

LARGE BANK

Comptroller of the Currency
Administrator of National Banks

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Community Reinvestment Act Performance Evaluation

Home State Bank, National Association
Charter Number: 18763

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NOTE: This evaluation is not, and should not 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 CRA performance of **Home State Bank, National Association** prepared by the **Office of the Comptroller of the Currency (OCC)**, the institution's supervisory agency, as of **October 10, 2000**. The agency evaluates performance in assessment area(s), as they are delineated by the institution, rather than individual branches. This assessment area evaluation may include the visits to some, but not necessarily all of the institution's branches. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.*

Definitions and Common Abbreviations

The following terms and abbreviations are used throughout this Performance Evaluation. The definitions are intended to provide the reader with a general understanding of the terms, not a strict legal definition.

Affiliate - Any company that controls, is controlled by, or is under common control by another company. A company is under common control with another company if both companies are directly or indirectly controlled by the same company. A bank subsidiary is controlled by the bank and is, therefore, an affiliate.

Block Numbering Area (BNA) - Statistical subdivisions of counties in which census tracts have not been established. BNAs have been established by the United States Census Bureau in conjunction with state agencies.

Census Tract (CT) - Small, locally defined statistical areas within metropolitan statistical areas. These areas are determined by the United States Census Bureau in an attempt to group homogenous populations. A CT has defined boundaries per ten year census and an average population of 4,000.

Community Development (CD) - Affordable housing for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs (13 CFR 121.301) or have gross annual revenues of \$1 million or less; or, activities that revitalize or stabilize low- or moderate-income geographies.

Community Reinvestment Act (CRA) - The statute that requires the OCC to evaluate a bank's record of meeting the credit needs of its local community, consistent with the safe and sound operation of the bank, and to take this record into account when evaluating certain corporate applications filed by the bank.

Full-Scope Review - Performance under the Lending, Investment and Service Tests is analyzed considering fully understood performance context, quantitative factors (e.g., geographic distribution, borrower distribution, total number and dollar amount of investments, branch distribution) and qualitative factors (e.g., innovation, complexity).

Geography - A census tract or a block numbering area delineated by the United States Bureau of the Census in the most recent decennial census.

Home Mortgage Disclosure Act (HMDA) - The statute that requires certain mortgage lenders that do business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applicants, the amount of loan requested, and the disposition of the application (e.g., approved, denied, withdrawn).

Home Mortgage Loans - Such loans include home purchase and home improvement loans, as defined in the HMDA regulation. This definition also includes multifamily (five or more families) dwellings loans, loans for the purchase of manufactured homes and refinancing of home improvement and home purchase loans.

Limited-Scope Review - Performance under the Lending, Investment and Service Tests is analyzed using only quantitative factors (e.g., geographic distribution, borrower distribution, total number and dollar amount of investments, branch distribution).

Low-Income - Income levels that are less than 50% of the median family income.

Median Family Income (MFI) - The median income determined by the United States Census Bureau every ten years and used to determine the income level category of geographies. Also, the median income determined by the Department of Housing and Urban Development annually that is used to determine the income level category of individuals. For any given area, the median is the point at which half of the families have income above it and half below it.

Metropolitan Statistical Area (MSA) - Area defined by the Director of the United States Office of Management and Budget. MSAs consist of one or more counties, including large population centers and nearby communities that have a high degree of interaction.

Middle-Income - Income levels that are at least 80% and less than 120% of the MFI.

Moderate-Income - Income levels that are at least 50% and less than 80% of the MFI.

Small Business Loans - Loans with original amounts of \$1 million or less that are: (1) secured by nonfarm nonresidential properties; or (2) commercial and industrial loans to U.S. addresses.

Small Farm Loans - Loans with original amounts of \$500 thousand or less that are: (1) secured by farmland; or (2) to finance agricultural production and other loans to farmers.

Tier 1 Capital - The total of common shareholders' equity, perpetual preferred shareholders' equity with noncumulative dividends, retained earnings and minority interests in the equity accounts of consolidated subsidiaries.

Upper-Income - Income levels that are 120% or more of the MFI.

Overall CRA Rating

Institution's CRA Rating: This institution is rated "**Satisfactory.**"

The following table indicates the performance level of **Home State Bank, National Association** (HSB) 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		X
Low Satisfactory		X	
Needs to Improve			
Substantial Noncompliance			

* The Lending Test is weighted more heavily than the Investment and Service Tests when arriving at an overall rating.

The major factors that support this rating include:

- y Lending levels that reflect excellent responsiveness by HSB to the credit needs of its assessment area.
- y Good distribution among borrowers of different income levels throughout its assessment area.
- y Community development lending which has an overall positive impact on the Lending Test conclusion.
- y Investments that reflect an adequate responsiveness by HSB to the needs of its assessment area.
- y Good accessibility of HSB's offices to geographies and individuals of different income levels and good responsiveness of HSB's services to the needs of its assessment area.
- y Good performance in providing community development services.

Description of Institution

Home State Bank, National Association (HSB), an intrastate bank, had total assets of \$415 million, at June 30, 2000. Headquartered in Crystal Lake, Illinois, which is approximately 45 miles northwest of Chicago, the bank was incorporated as HSB Bank of Crystal Lake in 1915. HSB is 100% wholly owned subsidiary of Home State Bancorp, Inc. It is a one-bank holding company with combined total assets that are virtually the same as the bank's. The holding company does not have any additional subsidiaries that would significantly influence the bank's capacity to lend or invest in

Through common ownership, HSB is affiliated with Mercantile Bancorp, Inc. (Mercantile National Bank of Indiana) and First Lansing Bancorp, Inc. (First National Bank of Illinois). HSB is the largest locally owned financial institution when compared to others in the surrounding area.

