



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

March 24, 2003

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The White Hall National Bank
Charter Number 7077**

**102 South Main Street
White Hall, IL 62092**

**Comptroller of the Currency
St. Louis Field Office
2350 Market Street, Suite 100
St. Louis, MO 63103**

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.

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INSTITUTION'S CRA RATING

This institution is rated Satisfactory.

A satisfactory rating is warranted based on the bank's demonstrated ability to meet the community's credit needs. The major factors that support this rating are:

- The level of lending to low- and moderate-income individuals shows satisfactory penetration based on the demographics of the community and credit needs of the assessment area (AA).
- The bank's record of lending to small farmers is good. A substantial majority of agricultural loans were extended to small farmers with annual gross revenues of less than \$250 thousand per year.
- Loans are reasonably distributed by geography classification.
- A substantial majority of the bank's loans extended during the evaluation period were originated within the bank's AA.
- The level of lending has improved and is reasonable. Although below its peer group, the bank's loan-to-deposit ratio meets the standards for satisfactory performance given the demographics, economic factors, and legal impediments faced by the bank.

DESCRIPTION OF INSTITUTION

White Hall National Bank (WHNB) is wholly owned by Lima Bancshares, Inc., a three-bank holding company located in Lima, Illinois. WHNB is a small rural bank that operates one office with a non-depository automated teller machine located in downtown White Hall, Illinois. Management has neither opened nor closed any branches. WHNB is primarily an agricultural and residential real estate lender. As of December 31, 2002, the bank had total assets of \$38.6 million, net loans of \$18.6 million, total deposits of \$35.6 million, and total risk based capital of \$2.8 million. WHNB's assets represent approximately 38% of the holding company's assets.

During the evaluation period, the bank's ability to perform under the Community Reinvestment Act (CRA) has been hindered by poor earnings, a formal agreement aimed at strengthening credit administration and control systems, and several external factors.

On January 2, 2002, the bank was sold to Lima Bancshares, Inc., a family-owned bank holding company. Through concerted efforts, the bank has realized significant loan growth over the past year and improved its earnings. Gross loans increased \$11.7 million or 162% over the last 12 months due to new management, a new "veteran" senior loan officer and, to boost the bank's financial performance, the strategy to purchase commercial participations.

As of December 31, 2002, net loans totaled \$18.6 million, representing 48% of total assets. The

composition of the loan portfolio included 37% commercial, 30% agriculture, 23% residential real estate, and 10% consumer loans. Small farm and residential real estate loans represent the substantial majority of the loans originated during this evaluation period. The commercial loan portfolio primarily consists of purchased participation loans for borrowers located outside the AA.

The new management team is focused, able, and willing to address the credit needs of the community. It has met with several community leaders, as well as individuals, to ascertain the needs of the community. In response, the bank now originates long-term fixed-rate residential loans for sale to the secondary market, construction loans for temporary financing, and special programs designed to meet the needs of small farms. And, to accommodate other needs of the community, the bank now offers a free checking account and has extended its banking hours.

WHNB's last CRA evaluation was March 15, 1999, and rated the bank "Needs to Improve."

DESCRIPTION OF GREENE COUNTY ASSESSMENT AREA

Management designated Greene County as its assessment area (AA). This is a contiguous area, meets the requirements of the regulation, and does not arbitrarily exclude low- or moderate-income geographies.

Greene County is a non-Metropolitan Statistical Area (non-MSA) and is comprised of five Block Numbering Areas (BNAs): 9736, 9737, 9738, 9739, and 9740. Based on the 1990 non-MSA median family income, four BNAs or 80% are classified as middle-income and one BNA or 20% is classified as moderate-income.

The 1990 census data shows that the total population in Greene County was 15,317, which included 4,250 families. Of these families, 1,037 or 24% were classified as low-income, 847 or 20% as moderate-income, 1,109 or 26% as middle-income, and 1,257 or 30% as upper-income. WHNB is located in White Hall, Illinois, and it is the only municipality in the moderate-income BNA 9739. Based on the 1990 census data, the total population in BNA 9739 was 2,856, which included 747 families. Of these families, 241 or 32% were classified as low-income, 152 or 20% as moderate-income, 188 or 25% as middle-income, and 166 or 22% as upper-income.

In 1990, the non-MSA statewide median family income for Greene County and BNA 9739 was \$29,693. The 2002 updated figure (adjusted for inflation by the Department of Housing and Urban Development) for Greene County and BNA 9739 is \$46,700. We used the 2002 updated figure in our analysis to determine the borrower income levels.

