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Comptroller of the Currency  
Administrator of National Banks

**Small Bank**

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## **PUBLIC DISCLOSURE**

August 24, 1998

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

**Sumner National Bank  
Charter Number 14401**

**198 South Fourth Street  
Sheldon, Illinois 60966**

**Office of the Comptroller of the Currency  
Chicago-South Field Office  
7600 County Line Road, Unit 3  
Burr Ridge, Illinois 60521-6962**

**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 assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with the 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 **Sumner National Bank, Sheldon, Illinois** prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **August 24, 1998**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 C.F.R. Part 25.*

**INSTITUTION'S CRA RATING: This institution is rated "Satisfactory Record of Meeting Community Credit Needs."**

- **Sumner National Bank lends to borrowers of different income levels. According to our sample, the bank originated 40% of its residential mortgage loans and 67% of its consumer loans to low- and moderate-income borrowers. This is comparable to the U.S. Census Bureau of family income levels within the assessment area.**
- **The majority of the bank's lending is within its assessment area. According to our sample of residential mortgage and consumer loans, 62% of the amount of loans originated since the last exam were within the assessment area.**
- **The bank's loan-to-deposit ratio is comparable to that of similar banks. The ratio has increased since the last CRA examination and continues to show increasing trends. The average loan-to-deposit ratio since the last CRA examination is 49.91%.**

## DESCRIPTION OF INSTITUTION

Sumner National Bank (SNB) is located in Sheldon, Illinois, a small rural community near the Indiana border approximately 90 miles south of Chicago. The bank has one location and no branches or automated teller machines (ATM).

At June 30, 1998, the SNB's assets totaled nearly \$8 million. Total assets comprise 47% loans, 35% investments, 10% federal funds sold, and 8% non-earning assets. The loan portfolio composition is 50% residential mortgages, 26% consumer, 6% agricultural, and 18% commercial. The bank recognizes that a significant level of its business is in residential and consumer loans. The bank offers a variety of lending products in order to meet these needs that include home purchase, refinance/home improvement, and instalment. All home purchase and refinance/home improvement loans are three and five year balloons. The bank does not sell loans in the secondary market.

No impediments exist that would impact the bank's ability to help meet the credit needs of the community. The bank's size is not an impediment since the local credit needs of the community are limited, as discussed in the "Description of the Assessment Area" section. The institution's prior CRA rating was **"Satisfactory Record of Meeting Community Credit Needs"** as detailed in the Performance Evaluation dated August 2, 1995.

## DESCRIPTION OF ASSESSMENT AREA

The assessment area consists of the east side of Iroquois County and includes Sheldon township, Belmont township and a portion of Middleport township. This area includes the village of Sheldon and the city of Watseka, while the remainder is primarily rural. The bank's assessment area is in a non-metropolitan statistical area (non-MSA). The assessment area is composed of two block numbering areas (BNA) designated as middle income geographies. The assessment area is legal and does not arbitrarily exclude low- or moderate-income geographies. SNB is the only financial institution in Sheldon. Several institutions in surrounding communities within the assessment area provide competition for the bank. However, none of them are similarly situated institutions because they are significantly larger in size and have one or more branch locations.

The total population of the area is approximately 8,068. The populations of Sheldon and Watseka are 1,109 and 5,500 respectively, per 1990 U.S. Census figures. The current local economic conditions are stable in the assessment area according to data from the 1990 U.S. Census Bureau. The total unemployment rate is 2%. According to the Department of Housing and Urban Development (HUD), the Illinois Non-metropolitan Median Family Income of the assessment area for 1998 is \$39,500. Low- and moderate-income individuals comprise 18.69% and 20.31% of the assessment area respectively. Persons older than 65 years old make up 20% of the population. The extent of owner occupied housing is 66%. Housing vacancy levels are at 6%.

Management indicated that the credit needs of Sheldon are somewhat limited because a lack of sewage systems impedes industrial development. The downtown area of Sheldon has little business activity and some vacant properties while nearby communities of Watseka and Kentland have attracted industry and grown. Residential development for Sheldon is also limited, as family population of the Sheldon area is projected to decrease by 4% from 1994 to 1999.