HSB has seven bank offices located throughout its AA. These include the main office, five full service branches and one mobile branch located in a retirement community. The most recent branch opening, in March 1999, expanded the bank's presence to Woodstock, IL. There are 12 ATMs, five of which are full service. The bank's AA is contiguously located around all branch and ATM locations.

The bank offers traditional deposit services and a wide variety of lending products. However, the bank's lending efforts are largely real estate related. Commercial real estate and residential real estate represent 36% and 39% of the loan portfolio, respectively. All of the products are offered at all branch locations. Underwriting is performed at the main office and two other branches.

There are no current impediments that would hamper HSB's ability to meet the credit needs of its communities. The bank has historically been a strong financial performer. On June 30, 2000, HSB had net income of \$2.4 million and a loan-to-deposit ratio of 72%. The Tier 1 Capital ratio and Return on Average Assets were 8% and 1.26%, respectively. Loans represented 64% of total assets. The loan portfolio was comprised of commercial and commercial real estate loans (50%), residential real estate loans (39%), and consumer loans (11%).

Scope of the Evaluation

Evaluation Period/Products Evaluated

This evaluation considered the bank's performance since the last examination, dated May 26, 1998, at which time the bank received a Satisfactory rating. The current evaluation reflects the lending, investment and service test performances from April 1, 1998 thru September 30, 2000. Our evaluation focused equally on HMDA and small business lending performance given the bank's loan mix.

Data Integrity

The Community Reinvestment Act requires that banks collect and maintain certain data regarding originations and purchases of small business, small farm and HMDA loans. This information is maintained in the bank's Public File. As part of our evaluation, we tested the bank's publicly filed HMDA and CRA data for accuracy. We also evaluated HSB's processes to ensure that data are reliable.

The HMDA data was determined to be reasonably accurate. However, an initial review of the CRA data revealed errors relating to some of the revenue code fields. HSB corrected the errors relating to the CRA data. Therefore, this evaluation of small loans to businesses was based on accurate data.

Selection of Areas for Full-Scope Review

The bank has one AA. This AA represents portions of McHenry County that is a portion of the Chicago Metropolitan Statistical Area (MSA 1600). We performed a full scope review of this AA. (Refer to the table in Appendix A for more information.)

Ratings

The bank's overall rating is based on the AA discussed above.

Other

Community contacts revealed a significant need for affordable housing within McHenry County. Many obstacles inhibit development of affordable housing, including; very high impact fees, high land and development costs, little property zoning designated for multi-family and few affordable housing developers.

Although still a small segment of the county's population, the homeless population is increasing, in part, as a result of unemployment and underemployment, insufficient affordable housing, and decreased care alternatives for persons with mental illness. Consequently, there is a need for emergency, transitional and permanent housing with

support services to meet the needs of the homeless or to combat homelessness.

These needs were identified through several community contacts with housing, economic and government representatives contacted by this banking regulatory agency in the past 18 months. The McHenry County, Illinois Consolidated Housing and Community Development Plan for Program Years 2000 Through 2004 was used as a reference source to understand the County's needs.

Although fairly limited, opportunities for qualified investments, community development loans, and community development services exist within the bank's AA. These opportunities include investment in Small Business Administration loan programs (Microlending Demonstration Program and 504 Program), credit counseling agencies, small business development centers, and non-profit organizations that provide social services to low- and moderate-income individuals.

Fair Lending Review

An analysis of recent HMDA and Small Business lending data, public comments, and consumer complaint information was performed according to the OCC's risk based analysis approach. The analysis of the lending data revealed no significant differences for applicants by collected prohibited basis. In addition, an analysis of the 1998 and 1999 consumer complaint data and public comments revealed no substantive fair lending issues that warranted more detailed review. The latest comprehensive fair lending examination conducted by the OCC was performed in 1998.

Conclusions with Respect to Performance Tests

LENDING TEST

Conclusions

The bank's performance under the Lending Test is rated High Satisfactory. Based on the full-scope review, the bank's performance is good.

Lending Activity

Refer to Table 1 in Appendix C for the facts and data used to evaluate the bank's lending activity.

HSB's lending activity reflects excellent responsiveness to AA credit needs. As of June 30, 1999, the bank ranks **second** in terms of deposit market share (9.81%) out of 37 financial institutions within McHenry County. The only financial institution that has a larger deposit market share (10%) is a mid-size bank which has many affiliates.

As of June 30, 2000, the loan-to-deposit ratio was 72%. This ratio is in line with other peer banks, which average the same percentage. Peer banks include all banks within McHenry County with total assets between \$200 million to \$450 million. Three banks fit into this custom peer group.

HSB originates a wide variety of loans. The bank's commercial loan and commercial real estate portfolios comprise 50% of the total loan portfolio. The commercial real estate portion represents 74% of this total. The bank originated 858 small loans to businesses during this evaluation period. Based on the 1998 Small Business Aggregate data published by the FFIEC, HSB ranked **second** out of 101 lenders with a market share of 15.86%. This market rank indicates very strong performance in the volume of small loans to businesses in relation to the bank's deposit market rank. The statistics do not reflect a fair comparison since the company that is ranked first (20.63% market share) is very large and nationally recognized. It issues a large number of business credit cards, which are considered small loans to businesses for reporting purposes.

The bank also originates a significant amount of home loans. At June 30, 2000, 39% of the bank's loan portfolio was residential real estate. For this evaluation period, HSB originated 578 HMDA loans. Thirty-eight percent represents home purchase, 7% represent home improvement, and 54% represent refinances. The volume of home improvement loans is low since most of these loans are originated as home equity lines of credit where no specific purpose is identified.

1998 HMDA activity reflected HSB's market share as 1.53% with a ranking of 12 out

of 469 lenders. The market share data reflects that leaders are several multinational and regional bank financial institutions. No one financial institution dominates the market. However, HSB's market share exceeds other local banks within its AA.

