



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

March 1, 2004

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Stillman BancCorp, N.A.
Charter Number 14369**

**101 East Main Street
Stillman Valley, Illinois 61084**

**Comptroller of the Currency
Chicago North Field Office
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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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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 **Stillman BancCorp, National Association (SBNA)** prepared by **The Office of the Comptroller of the Currency (OCC)**, the institution's supervisory agency, as of March 1, 2004. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.

This evaluation covers the period since June 29, 1998, the date of the last CRA examination.

INSTITUTION'S CRA RATING

INSTITUTION'S OVERALL CRA RATING:

This institution is rated: Outstanding Record of Meeting Community Credit Needs.

The major factors that support SBNA's overall rating include:

- The distribution of loans to borrowers of different income levels is excellent. Lending to businesses of different sizes is excellent.
- The loan-to-deposit ratio is good.
- The level of lending within SBNA's designated assessment area is good.
- Community development activity is good.

DESCRIPTION OF INSTITUTION

SBNA is a wholly owned subsidiary of Stillman BancCorp, Incorporated, a one-bank holding company. SBNA is headquartered in Stillman Valley, Illinois, approximately 15 miles southwest of Rockford. Although the bank is based in Stillman Valley, the main branch is located at the east end of Rockford with other full service branches located in Byron, Oregon, and Rochelle. Each office has a 24-hour accessible ATM machine. The bank added the Rockford location in 2000 to meet the needs of the customers located in the Rockford market.

On December 31, 2003, SBNA had total assets of \$273 million, net income of \$4.6 million, and a loan to deposit ratio of 68 percent. Loans represent 51 percent of total assets. Commercial and commercial real estate lending represents 54 percent, residential real estate lending represents 30 percent, agricultural loans represent 12 percent, and consumer lending represents 4 percent of gross loans.

The bank offers numerous loan products including: commercial, commercial real estate, consumer, home improvement, home equity lines of credit, agricultural, and various home purchase loan products. However, the bank's lending efforts are largely concentrated in commercial, commercial real estate, and residential lending.

There are no financial circumstances, legal constraints or other factors that would hinder SBNA'S ability to meet the credit needs of the community. This evaluation considers the bank's performance since the last examination, dated June 29, 1998, at which the bank received an Outstanding rating.

DESCRIPTION OF ASSESSMENT AREA

SBNA has one assessment area (AA) that is comprised of all of Ogle County, all of Boone County, and portions of Winnebago County. The entire AA is located in the Rockford Metropolitan Statistical Area (MSA 6880). The AA consists of thirty-four geographies, ten in Ogle County, six in Boone County, and eighteen in Winnebago County. The thirty-four geographies consist of twenty-four middle-income geographies (71 percent) and ten upper-income geographies (29 percent). There are no low or moderate-income geographies. The AA meets the requirements of the CRA regulation and does not arbitrarily exclude any low- or moderate-income geographies.

Major towns in the AA are Rockford, Belvidere, Rochelle, Oregon, Byron, and Stillman Valley. Based on 2000 Census data, the total population of the AA is 173,905, the adjusted median family income is \$57,900, and there are 48,649 families in the AA. Of these, 14 percent are considered low-income, 17 percent are considered moderate-income, 24 percent are considered middle-income, and 45 percent are considered upper-income.

Based on the 2002 business demographic data, there were a total of 10,393 businesses in the AA. Of these, 8,490 (82 percent) had revenues less than \$1 million, 634 (6 percent) had revenues greater than \$1 million, and 1,269 (12 percent) did not report revenue information. The majority of businesses in the AA are small businesses, with approximately 75 percent of the businesses

having less than fifty employees and 63 percent of the businesses having one to four employees.

Based on the number of home starts, home sales, and the average time homes are on market, the local housing demand is strong. The 2000 Census data shows that there are 67,515 housing units within the AA. Of these, 75 percent are owner-occupied units, 20 percent are rental-occupied units, and 5 percent are vacant housing units. The weighted average median housing value in the AA is \$114,133.

The Ogle County economy is improving with a 2003 unadjusted seasonal unemployment rate of 6.3 percent. This is slightly better than the State of Illinois unemployment rate of 6.4 percent. The Winnebago and Boone County economies are still suffering from plant closings and employee layoffs. The year-end 2003 unemployment rate for Winnebago County is 8.5 percent and 7.9 percent for Boone County, both of which are higher than the state rate of 6.4 percent. The overall unemployment rate for the Rockford MSA is 8.1 percent. Major industries in the AA are manufacturing, retail trade, professional and business services, educational and health services, and government. The major employers in the AA are Rochelle Foods, Rockford School District, Aramark Services, Honeywell, Hamilton Sundstrand, Rockford Health Systems, and Swedish American Health System.