We considered comments from the community in assessing the bank's CRA performance. It was indicated that Sumner NB is addressing the community's credit needs, but these needs are limited due to the lack of development in the area. The identified credit needs are for home purchase, home improvement, and consumer credit. This is consistent with

the product offerings of the bank.

A sample of loans was selected for the evaluation of lending in the assessment area and borrower income distribution. We selected 14 residential mortgages (home purchase and refinance/home improvement) and 19 consumer loans which have originated since the last examination. We selected loan origination dates ranging from January 1, 1996, to July 31, 1998. The total loan amounts of the sample represented 20% of total outstandings. The results of this sample review are covered in the following sections of the report.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

### Loan-to-Deposit Ratio

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

The bank's average loan-to-deposit ratio for the past eleven quarters since the last CRA examination is 49.91%. The average ratio throughout 1997 and 1998 alone is 55.23%. The increase in the loan-to-deposit ratio, from 37.55% at December 31, 1995, to 56.32% at June 30, 1998, was relatively steady.

The bank's loan-to-deposit ratio compares favorably to banks in its assessment area and to banks which are similar in size and type of assessment area. This comparison is made since SNB has no banks that are similarly situated institutions (i.e. institutions of similar size) within its assessment area. The bank's ratio of 56.32%, noted above, is comparable to that of the other banks which range from 48% to 64%.

### Lending in Assessment Area

The bank originates a majority of its loans within the assessment area.

As the table below indicates, 58% in number and 62% in dollars of combined mortgage loan originations were made within the bank's assessment area. Mortgage originations within the assessment area alone are 71% in number and 72% in dollars.

Type of Loan	Loans Inside of Assessment Area		Loans Outside of Assessment Area		Total Loans Sampled	
	#	\$(000)	#	\$(000)	#	\$(000)
Mortgages	10	483	4	188	14	671
%	71%	72%	29%	28%	100%	100%
Consumer	9	88	10	164	19	252
%	47%	35%	53%	65%	100%	100%
Total	19	570	14	352	33	922
%	<b>58%</b>	<b>62%</b>	42%	38%	100%	100%

Source: An examiner sample taken from residential and consumer loan trials generated by bank. For further information on the sample refer to "Description of Assessment Area" section.

## Lending to Borrowers of Different Incomes

The bank originates residential and consumer loans to borrowers of different income levels. As indicated in the table below, the bank originated 40% of its residential mortgage loans to low- and moderate-income borrowers. According to the 1990 U.S. Census Bureau, the distributions of family income levels within the assessment area are 18.69% low, 20.31% moderate, 24.44% middle, and 36.57% high. The bank's originations to moderate-income residential real estate borrowers and low-income consumer borrowers exceed that of the Census Bureau distribution. Although there is a lack of low-income residential real estate borrowers noted in our sample, the reasons are valid and include a shrinking population, lack of residential development, local competition, and a significant population of senior citizens with limited housing needs. Seventy percent of the residential mortgages in our sample were for some combination of refinancing, debt consolidation, or home improvement lending.

Gross Income Levels	Residential Mortgages		Consumer Loans	
	#	\$(000)	#	\$(000)
Low	0	0	4	40
%			45%	45%
Moderate	4	122	2	15
%	40%	25%	22%	17%
Middle	4	146	3	33
%	40%	30%	33%	38%
Upper	2	214	0	0
%	20%	45%		
<b>Total</b>	10	482	9	88
%	100%	100%	100%	100%

Source: An examiner sample taken from residential and consumer loan trials generated by bank. For further information on the sample refer to "Description of Assessment Area" section.

## Geographic Distribution of Loans

An analysis of the geographic distribution of loans is not meaningful for this examination, since the income level throughout the assessment area is homogenous. The assessment area consists of two block numbering areas that are middle income geographies.

## Responses to Complaints

No complaints were received since the prior examination.

## Fair Lending Review

No violations of the substantive provisions of the antidiscrimination laws and regulations were identified during this examination. We tested approved consumer instalment loans for discrimination in loan terms on the basis of applicant gender and age. We found no evidence of discrimination on the basis of loan terms.