Distribution of Loans by Income Level of the Geography

There are no low- or moderate-income census tracts in the bank's AA. Therefore, an analysis of the geographic distribution of HSB's home mortgage loans and small loans to businesses would not be meaningful. Geographic distribution of loans was not taken into consideration in evaluating the bank's lending performance.

Lending Gap Analysis

The lending gap analysis determines the dispersion of lending of all product types throughout the AA. There isn't much emphasis placed on this analysis since the bank's AA does not include any low-or moderate-income census tract. However, a review of the dispersion revealed lending in every census tract within the bank's AA.

Inside/Outside Ratio

A substantial majority of HSB's overall originations are within the AA. Seventy-eight percent of HMDA and 86% of the small loans to businesses were originated within the AA. These percentages suggest that the bank is adequately meeting credit needs inside its AA. See **Table 1** for the number and dollar amount of loans extended within the AA.

Distribution of Loans by Income Level of the Borrower

The borrower distribution of HSB's home mortgage loans and small loans to businesses reflects good dispersion among borrowers of different income levels throughout the AA. Performance is good within this AA.

As reflected in the *Market Profile* section, significant housing cost within the AA in relation to the income level of low-income individuals, impairs the low-income individual's ability to afford a home.

Home Mortgage Loans

Refer to Tables 7, 8, and 9 in Appendix C for the facts and data used to evaluate the borrower distribution of the bank's home mortgage loan originations and purchases.

Home purchase loan borrower distribution is good. That portion of home purchase loans extended to low-income borrowers in the AA is significantly lower than the percentage of low-income families in the AA. However, HSB's market share for loans made to low-income borrowers significantly exceeds HSB's overall market share for home purchase loans. While the percentage of home purchase loans extended is less than the demographic comparable, HSB exceeds competitor banks in efforts to lend to low-income borrowers. Only large mortgage companies exceed the bank's market share in lending to low-income borrowers within the AA. That portion of home purchase loans extended to moderate-income borrowers approximates the percentage of moderate-income families in the AA. The market share for loans made to moderate-income borrowers is lower than HSB's overall market share for home purchase loans.

Home improvement loan borrower distribution is excellent. That portion of home improvement loans extended to low- and moderate-income borrowers in the AA is significantly higher than the percentage of low- and moderate-income families in the AA. Further, HSB's market share for loans made to low- and moderate-income borrowers significantly exceeds HSB's overall market share for home improvement loans. The bank's overall volume of lending is low for this product type. However, HSB ranks seventh out of 20 lenders for low-income borrowers. The bank ranks tenth out of 47 lenders for moderate-income borrowers. Except in one instance, the leaders are very large banks and mortgage companies who have more resources and expertise.

Refinance loan borrower distribution is excellent. That portion of refinance loans extended to low-income borrowers in the AA is lower than the percentage of low-income families in the AA. That portion of refinance loans extended to moderate-income borrowers exceeds the percentage of moderate-income families in the AA.

Also, HSB's market share for loans made to both low-income and moderate-income borrowers significantly exceed HSB's overall market share for refinance loans.

Small Loans to Businesses

Refer to Table 10 in Appendix C for the facts and data used to evaluate the borrower distribution of the bank's origination/purchase of small loans to businesses.

The borrower distribution of small loans to businesses is adequate within the AA. Our analyses revealed that only 57% of HSB's small loans to businesses were to businesses with gross revenues of \$1 million or less. This performance is significantly lower than the portion of businesses with gross revenues of \$1 million or less. This comparison is slightly misleading since the portion of businesses with gross revenues of \$1 million or less represented in Table 10 represents all of McHenry County. Whereas the bank's AA represents only the eastern portion of McHenry County. The portion of loans of \$100,000 or less is near to the portion of businesses that are defined as small. HSB's market share of small loans made to small businesses is near HSB's overall market share. HSB's market share is ranked second among all lenders who made small loans to businesses with revenues less than \$1 million. This fact would suggest that HSB is making a significant impact within this lending category, although more opportunity exists.

Community Development Lending

Refer to Table 1 in Appendix C for the facts and data used to evaluate the bank's level of CD lending.

HSB extended a good amount of community development loans during the evaluation period, in relation to the needs and opportunities within the AA. Therefore, the CD lending has had a positive impact on the Lending Test conclusions for the AA.

During the evaluation period, HSB originated seven community development loans, within the AA, totaling \$641,000. The loans either provide affordable housing for low-and moderate-income persons or encourage economic development. Examples of loans that are worthy of mentioning are discussed below:

- **Corporation for Affordable Homes of McHenry County (CAHMCO)** - The bank extended a line of credit with CAHMCO to provide interim downpayment assistance to applicants qualifying for CAHMCO's First-Time Homebuyer Program. This program provides downpayment and/or closing cost assistance to eligible homebuyers purchasing homes in McHenry County. The amount available for homebuyers is dependent upon the needs of the household, but cannot exceed \$7,000. This program is funded by the Housing and Urban Development (HUD). There is a significant time lag before approval by HUD and thereby, subsequent

funding to CAHMCO. This loan allows CAHMCO to provide immediate downpayment assistance to approved borrowers. During the evaluation period, HSB's line of credit, including three increases, totaled \$100,000.

- **Transitional Living Services** - HSB originated one loan to the organization, totaling \$416,000, to finance the conversion of a motel to 22 new two and three bedroom units for low- and moderate-income households. The mission of the organization is to serve the people who are homeless or at risk of becoming homeless by supplying housing and/or the support services necessary to help maintain people in appropriate housing. The purpose was to provide temporary housing to low- and moderate-income military veterans. The project is designed to serve low- and moderate-income households in McHenry County. The organization is located in a census tract adjacent to the bank's AA, but serves geographies and individuals

Product Innovation and Flexibility

Product innovation and flexibility had a positive impact on the Lending Test conclusions. HSB makes good use of flexible loan programs that benefit small businesses or low- and moderate-income borrowers. These programs have been instrumental in providing affordable lending for consumer purposes and small business development.