Based on the 1990 census data for Greene County, 19% of the population is age 65 and over, 15% of households are in retirement, and 16% of households live below the poverty level. Approximately 2,856 people live in the city of White Hall where the bank is located. White Hall is experiencing stagnant population growth, 25% of the population is age 65 and over, 20% of households are in retirement, and 21% of households live below the poverty level.

In 1990, the median housing value for Greene County was \$27,765 and the median age of the housing stock was 43 years. Local housing was 88% 1-4 family units, with 67% being owner-occupied. The median housing value for BNA 9739 was \$24,700 and the median age of the housing stock was 51 years. Local housing was 89% 1-4 family units, with 66% being owner-occupied.

Agriculture, services, and retail trade businesses primarily support the local economy. White Hall is considered a “bedroom” community, as many of the local residents commute outside of Greene County to Jacksonville, Alton, and St. Louis for employment. Major employers in the community are North Greene Unit Schools, with 90 employees; White House Manufacturing, with 60 employees; and Pfizer Animal Health, with 43 employees. About 13% of the labor force in Greene County is self-employed farmers.

The city of White Hall does not have an Economic Development Commission to promote and attract economic development. The local economy is static with limited prospects for trade and industry growth. The annual average unemployment rates in 1999, 2000, 2001, and 2002 for Greene County are 4.6%, 5.0%, 5.9%, and 6.4%, respectively. Unemployment persists at a greater level than a year ago. The January 2003 unemployment rate is 7.4% compared to the state rate of 7.1% and the national rate of 6.5%. Bank management also estimates that 60 jobs were lost with the recent closing of the Greene County Impact Incarceration Program facility, which housed inmates who participated in a military-style program.

Competition in the local community is strong. In 2001, two new branches of community banks headquartered outside Greene County opened in White Hall. Competitive pressures also come from larger financial institutions located in communities in Greene County. Major banking institutions competing in Greene County include First Bank, Carrollton Bank, United Community Bank, and Bank and Trust Company. WHNB is one of nine financial institutions operating in Greene County. This number does not include the array of credit unions, mortgage companies, farm services, and insurance company offices that now offer loan products.

Bank management identified the primary credit needs of Greene County as agricultural, residential, and small dollar consumer-related loans. To further our understanding of the community’s credit needs, we performed one community contact with a real estate and insurance broker knowledgeable about the community. Our contact identified loans to build and purchase low- and moderate-income housing and farm-related loans as the primary credit needs. The community contact feels that new management at WHNB is doing a good job and has made credit much more accessible. The contact further stated that WHNB, as well as the two new banks in town, have actively expressed a desire to meet the credit needs of the community. Our contact did not identify any unmet credit needs; however, he feels the area could benefit from more accessibility for small businesses to start-up, improvement, and expansion loans. Our contact knows of no other community development or other credit-related projects available for participation by local financial institutions.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

WHNB does a satisfactory job of meeting the credit needs of its AA, including those of low- and

moderate-income people and small farms.

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

The bank’s lending distribution to borrowers of different income levels is reasonable. The bank’s record of lending to farms of different sizes is good.

During this evaluation period, WHNB’s primary loan products are farm-related loans, home refinance loans, and commercial loans by dollar and small consumer personal loans by number. An analysis of the consumer loan portfolio and commercial loan portfolio was not performed. Such an analysis would not have been meaningful, as the consumer loan portfolio comprises only 10% of the bank’s total loan portfolio by dollar and the commercial loan portfolio primarily consists of purchased participation loans for borrowers located outside the AA.

Using only loans made in the AA, we sampled 20 home refinance loans and 20 farm loans originated from January 1, 2000, through December 31, 2002. The facts and data used to evaluate WHNB’s lending activity are presented in the following tables.

**Distribution by Borrower Income Level
Home Refinance Loans**

Income Levels	# of Loans	% By # of Loans	Loan \$ (000's)	% By \$ of Loans	AA Family Income
<i>Low Income</i>	4	20%	83	9%	24%
<i>Moderate Income</i>	6	30%	229	24%	20%
<i>Middle Income</i>	6	30%	338	35%	26%
<i>Upper Income</i>	4	20%	304	32%	30%

Based on the sample of loans selected, the bank’s home refinance lending to low-income borrowers is slightly below demographic data, while home refinance lending to moderate-income borrowers exceeds area demographics. The bank’s penetration to low-income borrowers is reasonable given that 16% of the families in Greene County live below the poverty level.

