



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

December 16, 2002

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Chester National Bank
Charter Number 23158**

**1112 State Street
Chester, IL 62233**

**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.

All the lending performance components meet the standards for satisfactory performance. 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 level of lending is reasonable. The bank's average loan-to-deposit ratio is 46% and is comparable to similarly situated area banks.
- A majority of the bank's loans were made in the AA.

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, as well as depository automated teller machines (ATMs) in Chester and Sparta. As of September 30, 2002, the bank's assets totaled \$103 million. There have been no changes in the bank's corporate structure since the last CRA evaluation. Management closed the Pinckneyville and Carbondale branches subsequent to the last CRA evaluation. The Pinckneyville facility was closed in 1999 because a local competitor offered to purchase the building, as well as the deposits, at a premium. Chester NB retained the Pinckneyville Branch loans. The Carbondale facility was closed in 1997 due to intense competition in the Carbondale market, which resulted in unprofitable operations.

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 and consumer lender. As of September 30, 2002, net loans totaled approximately \$30 million, representing 29% of total assets. The composition of the loan portfolio included 79% residential real estate, 13% commercial, 1% agriculture, and 7% consumer 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 May 22, 1997, and we rated the bank "Satisfactory Record of Meeting Community Credit Needs."

DESCRIPTION OF ASSESSMENT AREA

Management has designated its AA as Randolph County, which includes Block Numbering Areas (BNAs) 9505, 9506, 9507, 9508, 9509, 9510, 9511, 9512 and 9513. 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 BNA 9513. The Red Bud branch is located in BNA 9508 and the Sparta branch is located in BNA 9506.

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

As of the 1990 census, the population in the bank's AA totaled 34,583, which included 8,732 families. Of these families, 17% were classified as low-income, 18% as moderate-income, 24% as middle-income, and 41% as upper-income. The non-MSA statewide median family income as of the 1990 census was \$29,693. The 2002 updated figure adjusted for inflation by the Department of Housing and Urban Development is \$46,700.

The 1990 census demographic data for the AA shows that 15% of the population is age 65 and over, 16% of households are in retirement, and 12% of households live below the poverty level. The median housing value is \$44,639 and the median age of the housing stock is 34 years. Owner-occupied units represent 71% of the housing stock, with 79% 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, American Device Manufacturing Company, 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 have improved over the past few years and are now stable. As of November 2002, the unemployment rate in Randolph County is 5.4%. The state unemployment rate is 6.3% and the national rate is 5.7% 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. There are approximately 19 offices of 12 different banks operating in Chester NB's AA. 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 identified residential real estate loans as the primary credit need of the community. The community contact feels that Chester NB, as well as other local financial institutions in the community, are dedicated to meeting this need. Our contact stated that Chester NB has participated in the Kaskaskia Trail Community Development Corporation. He did not identify any unmet credit needs; however, he feels the area could benefit from more accessibility to micro-loans (e.g., for lawn care or computer-related businesses, which require typically between \$1,000 and \$20,000 for start-up or a business line of credit). Our contact knows of no other community development or other credit-related projects available for participation by local financial institutions.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

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

Lending to Borrowers of Different Incomes

The bank's lending distribution to borrowers of different income levels is adequate.

Chester NB's primary loan product is residential real estate loans. Residential real estate loans comprise the largest portion of the loan portfolio by dollar and by number.

Using only loans made in the AA, we sampled 20 residential real estate loans originated from January 1, 2000, through September 30, 2002. The facts and data used to evaluate Chester NB's lending activity are presented in the following table.

**Distribution by Borrower Income Level
1-4 Family Residential Real Estate Loans**

Income Levels	# of Loans	% By # of Loans	Loan \$ (000's)	% By \$ of Loans	AA Family Income
<i>Low Income</i>	2	10%	84	12%	17%
<i>Moderate Income</i>	5	25%	220	30%	18%
<i>Middle Income</i>	8	40%	207	28%	24%
<i>Upper Income</i>	5	25%	221	30%	41%

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 \$279,045 in loans to low-income borrowers under this program.

Geographic Distribution of Loans

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

Loan-to-Deposit Ratio

Chester NB's loan-to-deposit ratio is reasonable. As of September 30, 2002, the bank's loan-to-deposit ratio was 34%. Chester NB's quarterly average loan-to-deposit ratio since the 1997 CRA evaluation was 46%. This compared satisfactorily to six competing banks in the area whose quarterly average ratios ranged from 35% to 68%, even though Chester NB's loan-to-deposit ratio fell on the low end of the spectrum in comparison to these banks. A contributing factor to this situation 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 expected traditional activity of a former federal savings bank. Chester NB has also experienced loan run-off given a large number of refinancings and strong rate competition in the market. An additional mitigating

circumstance lies in the fact that Chester NB holds a \$26.5 million non-core deposit that must remain liquid. When recalculating the bank's loan-to-deposit ratio, without the large deposit, the ratio improves from 34% to 48%. The six competing banks used in this comparative analysis were identified by management, who felt these banks were similarly situated due to their size and because they had limited branching networks.

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, 2000, found that 74% by number and 63% by dollar were made within the bank's AA.

Responses to Complaints

No CRA-related complaints have been 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 determined 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 1997.