- **Low Down Payment/ High Loan-to-Value (PMI) Loans:** The bank offers affordable housing products that do not fit the bank's conventional lending practices. These products offered in-house or through Fannie Mae apply to purchase or refinanced loans that are single-family, owner occupied residences. Normal pricing is applied and no points are charged. Borrowers are required to pay as little as 3% down. Private Mortgage Insurance is required. Underwriting is relaxed with maximum debt-to-income ratios of up to 40% allowed. HSB originated 31 loans using the aforementioned criteria during the evaluation period.
- **McHenry County Revolving Loan Fund:** This fund encourages economic growth and increases the size of its commercial and industrial base. By encouraging economic growth, it assists firms to create and retain jobs. Loans are based on the number of jobs created/retained, with funding at \$10,000 per job to a maximum of \$150,000. Since at least 51% of the jobs must benefit low-to moderate-income households, this fund supports job retention of low-to moderate-income individuals. During the evaluation period, HSB originated one loan, totaling \$20,000.

INVESTMENT TEST

Conclusions for Areas Receiving Full-Scope Reviews

The bank's performance under the Investment Test is rated Low Satisfactory. Based on this full-scope review, the bank's performance in its AA is adequate.

Refer to Table 12 in Appendix C for the facts and data used to evaluate the bank's level of qualified investments.

In its investing activities, HSB exhibits adequate responsiveness to credit and community development needs. The bank's AA represents a small portion of a large metropolitan area where many investment opportunities are available to assist with needs within the various communities. However, within the bank's AA, qualifying CD investment opportunities were limited. The bank has devoted its efforts in contributing to those investments that provide the most direct benefit to its AA. The specific needs and opportunities are discussed within the *Scope of Evaluation* section of this report.

The bank provided investments within its primary service area through cash contributions and grants to organizations serving the low- and moderate-income individuals of the AA. Total qualifying investments during this evaluation period total \$648,332. Specific noteworthy investments include:

- The bank invested in two mortgage-backed securities totaling \$609,852. The securities were backed by home mortgage loans originated to low-and moderate-income individuals located within Cook, DuPage and McHenry counties. More consideration is given to the portion that directly benefits HSB's AA, which totals \$472,300.

Additional donations and grants were provided to organizations with a community development focus. HSB contributed to eight different community development organizations, totaling \$38,480 during the evaluation period.

SERVICE TEST

Conclusions for Areas Receiving Full-Scope Reviews

The bank's performance under the Service Test is rated High Satisfactory. Based on this full-scope review, the bank's performance in the AA is good.

Retail Banking Services

Refer to Table 13 in Appendix C for the facts and data used to evaluate the distribution of the bank's branch delivery system and branch openings and closings.

HSB's delivery systems are accessible to individuals of different income levels throughout the AA. HSB has seven offices (including the main office). One office is located within a three-mile radius of the head office in Crystal Lake. Two offices are located in Lake in the Hills. One office each is located in McHenry and Woodstock. A mobile branch is housed at a nursing home in Crystal Lake.

All of the bank's offices are located in either middle-or upper-income census tracts. However, the Woodstock branch, which was opened in March 1999, is located in a census tract with a significant percentage of low-and moderate-income individuals.

The McHenry branch is in close proximity to census tracts with significant low-and moderate-income individuals.

Products and services are primarily offered in a manner consistent throughout the community. The staffing of lending officers at the branches vary somewhat. The majority of loan officers are at the head office. However, commercial and consumer lenders are provided at the Route 14, McHenry, and Woodstock banking centers. No lenders are provided at either of the Lake in the Hills locations. Nor is there a lender at the mobile branch. However, loan applications are available at these locations. Lenders will readily make appointments to meet with customers at any bank office.

HSB's hours are generally tailored to the needs of the surrounding area. All of the branch offices except the mobile branch maintain Saturday hours. All offices, except the grocery store banking center have drive-up facilities which offer extended hours.

Alternative Delivery Systems

HSB's alternative delivery systems make services more accessible. The bank maintains 12 ATMs within the AA. Each location is equipped with a 24 hour ATM. The bank subscribes to the Cash Station network that enables customers to transact banking through a large number of ATM machines throughout the AA and nationwide.

The bank also offers a 24-hour telephone banking service at no charge. Also, a toll

free number is available to access the service from outside of the Chicago area. Customers can obtain account information on their checking and savings account and can also obtain rate information on certificates of deposits. We could not place significant weight on the alternative delivery systems when drawing our CRA performance conclusions because no data was available to provide specifics on the availability and effectiveness of the bank's alternative delivery systems for low-and moderate-income individuals and geographies.

Community Development Services

HSB's performance in providing community development services is good.

Several bank employees offer community development services to organizations that have as their primary purpose economic development, affordable housing and service low- and moderate- income individuals. Their involvement is in a leadership role and in providing technical assistance. However, HSB helps to develop programs to sponsor seminars and counseling programs on starting small businesses. Detailed below are some of the programs and organizations.

- **McHenry County Housing Authority** - A bank officer serves as commissioner of this organization. The bank plays a leadership role in providing financial advice, preparing/filing paperwork to obtain state/private funding. The organization's focus is providing housing for low- and moderate-income families. In addition, the bank offers the use of their operations center meeting room for the "Affordable Homes
- **Community Action Agency of McHenry County (Head Start)** - The CRA officer serves as a board member of this organization and acts in the capacity of Chairman of the Finance Committee and Treasurer. The member assists with the preparation of annual budgets and lends financial advice in accounting and reporting related issues. The organization's focus is providing educational services to poverty level children.
- **Corporation for Affordable Homes of McHenry County** - A bank officer is a board member of this organization. The officer 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 President and CEO of the bank serves on the board and is treasurer of this organization. The President provides financial advice, assists with fund-raising, and promotes community involvement in various projects. This organization's many programs primarily benefit low- and moderate-income persons. Programs are adapted to local needs, and include family social services, senior citizen housing and day care centers.
- **McHenry County College Small Business Development Center** - A bank officer conducts seminars on finance related topics at the development center. The purpose of this center is to help small business owners find the resources they need for a wide variety of purposes. Examples would include starting a business, preparing loan applications, developing financial plans for a business and improving internal operations.