Distribution by Farm Gross Revenue Size

	Under \$100M	\$100M-\$250M	\$250M-\$500M	\$500M-\$1MM	Over \$1MM

	Under \$100M		\$100M-\$250M		\$250M-\$500M		\$500M-\$1MM		Over \$1MM	
#	5	25%	10	50%	4	20%	0	0%	1	5%
\$ (000's)	114	5%	1,387	60%	472	20%	0	0%	350	15%

Based on 1990 business demographic data, 98% of all farms within the AA have gross revenues of less than \$1 million.

WHNB is very responsive to the credit needs of small farms in its AA. Ninety percent of the number of loans extended to small farms was for amounts of \$200 thousand or less. The bank's efforts to assist small farms also include the origination of Farmer Mac II and Farm Service Agency loans through the United States Department of Agriculture (USDA). These secondary market programs are especially designed to meet the needs of small farms.

Geographic Distribution of Loans

The geographic distribution of loans is reasonable, given the performance context. There are BNAs with no or little loan penetration. This is due primarily to the geographic distance between these BNAs and the bank's office and to stiff banking competition in parts of the county. The gaps are not due to geographic income characteristics. The BNAs without loan penetration are classified as middle-income. Our conclusion was based on the sample of home refinance loans and farm-related loans discussed above. The findings of these analyses are presented in the following tables.

Home Refinance Loans

BNA Income Level	# of Loans	% By # of Loans	Loan \$ (000's)	% By \$ of Loans	% Owner Occupied Housing Units
<i>Low Income (a)</i>	0	0%	0	0%	0%
<i>Moderate Income (b)</i>	12	60%	504	53%	19%
<i>Middle Income (c)</i>	8	40%	450	47%	81%
<i>Upper Income (d)</i>	0	0%	0	0%	0%

Agriculture-Related Loans

BNA Income Level	# of Loans	% By # of Loans	Loan \$ (000's)	% By \$ of Loans	% of Farms
<i>Low Income (a)</i>	0	0%	0	0%	0%
<i>Moderate Income (b)</i>	7	35%	824	35%	13%
<i>Middle Income (c)</i>	13	65%	1,499	65%	87%
<i>Upper Income (d)</i>	0	0%	0	0%	0%

(a) 0 low-income BNA in AA

(b) 1 moderate-income BNA in AA

(c) 4 middle-income BNAs in AA

(d) 0 upper-income BNA in AA

Loan-to-Deposit Ratio

WHNB's loan-to-deposit (LTD) ratio is reasonable. As of December 31, 2002, the bank's LTD ratio was 52.28%. WHNB's quarterly average LTD ratio since the 1999 CRA evaluation was 32.30%. The five competing banks in the area had quarterly average LTD ratios ranging from 54.54% to 76.96%. Bank management identified the five competing banks used in this comparative analysis and felt they were similarly situated due to their size, their limited branching network, and agriculture as an important part of the economy. Although below the average LTD ratio for its peer group, WHNB's LTD ratio is satisfactory based on the contextual factors. Please refer to the "Description of Institution" and "Description of Greene County Assessment Area" sections of this evaluation for details on these performance context factors.

WHNB has experienced some loan run-off given a large number of refinancings and strong rate competition in the market. It should also be noted that, since December 7, 2001, new management has originated and sold \$335 thousand long-term fixed-rate residential loans to the State Bank of Lincoln and has originated and sold \$689 thousand to USDA. Because these loans have been sold, they are not reflected in the bank's LTD ratio. This is indicative of the bank's willingness to meet community credit needs.

Lending in Assessment Area

Lending in the AA is satisfactory. A substantial majority of the bank's loans originated since the last CRA evaluation were made in the AA. A sample of 20 home refinance loans totaling \$954 thousand and 20 agricultural loans totaling \$2,323 thousand found that 100% of these loans were made within the bank's AA. Bank management stated that the volume of lending outside Greene County is limited.

Responses to Complaints

No complaints were received since the prior CRA evaluation.

Fair Lending Review

We analyzed three years of public comments and consumer complaint information according to the OCC's risk based fair lending approach. Based on our analysis of the information, we decided that a comprehensive fair lending examination would not need to be conducted in connection with the CRA evaluation this year. The latest comprehensive fair lending examination was performed in 1999.