Competition among financial institutions within the AA is strong, with over 300 financial institutions providing financial services. The competition ranges from banks with assets of less than \$50 million to branches of large multi-national banks.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The bank's quarterly average loan-to-deposit ratio is good given the bank's size, financial condition, and AA credit needs. SBNA's quarterly average loan-to-deposit ratio for the time period of June 30, 1998 to December 31, 2003 was 66 percent. The most recent loan-to-deposit ratio (December 2003) was 69 percent. The loan-to-deposit ratio for other similarly situated financial institutions located within the AA ranges from 49 percent to 77 percent with an average of 66 percent. However, the bank's loan-to-deposit ratio does not reflect the significant volume of mortgage loans that are originated and subsequently sold on the secondary market.

Secondary market activity consists primarily of home purchase, fixed rate loans sold to Freddie Mac. For the three years beginning with 2001, the bank has sold a total of \$400 million in residential real estate loans into the secondary market. The bank services approximately \$267 million of the Freddie Mac loans. Adjusting for loans sold to Freddie Mac, the average loan-to-deposit ratio over the last year increases significantly to 116 percent. Additionally, out of 340 lenders serving the area, Stillman BancCorp is ranked 4th in market share.

Lending in Assessment Area

A large majority of SBNA's lending is within its assessment area. For 2002, 74 percent of the number and 74 percent of the dollar amount of home mortgage loans were originated within the bank's assessment area. For 2001, 74 percent of the number and 73 percent of the dollar amount of home mortgage loans were originated within the bank's AA. A preliminary analysis of the raw 2003 HMDA data by the bank indicates that bank's lending within the AA is similar to prior years.

The vast majority of SBNA's small business lending is within their assessment area. For 2003, 84 percent of the 581 small business and small farm loans (88 percent by dollars) were originated within the AA.

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

SBNA's lending to borrowers of different incomes and businesses of different sizes is excellent. The bank's record of extending credit to individuals of different income levels reflects excellent lending to low and moderate-income borrowers within the AA. The bank's record of lending to small businesses also reflects an excellent level of lending to businesses of different sizes.

SBNA's primary loan types are commercial and residential. Both of these loan types constitute a significant volume of SBNA's lending mix. Commercial loans comprise 54 percent of SBNA's gross loan portfolio. The residential loan portfolio comprises 30 percent of gross loans.

Residential lending to borrowers of different income levels is excellent. The distribution of home loans among borrowers of various income levels is good when compared to the income distribution of the assessment area's families. This distribution is enhanced by SBNA's strong showing in market share of lending within the assessment area. For an institution of this size, SBNA's market share is strong and ranks high (4th out of 340) among other mortgage lenders in the area. The bank's fourth place rank places it ahead of almost all countrywide mortgage lenders and large regional and money center banks that serve the AA.

While lending to low and moderate-income borrowers is slightly below the population's income distribution characteristics, the bank's strong market share indicates that SBNA is making effective efforts to provide mortgage loans to all people in the assessment area with the ability to borrow. The tables below reflect that, within the assessment area, the bank originated 23.5 percent of its loans to low and moderate-income borrowers in 2002 and 26.6 percent in 2001. The tables illustrate that lending to low-income borrowers (5.7 percent in 2002 and 7.2 percent in 2001) is below the percentage of low-income families in the AA (12.4 percent). However, for low-income borrowers, SBNA ranks 2nd out of 118 lenders as far as market share. Lending to moderate-income borrowers (17.8 percent for 2002 and 19.4 percent for 2001) exceeded the percentage of moderate-income families (16.3 percent) within the AA. For moderate-income borrowers, the bank ranked 4th out of 181 lenders.

It is also important to note that, based on the 1990 census information (the most current available

for this evaluation), seven percent of the households within the AA are below the poverty level. As such, the opportunity to extend home mortgage credit may be reduced and may have a limited ability to assume debt obligations.