Appendix A: Scope of Examination

The following table identifies the time period covered in this evaluation, affiliate activities that were reviewed, and loan products considered. The table also reflects the metropolitan and nonmetropolitan areas that received comprehensive examination review (designated by the term Δ Full-Scope Δ) and those that received a less comprehensive review (designated by the term Δ Limited-Scope Δ).

Time Period Reviewed	Lending Test: (April 1, 1998 to September 30, 2000) Investment Test: (April 1, 1998 to September 30, 2000) Service Test: (April 1, 1998 to September 30, 2000)	
Financial Institution	Products Reviewed	
Home State Bank, N.A. Crystal Lake, IL	HMDA, Small Business, and Community Development Loans	
Affiliate(s)	Affiliate Relationship	Products Reviewed
Mercantile Bancorp, Inc. First Lansing Bancorp, Inc.	Common ownership	NA
List of Assessment Areas and Type of Examination		
Assessment Area	Type of Exam	Other Information
Chicago, IL MSA #1600	Full-Scope	

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Market Profiles for Areas Receiving Full-Scope Reviews

HSB Bank Assessment Area	B-2
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Chicago, Illinois MSA

Demographic Information for Full-Scope Area: Portions of Chicago, Illinois MSA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	17	0%	0%	59%	41%	0%
Population by Geography	128,000	0%	0%	58%	42%	0%
Owner-Occupied Housing by Geography	34,956	0%	0%	57%	43%	0%
Businesses by Geography	6,178	0%	0%	49%	51%	0%
Farms by Geography	268	0%	0%	59%	41%	0%
Family Distribution by Income Level	34,926	11%	16%	28%	45%	0%
Distribution of Low- and Moderate-Income Families throughout AA Geographies	9,247	0%	0%	68%	32%	0%
Median Family Income	= \$42,758	Median Housing Value				= \$108,960
HUD Adjusted Median Family Income for 1999	= \$67,900	Unemployment Rate				= 4.6%
Households Below the Poverty Level	= 10.5%					

(*) The NA category consists of geographies that have not been assigned an income classification.
Source: 1990 U.S. Census and 2000 HUD updated MFI.

The AA consists of a portion of the Chicago Metropolitan Statistical Area (MSA 1600). It includes 17 census tracts located in eastern McHenry County. Townships within the AA include; Algonquin, Dorr, Grafton, McHenry and Nunda, adjusted by the Fox River as the eastern border. This AA includes geographies where the bank has a branch and where a substantial portion of the bank's loans has been originated. This AA was drawn in accordance with the regulation and does not arbitrarily exclude low- or moderate-income areas.

The AA's economy is strong. The area in which the bank designates as its AA consists, primarily, of "bedroom communities". The employment base is largely service and retail oriented, with some light industry. Most of the businesses within the AA are sole proprietorships and very small. Over 61% percent of the businesses have less than four employees. Most residents are employed in the city of Chicago or neighboring Schaumburg, Illinois where several Fortune 500 companies are located.

The unemployment rate for McHenry County in September 2000 is lower at 2.8%, than the Chicago MSA of 4.6%, the national average of 3.8% and the State of Illinois, at 4.1%.

The AA consists of 45,983 housing units. Seventy-six percent of these units are owner occupied, 19% are rental and 5% are vacant housing units. The median housing value is \$113,3159, which is higher than the Chicago median housing value of \$108,960. The median year built for housing in the AA is 1969.

Housing costs within McHenry County are escalating and therefore, impair the low- and moderate-income borrower's ability to afford a house. The National Low Income Housing Coalition (LIHC) report, *Out of Reach*, dated September 2000, indicates that the maximum affordable monthly housing cost for low-income families, in McHenry County, is \$903. When considering principal and interest, taxes and insurance, the approximate maximum home value that low-income families could afford is approximately \$96,000.

There are 34,926 families within the bank's AA. Based on the 1990 median family income, 11% are low-income and 16% are moderate-income. Although there are no low-to moderate-income census tracts within the AA, there are townships with a significant percentage of low- and moderate-income families. Townships include Dorr, Greenwood, and McHenry. The city of Woodstock also has a significant percentage of low- and moderate-income families.

Competitive Factors Within the Assessment Area

HSB's principal business activities are highly competitive. The bank competes actively with other financial service providers offering a wide array of financial products and services. According to the 1998 Home Mortgage Disclosure Act (HMDA) information, numerous financial institutions originated home mortgage loans in the bank's AA. HSB ranked 12th amongst these lenders. The 1998 information from the aggregate CRA reports on small business lending reflect 101 lenders in McHenry County. HSB ranked second. Only American Express ranked first with a slightly larger market share. Local competitors include Crystal Lake Bank and Trust, Great Bank, Lake in the Hills Bank, American Community Bank, and Midwest Bank at McHenry.

Appendix C: Tables of Performance Data

Content of Standardized Tables

References to the Δ bank include activities of any affiliates that the bank provided for consideration (refer to Appendix A: Scope of the Examination). For purposes of reviewing the Lending Test tables, the following are applicable: purchased loans are treated as originations/purchases; market rank is based on the number of loans originated and purchased by the bank as compared to all other lenders in the MSA/assessment area; and market share is the number of loans originated and purchased by the bank as a percentage of the aggregate number of reportable loans originated and purchased by all lenders in the MSA/assessment area.

