted Median Family Income for 2009		54,400			
Households Below Poverty Level		6%	Unemployment Rate		2.16%

\*2000 U.S. Census

**Economic Data**

Because of the national economic environment, Livingston County has seen a change within the local economy. The unemployment rate has climbed from 7.6 percent in 2008, to 11.3 percent in 2009. The unemployment rate remains in line with the State of Illinois unemployment rate of 11 percent.

We contacted a community representative during the examination. The representative

indicated there were no direct credit needs not being met by banks in the community. The contact felt BNB and other financial institutions continue to actively meet the credit needs of the community, including low- and moderate- income individuals and families, through appropriate products and services.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

### Loan-to-Deposit Ratio

BNB’s quarterly average loan-to-deposit (LTD) ratio of 45 percent, based on the last 22 quarters, is less than reasonable given the bank’s size, financial condition, and AA credit needs. The LTD ratio has historically been low. This is due to a conservative lending culture. The quarterly average LTD ratio for other financial institutions similar in asset size ranged from 58 percent to 92 percent. Total assets for these institutions range from \$24 million to \$60 million.

### Lending in Assessment Area

As evidenced by the table below, a substantial majority of the bank’s primary loan products were originated within the AA. The table details the bank’s lending within the AA by the number of loans originated and dollar volume during the evaluation period.

Loans Originated within the AA										
Loan Type	Number of Loans					Dollar of Loans				
	Inside		Outside		Total	Inside		Outside		Total \$(000)
	#	%	#	%		\$(000)	%	\$(000)	%	
Agricultural	19	95%	1	5%	20	\$3,275	98%	\$70	2%	\$3,345
Residential	20	100%	0	0%	20	\$1,848	100%	\$0	0%	\$1,848
Totals	39	97.5%	1	2.5%	40	\$5,123	99%	\$70	1%	\$5,193

Source: Bank records, loans sampled from January 1, 2008 through December 31, 2009

### Lending to Farms of Different Sizes and Individuals of Different Income Levels

The distribution of loans reflects reasonable dispersion among farms of different sizes and individuals of different income levels.

### Agricultural Loans

BNB’s performance of lending to farms of different sizes is good. Based on our sample, 90 percent of the number of loans was made to small farms. Small farms are farms with annual gross revenues equal to or less than one million dollars. The demographic data for the AA shows that 99% of the farms reporting revenue data in the AA have revenues equal to or less than one million dollars.

<b>Borrower Distribution of Loans to Farms of Different Sizes</b>					
Farm Revenues	Number of Loans		% Farms in AA	Dollars of Loans	
	#	%		\$(000)	%
≤\$1,000,000	18	90%	99%	\$1,740	62%
>\$1,000,000	2	10%	1%	\$1,075	38%
Total	20	100%	100%	\$2,815	100%

Source: Bank records on loans originated or purchased from January 1, 2008 through December 31, 2009.

2009 Business Geodemographic data

**Residential Real Estate Loans**

BNB’s lending to borrowers of different income levels is reasonable. Based on our sample of residential real estate loans, BNB’s lending to moderate-income borrowers is below the percentage of moderate-income families within the AA. However, lending to low-income borrowers exceeded the percentage of low-income families within the AA.

<b>Borrower Distribution of Residential Real Estate Loans in the AA</b>								
Families Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of Number	% of AA Families	% of Number	% of AA Families	% of Number	% of AA Families	% of Number	% of AA Families
Residential RE	20%	12%	5%	15%	25%	23%	50%	50%

Source: Bank records on loans originated or purchased from January 1, 2008 to December 31, 2009; 2000 Census Data.

**Geographic Distribution of Loans**

A geographic distribution of loans is not applicable to this institution since all geographies are middle- and upper-income.

**Responses to Complaints**

BNB has not received any complaints regarding performance in helping to meet the credit needs within the AA during this evaluation period.

**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.