



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

May 12, 2008

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Chester National Bank
Charter Number 23158

1112 State Street
Chester, IL 62233

Office of the 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.

INSTITUTION'S CRA RATING: This institution is rated Satisfactory.

All the lending performance components meet the standards for satisfactory performance. The major factors that support this rating are:

- The bank's distribution of loans to borrowers of different income levels is reasonable.
- A majority of the bank's loans, 76% by number and 68% by dollar, were made within the bank's assessment area (AA).
- The level of lending is reasonable. Since the December 2002 CRA examination, the bank's loan-to-deposit (LTD) ratio has risen from 34% to 45% as of December 31, 2007. The bank's quarterly average LTD ratio is 38%. When comparing the bank's LTD ratio to similarly situated institutions and considering additional factors as described in more detail below, the bank is meeting the standards for satisfactory performance.

SCOPE OF EXAMINATION

We used small bank procedures to evaluate the performance of Chester National Bank under the Community Reinvestment Act. We reviewed all residential real estate loans originated between January 1, 2006 and March 31, 2008 for our analysis of the bank's lending activity.

DESCRIPTION OF INSTITUTION

Chester National Bank (Chester NB), located in Chester, Illinois, is owned and operated by Chester Bancorp, Inc., a two-bank holding company. The bank operates full-service branches in Red Bud, Illinois, and Sparta, Illinois; depository automated teller machines (ATMs) in Chester and Sparta; and a cash dispensing machine in the Buchheits store in Sparta. As of December 31, 2007, the bank's assets totaled \$81 million. There have been no changes in the bank's corporate structure since the last CRA evaluation.

Chester NB offers a full range of retail and commercial banking products normally associated with a small community bank. Chester NB is primarily a residential real estate lender. As of December 31, 2007, net loans totaled approximately \$31 million, representing 38% of total assets. The loan portfolio is made up of 79% residential real estate, 15% commercial, 5% consumer, and 1% other loans.

There are no legal or financial impediments to the bank's ability to meet community credit needs. The bank has adequate resources to provide for the credit needs of its AA. The type and amount of CRA activities are consistent with the bank's size, its financial capacity, local economic conditions, and credit needs of the community. Chester NB's last CRA evaluation was December 16, 2002, and we rated the bank Satisfactory.

DESCRIPTION OF ASSESSMENT AREA

Management has designated its AA as Randolph County, Illinois, which includes Census Tracts (CTs) 9505, 9506, 9507, 9508, 9509, 9510, 9511, 9512 and 9513, and Perry County, Missouri, which includes CTs 9701, 9702, 9703, 9704, and 9705. Perry County, Missouri has been added since the last examination due to increased residential real estate lending in the county. This is a contiguous area, meets the requirements of the regulation, and does not arbitrarily exclude low- or moderate-income geographies. The main bank is located in CT 9513. The Red Bud branch is located in CT 9508 and the Sparta branch is located in CT 9506.

Randolph County, Illinois

Randolph County is a non-Metropolitan Statistical Area (non-MSA). Based on the State of Illinois non-MSA median family income for 2000, eight CTs or 89% are classified as middle-income and one CT or 11% is classified as upper-income.

As of the 2000 census, the population in the bank's AA totals 33,893, which includes 8,372 families. Of these families, 16% are classified as low-income, 19% as moderate-income, 26% as middle-income, and 39% as upper-income. The non-MSA statewide median family income as of the 2000 census is \$37,565. The 2007 updated figure adjusted for inflation by the Department of Housing and Urban Development (HUD) is \$50,600.

The 2000 census demographic data for the AA shows that 16% of the population is age 65 and over, 23% of households are in retirement, and 10% of households live below the poverty level. The median housing value is \$64,880 and the median age of the housing stock is 45 years. Owner-occupied units represent 72% of the housing stock, with 97% being 1-4 family units.

Manufacturing businesses primarily support the local economy. Chester is considered a "bedroom" community, as many of the local residents commute to the larger cities for employment. Major employers in this AA are Gilster-Mary Lee, Spartan Light Metals, Dorma, and the State of Illinois. Bank management identified fixed-rate residential real estate loans as the primary credit need of the AA.

Economic conditions in Randolph County are slowly weakening as manufacturing jobs have left the area over the last three years. As of January 2008, the unemployment rate in Randolph County is 6.9%. The state unemployment rate is 6.2% and the national rate is 5.4% for the same period.

Competitive pressures are strong and come primarily from larger financial institutions located in communities surrounding the bank's AA. Chester NB is one of three financial institutions in the town of Chester, Illinois. Approximately 22 offices of 10 different banks operate in Randolph County. This number does not include several credit unions, mortgage companies, farm services, and insurance company offices that now offer loan products.

To further our understanding of the community's credit needs, we performed two community contacts with local government officials. Our contacts did not identify any unmet credit needs and advised that local banks are involved in the community.

Perry County, Missouri

Perry County is a non-Metropolitan Statistical Area (non-MSA). Based on the State of Missouri non-MSA median family income for 2000, two CTs or 40% are classified as middle-income and three CTs or 60% are classified as upper-income.