The following is a listing and brief description of the tables:

- Table 1. Lending Volume** - Presents the number and dollar amount of reportable loans originated and purchased by the bank over the evaluation period by MSA/assessment area.
- Table 2. Geographic Distribution of Home Purchase Loans** - Compares the percentage distribution of the number of loans originated and purchased by the bank in low-, moderate-, middle- and upper-income geographies to the percentage distribution of owner-occupied housing units throughout those geographies. The table also presents market rank and market share information based on the most recent aggregate market data available.
- Table 3. Geographic Distribution of Home Improvement Loans** - See Table 2.
- Table 4. Geographic Distribution of Refinance Loans** - See Table 2.
- Table 5. Geographic Distribution of Small Loans to Businesses** - The percentage distribution of the number of small loans (less than or equal to \$1 million) to businesses originated and purchased by the bank in low-, moderate-, middle- and upper-income geographies compared to the percentage distribution of businesses (regardless of revenue size) throughout those geographies. The table also presents market rank and market share information based on the most recent aggregate market data available.
- Table 6. Geographic Distribution of Small Loans to Farms** - The percentage distribution of the number of small loans (less than or equal to \$500,000) to farms originated and purchased by the bank in low-, moderate-, middle- and upper-income geographies compared to the

percentage distribution of farms (regardless of revenue size) throughout those geographies. The table also presents market rank and market share information based on the most recent aggregate market data available.

- Table 7. Borrower Distribution of Home Purchase Loans** - Compares the percentage distribution of the number of loans originated and purchased by the bank to low-, moderate-, middle- and upper-income borrowers to the percentage distribution of families by income level in each MSA/assessment area. The table also presents market rank and market share information based on the most recent aggregate market data available.
- Table 8. Borrower Distribution of Home Improvement Loans** - See Table 7.
- Table 9. Borrower Distribution of Refinance Loans** - See Table 7.
- Table 10. Borrower Distribution of Small Loans to Businesses** - Compares the percentage distribution of the number of small loans (less than or equal to \$1 million) originated and purchased by the bank to businesses with revenues of \$1 million or less to the percentage distribution of businesses with revenues of \$1 million or less. The table also compares the banks percentage distribution with the percentage of loans originated and purchased by all other small business reporters in the bank's assessment area to businesses with revenues of \$1 million or less and is based on the most recent aggregate market data available. In addition, the table presents the percentage distribution of the number of loans originated and purchased by the bank by loan size, regardless of the revenue size of the business. Market share information is presented based on the most recent aggregate market data available.
- Table 11. Borrower Distribution of Small Loans to Farms** - Compares the percentage distribution of the number of small loans (less than or equal to \$500 thousand) originated and purchased by the bank to farms with revenues of \$1 million or less to the percentage distribution of farms with revenues of \$1 million or less. The table also compares the banks percentage distribution with the percentage of loans originated and purchased by all other small farm reporters in the bank's assessment area to farms with revenues of \$1 million or less and is based on the most recent aggregate market data available. In addition, the table presents the percentage distribution of the number of loans originated and purchased by the bank by loan size, regardless of the revenue size of the farm. Market share information is presented based on the most recent aggregate market data available.

- Table 12. Qualified Investments** - Presents the number and dollar amount of qualified investments made by the bank in each MSA/AA. The table separately presents investments made during prior evaluation periods that are still outstanding and investments made during the current evaluation period. Prior period investments are reflected at their book value as of the end of the evaluation period. Current period investments are reflected at their original investment amount even if that amount is greater than the current book value of the investment. The table also presents the number and dollar amount of unfunded qualified investment commitments. In order to be included, an unfunded commitment must have been reported on schedule RC-L of the Call Reports as an off-balance sheet item.
- Table 13. Distribution of Branch Delivery System and Branch Openings/Closings** - Compares the percentage distribution of the number of the bank's branches in low-, moderate-, middle- and upper-income geographies to the percentage of the population within each geography in each MSA/AA. The table also presents data on branch openings and closings in each MSA/AA.
- Table 14. Geographic and Borrower Distribution of Consumer Loans (OPTIONAL)** - For geographic distribution, the table compares the percentage distribution of the number of loans originated and purchased by the bank in low-, moderate-, middle- and upper-income geographies to the percentage distribution of the population within each geography. For borrower distribution, the table compares the percentage distribution of the number of loans originated and purchased by the bank to low-, moderate-, middle- and upper-income borrowers to the percentage of households by income level in each MSA/assessment area.

Table 1. Lending Volume

LENDING VOLUME													State: Illinois	Evaluation Period: 04/01/1998 TO 09/30/2000
MSA/Assessment Area:	% of Rated Area Deposits in MSA/AA*	Home Mortgage		Small Loans to Businesses		Small Loans to Farms		Community Development		Total Reported Loans		% of Rated Area Loans(#) in MSA/AA		
		#	\$ (000's)	#	\$ (000's)	#	\$ (000~s)	#	\$ (000's)	#	\$ (000's)			
Full-Scope:														
HSB Assessment Area	100.00	578	69,763	858	70,553	0	0	7	641	1443	140,957	100.00		

* Deposit data as of June 30, 1999.

Table 2. Geographic Distribution of Home Purchase Loans

Geographic Distribution: HOME PURCHASE																State: Illinois		Evaluation Period: 04/01/1998 TO 09/30/2000			
MSA/Assessment Area:	Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Overall Market Rank*	Market Share by Geography*					Total Home Purchase Loans						
	% Owner Occ Units	% BANK Loans	% Owner Occ Units	% BANK Loans	% Owner Occ Units	% BANK Loans	% Owner Occ Units	% BANK Loans		Overall	Low	Mod	Mid	Upp	#	% of Total**					
Full-Scope:																					
HSB Assessment Area	0.00	0.00	0.00	0.00	57.17	63.89	42.83	36.11	19	1.30	0.00	0.00	1.85	0.73	216	100.00					

(*) Based on 1998 Aggregate HMDA Data only. Market rank is for all income categories combined.

