

PUBLIC DISCLOSURE

June 7, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Bluestem National Bank
Charter Number 14417
104 East Locust
Fairbury, Illinois 61739**

**Office of the Comptroller of the Currency
Peoria Field Office
111 W. Washington Street, Suite 300
East Peoria, Illinois 61611**

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 CRA performance of **Bluestem National Bank (BNB)** prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **June 7, 1999**. This evaluation is based on information from the last CRA examination dated March 28, 1996 to the current examination dated June 7, 1999. 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."

- C A majority (81%) of BNB's loan originations are located within the bank's assessment area.
- C The bank's distribution of lending to people, businesses, and farms of different income levels, including low- and moderate-income individuals and small businesses and farms, is good.

DESCRIPTION OF INSTITUTION

BNB is an \$86 million bank in Fairbury, Illinois, located approximately thirty-five miles northeast of Bloomington, IL. Its main office is in downtown Fairbury with a branch in nearby Forrest. Drive-up facilities are at the Forrest branch and at the autobank located on the main route in Fairbury. The main office, branch, and three Automated Teller Machines (ATMs) are all located in middle- and upper-income areas.

BNB is wholly-owned by the \$82 million holding company, Bluestem Financial Corp. The holding company also owns Bluestem Financial Services, Inc., a limited service brokerage company. The bank offers traditional banking services and lending products. The primary business focus is agricultural and commercial lending. The loan portfolio mix is as follows: agricultural 51%, commercial 21%, residential real estate 18%, and instalment 10%. Net loans to assets is 50.68% as of March 31, 1999.

There are no financial conditions, legal constraints, or other factors that hinder the bank's ability to help meet the credit needs of its assessment area (AA). A "Satisfactory" rating was received during the March 28, 1996, CRA examination.

DESCRIPTION OF ASSESSMENT AREAS:

The bank's assessment area consists of Block Numbering Areas (BNAs) 9608, 9609, & 9610 in Livingston County, Illinois. One (33%) of the BNAs in the AA is designated as middle-income and two (67%) as upper-income. There are no low- or moderate-income BNAs in the AA. The AA meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income geographies. The location of the BNAs by income level is as follows:

Ⓒ Middle-income: 9609 in Livingston County

Ⓒ Upper-income: 9608 & 9610 in Livingston County

According to 1990 census data, the total population of the bank's AA is 10,676. The 1998 non-Metropolitan Statistical Area (MSA) statewide median family income for Illinois is \$39,500. Potential borrowers earning less than 50% of the non-MSA statewide median family income are designated as low-income, while those earning 50% - 80%, 80% - 120%, and more than 120% are designated as moderate-, middle-, and upper-income, respectively. Within the AA, 11% of the families are low-income, 15% are moderate-income, 23% are middle-income, and 51% are upper-income. Seven percent of the population is below poverty level. The unemployment rate for the AA is low at 2%.

There are 3,966 total housing units in the AA, of which 70% are owner-occupied, 27% are rental-occupied, and 3% are vacant. The median age of homes in the AA is 51 years, while the median housing price is \$45,546.

Economic conditions in the AA are stable. The local economy includes manufacturing and agricultural industries. The area's non-farm employment base is concentrated in Bloomington and Fairbury. Principal employers in Fairbury are Pittsburgh Tube, Dave's grocery store, financial institutions, and the Prairie Central School District. Bloomington offers significant construction work and is the home office location for State Farm Insurance, which provides significant employment opportunities in the regional area.

Ninety-one percent of the businesses in the AA have gross income of less than \$1 million with nine percent greater than \$1 million. One hundred percent of the farms have revenues less than \$1 million.

The large number of banks, thrift institutions, and Farm Credit Services provide a high level of competition in the financial services market. First National Bank of Dwight, State Bank of Graymont, and Flanagan State Bank were identified as similarly situated institutions within the AA based on asset size and/or business focus.

A community contact was made with one local realtor during the examination. The contact identified small farm and small business loans as the community's most pressing credit needs. The contact also indicated local financial institutions are responsive to community credit needs and there are no significant unmet credit needs in the community.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

LOAN-TO-DEPOSIT RATIO

The bank's loan-to-deposit ratio meets the standards for satisfactory performance. The average loan-to-deposit ratio for the twelve quarters ending March 31, 1999 equals 61.48% compared to 58.47% for local similarly situated banks. During these twelve quarters, BNB's loan-to-deposit ratio has increased from 51.27% on June 30, 1996 to 59.45% on March 31, 1999.