Table 1

2002 Residential Mortgage Loans by Borrower Income					
Borrower Characteristics by Income	Number of Loans	Percent of # Total	\$ (000) of Loans	Percent of \$ Total	Percent of Families by Income
Low-Income	63	5.7%	\$ 3,670	3.4%	12.4%
Moderate-Income	196	17.8%	\$15,023	13.7%	16.3%
Middle-Income	332	30.1%	\$30,533	27.9%	26.4%
Upper-Income	485	43.9%	\$57,592	52.6%	44.9%
Income not available	28	2.5%	\$ 2,709	2.5%	
TOTAL	1,104	100.0%	\$109,527	100.0%	100.0%

Table 2

2001 Residential Mortgage Loans by Borrower Income					
Borrower Characteristics by Income	Number of Loans	Percent of # Total	\$ (000) of Loans	Percent of \$ Total	Percent of Families by Income
Low-Income	70	7.2%	\$ 3,608	4.0%	12.4%
Moderate-Income	189	19.4%	\$12,850	14.4%	16.3%
Middle-Income	314	32.2%	\$27,811	31.1%	26.4%
Upper-Income	376	38.6%	\$42,758	47.8%	44.9%
Income not available	26	2.7%	\$ 2,435	2.7%	
TOTAL	975	100.0%	\$89,462	100.0%	100.0%

In response to identified community credit needs, the bank developed several affordable mortgage programs. For example, one of these loan programs allows for no minimum loan amount, and up to 95 percent loan-to-value ratio with private mortgage insurance. Response to this program has been good, with thirty loans originated in the time period 2001-03 totaling \$2,564,451.

Commercial lending to business of different sizes is excellent. Loans made to businesses with annual revenues of less than \$1 million (86 percent) exceeded the percentage of those businesses with annual revenues of less than \$1 million (82 percent) within the AA. Of the 581 small business and small farm loans originated in 2003, there were 501 loans, totaling \$48 million, that were made to businesses with annual revenues of less than \$1 million.

Geographic Distribution of Loans

All thirty-four census tracts in the assessment area are middle and upper income. As such, an assessment of the geographic distribution of loans is not meaningful.

Responses to Complaints

SBNA has not received any complaints about its performance in helping to meet the credit needs within its AA during this evaluation period.

Fair Lending Review

An analysis of commercial and residential loan files, recent public comments, and consumer complaint information showed that there were no fair lending concerns.

CONCLUSIONS WITH RESPECT TO INVESTMENTS AND SERVICES

Investments

SBNA's investing activities enhances credit availability in its AA. The bank provides investments in its communities primarily through cash contributions and grants to various organizations serving low- and moderate- income residents in its AA. These grants and contributions promote education, social services, job opportunities, housing, transportation, and health care. SBNA contributed to twenty-seven different organizations with the qualified investments totaling \$67,418.

Services

SBNA services and delivery systems enhance credit availability in its AA. SBNA operates five full-service branches that are dispersed throughout the AA. All branches are located in either middle-income or upper-income census tracts, as there are no low-or moderate-income census tracts in the AA. All branches are accessible to low-and moderate-income borrowers since these families live throughout the AA.

SBNA's alternative delivery systems make services more accessible. All branch locations are equipped with a 24-hour ATM. The bank also offers a free 24-hour telephone banking service and online banking opportunities. Through these alternative delivery systems , customers are able to obtain deposit account information, transfer funds between existing deposit accounts, and make loan payments. The bank also provides credit counseling for troubled borrowers and the bank is an agent for selling state license stickers.

SBNA's products and services are available at all of its locations. The bank's hours are tailored to the needs of the surrounding areas, and the bank branches have recently expanded lobby hours to further meet the needs of its customers. All of the locations maintain Saturday hours with all locations having either lobby hours or services accessible by appointments with bank employees. The lobby is open for full service on Saturday in Rochelle, Rockford, and Byron. The drive-up is open in Stillman Valley and Oregon, and, in addition, bank employees are available in these lobbies on Saturdays by appointment.

Community Development Services

- SBNA management took the initiative in the formation of the Ogle County Community Development Corporation (CDC). Senior management took the lead in completing state filing requirements and coordinating the participation of local financial institutions. The CDC was established to promote small business development and retention in Ogle

County. Currently, the CDC offers financing to new and existing businesses that might not otherwise be able to secure financing through conventional means. The bank's CRA Officer currently serves as President of the CDC. Through this CDC, a loan was recently originated that provided for revitalization of an area in downtown Byron.

- SBNA is active in a leadership role in the Northern Illinois Community Development Corporation (NICDC). This corporation promotes economic development and revitalization in Winnebago and Boone counties by lending to small businesses and companies within targeted redevelopment areas, and to firms owned by disadvantaged borrowers. The NICDC lends money for these purposes with matching funds from the City of Rockford. Projects financed by NICDC must demonstrate the potential to benefit local or area community and economic development objectives. SBNA is involved as an investor, Board member, and active participant of a program that has originated twenty-six loans totaling \$1,857,000 since the prior CRA examination.
- SBNA originates loans through the SBA program that provide businesses with start-up and expansion funds. Without this SBA program, these loans would not have been made. SBNA has originated four SBA loans with bank involvement of \$844,000 and SBA financing of \$516,000.