(**) Home purchase loans originated and purchased in the MSA/AA as a percentage of all home purchase loans originated and purchased in the rated area.

Table 3. Geographic Distribution of Home Improvement Loans

Geographic Distribution: HOME IMPROVEMENT																State: Illinois		Evaluation Period: 04/01/1998 TO 09/30/2000	
MSA/Assessment Area:	Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Overall Market Rank*	Market Share by Geography*					Total Home Improvement Loans				
	% Owner Occ Units	% BANK Loans	% Owner Occ Units	% BANK Loans	% Owner Occ Units	% BANK Loans	% Owner Occ Units	% BANK Loans		Overall	Low	Mod	Mid	Upp	#	% of Total**			
Full-Scope:																			
HSB Assessment Area	0.00	0.00	0.00	0.00	57.17	54.76	42.83	45.24	13	1.88	0.00	0.00	1.86	1.91	42	100.00			

(*) Based on 1998 Aggregate HMDA Data only. Market rank is for all income categories combined.

(**) Home improvement loans originated and purchased in the MSA/AA as a percentage of all home improvement loans originated and purchased in the rated area.

Table 4. Geographic Distribution of Home Mortgage Refinance Loans

Geographic Distribution: HOME MORTGAGE REFINANCE																State: Illinois		Evaluation Period: 04/01/1998 TO 9/30/2000	
MSA/Assessment Area:	Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Overall Market Rank*	Market Share by Geography*					Total Home Mortgage Refinance Loans				
	% Owner Occ Units	% BANK Loans	% Owner Occ Units	% BANK Loans	% Owner Occ Units	% BANK Loans	% Owner Occ Units	% BANK Loans		Overall	Low	Mod	Mid	Upp	#	% of Total**			
Full-Scope:																			
HSB Assessment Area	0.00	0.00	0.00	0.00	57.17	61.78	42.83	38.22	13	0.00	0.00	0.00	1.860	1.280	314	100.00			

(*) Based on 1998 Aggregate HMDA Data only. Market rank is for all income categories combined.

(**) Home mortgage refinance loans originated and purchased in the MSA/AA as a percentage of all home mortgage refinance loans originated and purchased in the rated area.

Table 5. Geographic Distribution of Small Loans to Businesses

Geographic Distribution: SMALL LOANS TO BUSINESSES																State: Illinois		Evaluation Period: 04/01/1998 to 09/30/2000	
MSA/Assessment Area:	Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Overall Market Rank*	Market Share by Geography*					Total Small Business Loans				
	% of Businesses	% BANK Loans	% of Businesses	% BANK Loans	% of Businesses	% BANK Loans	% of Businesses	% BANK Loans		Overall	Low	Mod	Mid	Upp	#	% of Total**			
Full-Scope:																			
HSB Assessment Area	0.00	0.00	0.00	0.00	49.35	40.07	50.65	59.93	2	15.86	0.00	0.00	12.24	19.68	861	100.00			

(*) Based on 1998 Aggregate Small Business Data only. Market rank is for all income categories combined.

(**) Small loans to businesses originated and purchased in the MSA/AA as a percentage of all small loans to businesses originated and purchased in the rated area.

Table 6. Geographic Distribution of Small Loans to Farms

Geographic Distribution: SMALL LOANS TO FARMS																State: Illinois		Evaluation Period: 04/01/1998 TO 09/30/2000	
MSA/Assessment Area:	Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Overall Market Rank*	Market Share by Geography*					Total Small Farm Loans				
	% of Farms	% BANK Loans	% of Farms	% BANK Loans	% of Farms	% BANK Loans	% of Farms	% BANK Loans		Overall	Low	Mod	Mid	Upp	#	% of Total**			
Full-Scope:																			
Not applicable																			

(*) Based on 1998 Aggregate Small Farm Data only. Market rank is for all income categories combined.

(**) Small loans to farms originated and purchased in the MSA/AA as a percentage of all small loans to farms originated and purchased in the rated area.

Table 7. Borrower Distribution of Home Purchase Loans

Borrower Distribution: HOME PURCHASE State: Illinois Evaluation Period: 04/01/1998 TO 9/30/2000																
MSA/Assessment Area:	Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers		Overall Market Rank*	Market Share by Borrower Income**					Total Home Purchase Loans	
	% of Families	% BANK Loans*	% of Families	% BANK Loans*	% of Families	% BANK Loans*	% of Families	% BANK Loans*		Overall	Low	Mod	Mid	Upp	#	% of Total***
Full-Scope:																
HSB Assessment Area	10.81	5.56	15.66	14.81	28.05	26.39	45.47	53.24	19	1.30	2.98	0.87	1.59	1.880	216	100.00

(*) As a percentage of loans with borrower income information available. No information was available for 0% of loans originated and purchased by the bank.

(**) Based on 1998 Aggregate HMDA Data only. Market rank is for all income categories combined.

(***) Home purchase loans originated and purchased in the MSA/AA as a percentage of all home purchase loans originated and purchased in the rated area.

Table 8. Borrower Distribution of Home Improvement Loans

Borrower Distribution: HOME IMPROVEMENT																State: Illinois		Evaluation Period: 04/01/1998 TO 09/30/2000				
MSA/Assessment Area:	Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers		Overall Market Rank*	Market Share by Borrower Income**					Total Home Improvement Loans							
	% of Families	% BANK Loans*	% of Families	% BANK Loans*	% of Families	% BANK Loans*	% of Families	% BANK Loans*		Overall	Low	Mod	Mid	Upp	#	% of Total**						
Full-Scope:																						
HSB Assessment Area	10.81	19.05	15.66	21.43	28.05	30.95	45.47	28.57	13	1.88	4.29	3.01	1.03	2.05	42	100.00						

(*) As a percentage of loans with borrower income information available. No information was available for 0% of loans originated and purchased by the bank.