As of the 2000 census, the population in Perry County totals 18,132, which includes 4,953 families. Of these families, 11% are classified as low-income, 16% as moderate-income, 24% as middle-income, and 49% as upper-income. The non-MSA statewide median family income as of the 2000 census is \$36,175. The 2007 updated figure adjusted for inflation by HUD is \$42,800.

The 2000 census demographic data for the AA shows that 16% of the population is age 65 and over, 18% of households are in retirement, and 11% of households live below the poverty level. The median housing value is \$80,699 and the median age of the housing stock is 40 years. Owner-occupied units represent 71% of the housing stock, with 98% being 1-4 family units.

Manufacturing, services, and retail trade businesses primarily support the local economy. Many local residents commute to the larger cities for employment. Major employers in this AA are Gilster-Mary Lee, TG (MO) Corporation, Perry County School District, Perry County Memorial Hospital, SabreLiner Corp., and Buchheits. Bank management identified residential real estate loans and consumer loans as the primary credit needs of the county.

Economic conditions in Perry County are slowly weakening as manufacturing jobs have left the area over the last three years. As of January 2008, the unemployment rate in Perry County is 4.4%. The state unemployment rate is 6% and the national rate is 5.4% for the same period.

Competitive pressures are strong and come primarily from branches of larger financial institutions located in the town of Perryville, MO. Approximately nine offices of seven different banks operate in the county. This number does not include the sundry credit unions, mortgage companies, farm services, and insurance company offices that now offer loan products.

To further our understanding of the community's credit needs, we performed one community contact with a local government official. Our contact did not identify any unmet credit needs and advised that local banks are involved in the community.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Chester NB does a satisfactory job of meeting the credit needs of its AA, including those of low- and moderate-income people.

Loan-to-Deposit Ratio

The level of lending is reasonable. Since the December 2002 CRA examination, the bank's LTD ratio has risen from 34% to 45% as of December 31, 2007. Chester NB's quarterly average LTD ratio is 38%. This compares satisfactorily to seven competing banks in the area whose quarterly average ratios ranged from 33% to 72%, even though Chester NB's LTD ratio fell on the low end of this spectrum. A contributing factor is the bank's low level of loans to businesses and farmers. A substantial majority of Chester NB's loans are home mortgage loans, which reflects the traditional activity of a former federal savings bank. Chester NB also holds a large non-core deposit that must remain liquid; this deposit had an average balance of \$24 million during the rating period. When recalculating the bank's average LTD ratio without this large deposit, the ratio improves from 38% to 53%.

Lending in Assessment Area

Lending in the AA is satisfactory. A majority of the bank's loans originated since the last CRA evaluation were made in the AA. A review of all loans made since January 1, 2006, found that 76% by number and 68% by dollar were made within the bank's AA.

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

Based on our review, the overall distribution of residential real estate loans is reasonable. Chester NB's primary loan product is residential real estate loans, which comprise the largest portion of the loan portfolio by dollar and by number.

The borrower distribution is broken out into two tables detailing loans made in Randolph County, Illinois, and Perry County, Missouri. Of the 125 loans made in the AA during the assessment period, 92 or 74% originated in Randolph County and 33 or 26% originated in Perry County.

In Randolph County, 23% of households are in retirement and the poverty level in the county is 10%. The bank's lending to low- and moderate-income borrowers, at 11% and 16%, respectively, is lower than the percentage of low- and moderate-income families in the county, 16% and 19%, respectively.

In Perry County, 18% of households are in retirement and the poverty level in the county is 11%. The bank's lending to low- and moderate-income borrowers, at 0% and 5%, respectively, is significantly lower than the percentage of low- and moderate-income families in the county, 11% and 16%, respectively. The bank's poor penetration to low- and moderate-income borrowers in Perry County is somewhat mitigated by the

low level of lending in the county as Chester NB has just recently expanded into this market.

Borrower Distribution of Residential Real Estate Loans in Randolph County, IL								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Residential RE	16%	11%	19%	16%	26%	34%	39%	39%

Source: All residential real estate loans originated between January 1, 2006 and March 31, 2008, and 2007 HUD updated Illinois median family income.

Borrower Distribution of Residential Real Estate Loans in Perry County, MO								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Residential RE	11%	0%	16%	5%	24%	36%	49%	48%

Source: All residential real estate loans originated between January 1, 2006 and March 31, 2008, and 2007 HUD updated Missouri median family income.

It should be noted that Chester NB participates in the Western Egyptian Economic Opportunity Council First Time Home Buyer Program. Since the last CRA examination, the bank has originated \$202,520 in loans to low-income borrowers under this program. CRA Officer Debra Theis serves on this organization’s Advisory Board and participates in their Homebuyer Counseling Workshops, assisting qualifying borrowers with all aspects of obtaining a home loan.

Geographic Distribution of Loans

Analysis of the geographic distribution of the bank's loans in the AA would not be meaningful. The bank’s AA consists of 14 CTs, which are all classified as middle- or upper-income.

Responses to Complaints

No CRA-related complaints have been received since the prior CRA evaluation.

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.