LENDING IN ASSESSMENT AREA

The bank's record of lending within the AA is reasonable and meets the standards for satisfactory performance. The following table details the bank's lending within and outside the AA by dollar volume and number of loan originations in the evaluation period.

| LOAN TYPE | DOLLAR VOLUME | | NUMBER OF LOANS | |
|-------------------------|---------------|--------------|-----------------|------------|
| | WITHIN AA | OUTSIDE AA | WITHIN AA | OUTSIDE AA |
| Residential Real Estate | \$8,868,485 | \$2,264,733 | 203 | 46 |
| | 80% | 20% | 82% | 18% |
| Business | \$13,453,971 | \$2,467,962 | 237 | 23 |
| | 84% | 16% | 91% | 9% |
| Agricultural | \$28,347,500 | \$9,633,451 | 591 | 117 |
| | 75% | 25% | 83% | 17% |
| Consumer Instalment | \$7,993,332 | \$2,572,510 | 1,136 | 308 |
| | 76% | 24% | 79% | 21% |
| TOTAL | \$58,663,288 | \$16,938,656 | 2,167 | 494 |
| | 78% | 22% | 81% | 19% |

Source: Bank Records (3/31/96 to 5/31/99)

LENDING TO BORROWERS OF DIFFERENT INCOMES AND TO BUSINESSES OF DIFFERENT SIZES

The distribution of residential real estate reflects good penetration among individuals of different income levels including low- and moderate-income individuals. A sample of 51% of the residential real estate loans originated within the AA was reviewed. Sixteen percent were originated to low-income borrowers and 18% originated to moderate-income borrowers.

BNB accommodates low- and moderate-income individuals by granting small dollar real estate loans. Thirty-six percent of the real estate loans originated for less than \$25,000, 31% originated for \$25,000 to \$49,999, 27% originated for \$50,000 to \$99,999, and 6% originated for \$100,000 or more.

The following tables summarize the bank’s distribution of loan originations among borrowers of different income levels:

**RESIDENTIAL REAL ESTATE LENDING
TO BORROWERS OF DIFFERENT INCOME LEVELS**

| INCOME LEVEL OF BORROWER | % OF FAMILIES | \$ VOLUME ORIGINATED | % ORIGINATED | # ORIGINATED | % ORIGINATED |
|---------------------------------|----------------------|-----------------------------|---------------------|---------------------|---------------------|
| Low-income | 11% | \$534,620 | 13% | 16 | 16% |
| Moderate-income | 15% | \$574,750 | 15% | 19 | 18% |
| Middle-income | 23% | \$990,886 | 25% | 23 | 22% |
| Upper-income | 51% | \$1,854,414 | 47% | 45 | 44% |
| TOTAL | 100% | \$3,954,670 | 100% | 103 | 100% |

Source: Bank Records (3/31/96 to 5/31/99)

BNB’s lending levels for small business and small farm loans reflect good responsiveness to community credit needs. Eighty-nine percent of the small business and all of the small farm loans were made to companies and farms with annual revenues less than \$1 million. This performance is reflective of the market in which 91% of the businesses and 100% of the farms in the bank’s assessment have revenues less than \$1 million.

As detailed in the following table, a substantial portion of the loans originated during the evaluation period to small businesses and farms originated for less than \$50,000.

**DISTRIBUTION OF SMALL BUSINESS AND AG LOAN SAMPLE
BY LOAN SIZE**

| LOAN SIZE (\$) | BUSINESS LOANS | | FARM LOANS | |
|-----------------------|----------------|------|------------|------|
| | # | % | # | % |
| <\$25,000 | 138 | 58% | 291 | 49% |
| \$25,000 - \$49,999 | 34 | 15% | 122 | 21% |
| \$50,000 - \$99,999 | 27 | 11% | 105 | 18% |
| \$100,000 - \$249,999 | 27 | 11% | 60 | 10% |
| \$250,000 - \$499,999 | 7 | 3% | 9 | 1% |
| \$500,000 - \$999,999 | 2 | 1% | 4 | 1% |
| >\$1,000,000 | 2 | 1% | 0 | 0% |
| TOTAL | 237 | 100% | 591 | 100% |

Source: Bank Records.

GEOGRAPHIC DISTRIBUTION OF LOANS

We did not analyze the geographic distribution of loans since none of the BNAs making up the bank’s assessment area are designated as low- or moderate-income areas.

RESPONSE TO COMPLAINTS

The bank has not received any complaints since the prior examination relative to its performance under the CRA.

COMPLIANCE WITH ANTIDISCRIMINATION LAWS

Our Fair Lending review consisted of a review of the rates and terms of unsecured consumer loans extended to all applicants. No violations of the substantive provisions of the anti-discrimination laws and regulations were discovered during our examination.