(**) Based on 1998 Aggregate HMDA Data only. Market rank is for all income categories combined.

(***) Home improvement loans originated and purchased in the MSA/AA as a percentage of all home improvement loans originated and purchased in the rated area.

Table 9. Borrower Distribution of Home Mortgage Refinance Loans

Borrower Distribution: HOME MORTGAGE REFINANCE				State: Illinois		Evaluation Period: 04/01/1998 TO 09/30/2000							Total Home Mortgage Refinance Loans			
MSA/Assessment Area:	Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers		Overall Market Rank*	Market Share by Borrower Income**					#	% of Total***
	% of Families	% BANK Loans*	% of Families	% BANK Loans*	% of Families	% BANK Loans*	% of Families	% BANK Loans*		Overall	Low	Mod	Mid	Upp		
Full-Scope:																
HSB Assessment Area	10.81	7.64	15.66	16.56	28.05	33.12	45.47	41.72	13	1.57	3.62	2.02	2.02	1.86	314	100.00

(*) As a percentage of loans with borrower income information available. No information was available for 0% of loans originated and purchased by the bank.

(**) Based on 1998 Aggregate HMDA Data only. Market rank is for all income categories combined.

(***) Home mortgage refinance loans originated and purchased in the MSA/AA as a percentage of all home mortgage refinance loans originated and purchased in the rated area.

Table 10. Borrower Distribution of Small Loans to Businesses

Borrower Distribution: SMALL LOANS TO BUSINESSES State: Illinois Evaluation Period: 04/01/1998 TO 09/30/2000										
MSA/Assessment Area:	Businesses with Revenues of \$1 million or less		Loans by Original Amount Regardless of Business Size				Market Share****		Total Small Loans to Businesses	
	% of Businesses*	% BANK Loans**	\$100,000 or Less	> \$100,000 to \$250,000	> \$250,000 to \$1,000,000	All	Rev \$1 million or less	#	% of Total*****	
Full-Scope:										
HSB Assessment Area	86.37	57.49	81.12	10.84	8.04	15.86	15.12	861	100.00	

(*) Businesses with revenues of \$1 million or less as a percentage of all businesses.

(**) Small loans to businesses with revenues of \$1 million or less as a percentage of all loans reported as small loans to businesses. No information was available for 0% of small loans to businesses originated and purchased by the bank.

(***) The market consists of all other Small Business reporters in the MSA/AA and is based on 1998 Aggregate Small Business Data only.

(****) Based on 1998 Aggregate Small Business Data only.

(*****) Small loans to businesses originated and purchased in the MSA/AA as a percentage of all small loans to businesses originated and purchased in the rated area.

Table 11. Borrower Distribution of Small Loans to Farms

Borrower Distribution: SMALL LOANS TO FARMS										
			State: Illinois			Evaluation Period: 04/01/1998 TO 09/30/2000				
MSA/Assessment Area:	Farms with Revenues of \$1 million or less			Loans by Original Amount Regardless of Farm Size			Market Share****		Total Small Farm Loans	
	% of Farms*	% BANK Loans**	% Market Loans***	\$100,000 or Less	> \$100,000 to \$250,000	> \$250,000 to \$500,000	All	Rev \$1 million or less	#	% of Total*****
Full-Scope:										
Not Applicable										

(*) Farms with revenues of \$1 million or less as a percentage of all farms.
 (**) Small loans to farms with revenues of \$1 million or less as a percentage of all loans reported as small loans to farms. No information was available for 0% of small loans to farms originated and purchased by the bank.
 (***) The market consists of all other Small Farm reporters in the MSA/AA and is based on 1998 Aggregate Small Farm Data only.
 (****) Based on 199X Aggregate Small Farm Data only.
 (*****) Small loans to farms originated and purchased in the MSA/AA as a percentage of all small loans to farms originated and purchased in the rated area.

Table 12. Qualified Investments

QUALIFIED INVESTMENTS State: Illinois Evaluation Period: 04/01/1998 TO 09/30/2000									
MSA/Assessment Areas:	Prior Period Investments*		Current Period Investments		Total Investments			Unfunded Commitments**	
	#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	% of Total \$≈s	#	\$ (000's)
Full-Scope:									
HSB Assessment Area	0	0	10	648	10	648	100.00	0	0

(*) ΔPrior Period InvestmentsΔ means investments made in a previous evaluation period that are outstanding as of the examination date.

(**) ΔUnfunded CommitmentsΔ means legally binding investment commitments reported on the Report of Condition Schedule-L ΔOff Balance Sheet Items. Δ

Table 13. Distribution of Branch Delivery System and Branch Openings/Closings

DISTRIBUTION OF BRANCH DELIVERY SYSTEM AND BRANCH OPENINGS/CLOSINGS																	
												State: Illinois			Evaluation Period: 04/01/1998 TO 09/30/2000		
MSA/Assessment Area:	Deposits	Branches						Branch Openings/Closings						Population			
	% of Rated Area Deposits in MSA/AA	# of BANK Branches	% of Rated Area Branches in MSA/AA	Location of Branches by Income of Geographies				# of Branch Closings	# of Branch Openings	Net Change in Location of Branches (+ or -)				% of the Population within Each Geography			
				Low	Mod	Mid	Upp			Low	Mod	Mid	Upp	Low	Mod	Mid	Upp
Full-Scope:																	
HSB Assessment Area	100.00	7	100.00	0.00	0.00	57.14	42.86	0	1	0	0	1	0	0.00	0.00	58.12	41.88