



Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

November 18, 1996

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Home State Bank, National Association
Charter # 18763**

40 Grant Street, Crystal Lake, Illinois 60014

Office of the Comptroller of the Currency

7600 County Line Road, Suite 3, Burr Ridge, Illinois 60521

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 Community Reinvestment Act (CRA) performance of **Home State Bank, National Association (Home State Bank)** prepared by **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of November 18, 1996. 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.

The bank's loan-to-deposit ratio is satisfactory. The majority of all loans are made within the assessment area. The bank originates loans to consumers and businesses of all income levels.

The following table indicates the performance level of Home State Bank with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	HOME STATE BANK PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does not meet Standards for Satisfactory Performance
Loan to Deposit Ratio		X	
Lending in Assessment Area	X		
Lending to Borrowers of Different Incomes and to businesses of Different sizes		X	
Geographic Distribution of Loans	Not Rated - Entire Assessment Area is Middle and Upper Income.		
Response to Complaints	No complaints were received since the prior examination.		

DESCRIPTION OF INSTITUTION

Home State Bank is located in Crystal Lake, Illinois, approximately 45 miles northwest of Chicago. The bank is a wholly-owned subsidiary of Home State Bancorp, Inc. The bank has four full-service locations, a part-time branch at a local retirement community, and full service automated teller machines at the five locations and at McHenry County College.

Home State Bank's assets totaled \$281 million as of September 30, 1996. Total loans represent 57.84% of average assets. The bank's loan portfolio is comprised of 33% residential real estate, 31% commercial real estate, 18% commercial, and 12% consumer loans. No financial or legal impediments exist that would impact the bank's ability to meet the credit needs of its community. The Comptroller of the Currency rated the bank "Satisfactory" at the bank's last CRA examination (November 30, 1993).

The bank offers a variety of loan products which includes home purchase, home improvement, refinance, consumer, commercial, and small business loans. The bank is a SBA lender and started offering FNMA mortgage loans in 1996. The bank recently began selling mortgage loans in the secondary market.

DESCRIPTION OF ASSESSMENT AREA

The bank's assessment area consists of the 17 census tracts which comprise the Grafton, Algonquin, Dorr, Nunda, Greenwood, and McHenry townships, adjusted by the Fox River as the eastern border. The assessment area complies with the regulation and does not arbitrarily exclude low- and moderate-income areas. These townships are located in McHenry County which is part of the Chicago Metropolitan Statistical Area (MSA). The median family income for the assessment area is \$50,037, slightly less than the median family income for the MSA (\$51,300). The assessment area is composed of ten middle- and seven upper-income census tracts. Low- and moderate-income families represent 10.81% and 15.67% of the families within the assessment area, respectively.

The total population of the assessment area is 128,000. McHenry County has been the fastest growing county in Illinois for the last eight years according to community contacts we interviewed.

The local economy is strong and diversified among retail, medical, government, and light industry. The largest employer is Precision Twist Drill, which employs approximately 1,000 people. The unemployment rate is just 2% and has been stable.

Many financial institutions serve the assessment area. According to 1995 Home Mortgage Disclosure Act (HMDA) information, 376 financial institutions originated loans in the assessment area. The bank has identified approximately 38 banks and savings and loans and 38 non-bank mortgage companies with locations within the bank's assessment area. Many of the banks in the area are branches of larger regional and money center banks.

We considered comments from the community in assessing the bank's CRA performance. We contacted a local chamber of commerce and a county Housing Authority. Our contacts with individuals indicated that the community's credit needs include flexible mortgages (lower down payment), home improvement, and small business loans. There is also a need for more affordable housing. This is consistent with the credit needs the bank has identified. The median housing value in the assessment area is \$113,900. Owner-occupied units represent 34,956 of the 45,983 total housing units (76%).

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

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

The loan-to-deposit ratio averaged 60.48% since the last CRA examination and has increased steadily over the last few years. The September 30, 1996 loan-to-deposit ratio of 67.89% compares favorably with the ratios of three similarly situated institutions (location and asset size) which range from 63% to 70%.

- **The bank conducts a majority of their lending in their assessment area.**

Our analysis focused on 1994, 1995, and year to date 1996 HMDA information. HMDA reportable real estate loans comprise approximately one-third of the bank's loan portfolio. Based on the number of loans, the bank originated 90.2%, 86.7%, and 87.1% of its HMDA reportable loans within the assessment area for these time periods.

Analysis of Lending Within the Assessment Area (AA) - Mortgage Loans

Loan Type	1/1/96 - 11/20/96				1995			
	# of Loans in AA	% of Loans in AA	\$ of Loans in AA (000s)	% of Loans in AA	# of Loans in AA	% of Loans in AA	\$ of Loans in AA (000s)	% of Loans in AA
Purchase	35	89.7%	4,755	90.8%	22	78.6%	3,009	75.9%
Home Improvement	38	88.4%	1,438	92.8%	64	91.4%	1,222	90.9%
Refinance	49	84.5%	6,116	86.8%	25	83.3%	3,270	80.0%
Total Loans in AA	122	87.1%	12,309	89.0%	111	86.7%	7,501	79.8%

Source: 1995 and 1996 HMDA Loan Application Registers (LARs)

Bank reports indicate that by total dollar amount of outstanding loans as of November 1, 1996, 82.2% of mortgage loans, 74.1% of commercial loans, and 67.2% of installment loans are within the assessment area. This results in 76.0% of total outstanding loans.

- **The bank originates loans to individual borrowers and businesses of all income levels.**

For year-to-date 1996, the bank extended 27.9% of its HMDA mortgage loans to low- and moderate-income borrowers. This figure was 15.6% for 1995 and 21.3% for 1994. This loan distribution approximates the income level characteristics of the assessment area.

Analysis of Lending to Borrowers of Different Income Levels - Mortgage Loans

Gross Income Levels	1/1/96 - 11/20/96				1995			
	# of Loans	% of Loans	\$ of Loans (000s)	% of Loans	# of Loans	% of Loans	\$ of Loans (000s)	% of Loans
Low	9	6.4%	799	5.8%	4	3.1%	50	0.5%
Moderate	30	21.4%	1,761	12.7%	16	12.5%	853	9.1%
Middle	40	28.6%	3,003	21.7%	42	32.8%	2,223	23.7%
Upper	60	42.9%	8,157	59.0%	64	50.0%	6,148	65.4%
Not Available	1	0.7%	114	0.8%	2	1.6%	122	1.3%
Total	140	100.0%	13,834	100.0%	128	100.0%	9,396	100.0%

Source: 1995 and 1996 HMDA-LARs

Bank call report data includes information on commercial and commercial real estate loans which represent approximately 49% of the total loan portfolio. As of June 30, 1996, 71.3% of the number of outstanding commercial and commercial real estate loans are to small businesses, defined as loans with original balances of \$100,000 or less.

- **An analysis of the geographic distribution of loans is not meaningful since there are no low- and moderate-income census tracts in the assessment area.**
- **The bank is in compliance with antidiscrimination laws and regulations.**

We did not identify any violations of the substantive provisions of the antidiscrimination laws and regulations during this examination. We tested a sample of home improvement loans for discrimination in loan terms on the basis of applicant race, gender, marital status, and age.

We found no evidence of disparate loan terms. The bank has adequate policies and procedures to ensure compliance with antidiscrimination laws.