



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## **PUBLIC DISCLOSURE**

**December 1, 2008**

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

Sumner National Bank of Sheldon  
Charter Number 14401

198 South Fourth Street  
Sheldon, IL 60966-0000

Office of the Comptroller of the Currency

Chicago South Field Office  
2001 Butterfield Road, Suite 400  
Downers Grove, IL 60515

**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 Outstanding.**

The major factors that support Sumner National Bank of Sheldon's (SNB) overall rating include:

- The level of lending within SNB's designated assessment area is excellent.
- Lending to borrowers of different income levels is excellent.
- Lending in low- and moderate-income geographies is excellent.
- Management is involved with community development services that assist low- and moderate- income individuals within the assessment area.
- The loan-to-deposit ratio is reasonable.

**SCOPE OF EXAMINATION**

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 **Sumner National Bank of Sheldon (SNB)** prepared by **The Office of the Comptroller of the Currency (OCC)**, the institution's supervisory agency, as of December 1, 2008. 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 January 27, 2003, the date of the last CRA examination when the bank was rated "**Satisfactory Record of Meeting Community Credit Needs.**"

**DESCRIPTION OF INSTITUTION**

SNB is a \$16 million intrastate financial institution. SNB is headquartered in Sheldon, Illinois, a small rural community near the Indiana border approximately 90 miles south of Chicago, Illinois. SNB is a stand-alone financial institution and is not owned by a holding company.

SNB has two locations, the main location in Sheldon, Illinois, and a branch in Watseka, Illinois. The branch opened in July of 2005. SNB has three automated teller machines. Competition within the area includes First Trust & Savings Bank of Watseka, First National Bank of Gilman, Iroquois Federal Savings and Loan of Watseka, Mainsource Bank of Illinois, and Iroquois Farmers State Bank. SNB has a 2.04 percent deposit market share within its assessment area. As of September 30, 2008, the bank reported approximately \$11 million in outstanding loans and had a net loans and leases to assets ratio of 67 percent. Tier 1 capital was reported at \$1.5 million. The bank is primarily a residential mortgage lender. Table 1 show that the loan portfolio consists of the following:

Table 1

| <b>Loan Category</b>     | <b>\$(000)</b>  | <b>Percent</b> |
|--------------------------|-----------------|----------------|
| <b>Residential Loans</b> | \$ 6,321        | 57.06%         |
| <b>Commercial Loans</b>  | \$ 2,011        | 18.15%         |
| <b>Individual Loans</b>  | \$ 1,963        | 17.72%         |
| <b>Agriculture Loans</b> | \$ 782          | 7.06%          |
| <b>Total</b>             | <b>\$11,077</b> | <b>100%</b>    |

There are no financial circumstances, legal constraints, or other factors that would hinder SNB's ability to meet the credit needs of the assessment area. There has been no change in the bank's corporate structure since the last CRA examination.

## **DESCRIPTION OF ASSESSMENT AREA(S)**

SNB assessment area (AA) is comprised of Iroquois County and its nine census tracts. Eight of the nine tracts are middle-income geographies and one is a moderate-income geography. Iroquois County is located 90 miles south of Chicago, Illinois. The AA meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income geographies.

According to the 2000 Census data, the county's population was 31,334. There are 8,729 families in the county, of which 1,410 are low-income (16.15 percent), 1,628 are moderate-income (18.65 percent), 2,152 are middle-income (24.65 percent), and 3,539 are upper-income (40.54 percent). The Department of Housing and Urban Development calculates the 2008 MSA/Non-MSA's updated median family income for this area as \$50,600.

The local housing demand in the AA is modest. The 2000 US Census data shows that there are 13,362 housing units within the AA. Of these, 69.89 percent are owner-occupied units, 21.56 percent are rental-occupied units, and 8.55 percent are vacant housing units. The weighted average median housing value in the AA is \$78,988.

The local economy is dependent on agriculture and services. The 2007 annual unemployment rate of the AA is 5.2 percent versus the State of Illinois unemployment

rate of 5.0 percent. The largest employer in the AA is Iroquois Memorial Hospital. The majority of businesses in the AA are small businesses. Approximately 78.32 percent of the businesses have less than 50 employees and 63.85 percent of the businesses have only one to four employees.

Competition among financial institutions within the AA is strong. The market share leader is First Trust and Savings Bank of Watseka, Illinois with a deposit market share of 21.59 percent. SNB is 14th of 15 banks with a market share of 2.04 percent. Other competitors include Iroquois Federal Savings and Loan Association with 20.64 percent of the market, Federated Bank with 7.75 percent of the market, and First National Bank of Gilman with 6.27 percent of the market.

During our examination, we conducted one new community contact interview relating to this AA. We contacted a local government official. The contact indicated that the local financial institution is meeting the credit needs of the area. The local financial institution is meeting the needs of retail loans and small agricultural loans.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

### Loan-to-Deposit Ratio

The bank’s average loan-to-deposit ratio is reasonable given the bank’s size, financial condition, and AA credit needs. As of September 30, 2008, SNB’s quarterly average loan-to-deposit ratio for the period from September 30, 2002 to September 30, 2008 was 75.38 percent. The most recent loan-to-deposit ratio (September 2008) is 73.45 percent. Banks of various sizes in the AA range from an average of 55.98 percent to 95.43 percent. SNB has the second highest quarterly loan-to-deposit ratio out of the five financial institutions of closest size in the AA.

### Lending in Assessment Area

SNB’s lending within the AA is excellent. Loans inside SNB’s AA represent 85.00 percent of the number of loans sampled and 90.32 percent of the dollar amount. We randomly sampled 20 loans from SNB’s primary product line, residential real estate loans, originated between 2006 through November 2008. As Table 2 shows, of the 20 residential loans sampled, 17 were within the AA, representing 90.32 percent of the dollar amount sampled.

Table 2

| Loans Originated in Assessment Area |         |                |         |                 |                  |
|-------------------------------------|---------|----------------|---------|-----------------|------------------|
| Loan Type                           | # In AA | \$ (000) in AA | Total # | Percent # in AA | Percent \$ in AA |
| Residential                         | 17      | \$879          | 20      | 85.00%          | 90.32%           |

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

SNB's primary loan type is residential real estate loans. This loan type constitutes a significant volume of SNB's lending mix. Residential loans comprise 57.06 percent of SNB's entire portfolio and have historically been SNB's primary loan product.

The bank's lending to borrowers of different income levels is excellent. Our review included a sample of 20 loans inside the bank's AA (20 residential mortgage) that were originated during the evaluation period. Our sample included 16 percent of the total dollar amount of residential loans as of September 30, 2008. The total dollar amount sampled represented approximately nine percent of gross loans and leases as of September 30, 2008.

The level of residential mortgage loans to low- and moderate-income individuals is excellent. Table 3 illustrates that loans to low-income families is significantly above the percentage of low-income families within the AA. The table also illustrates that loans to moderate-income families are also significantly above the percentage of moderate-income families within the AA. Approximately 25 percent of the residential loans originated by SNB were to low-income individuals compared to 16 percent of the families in the AA and approximately 40 percent of the loans originated by SNB were to moderate-income individuals compared to 19 percent of the families in the AA.

Table 3

| Residential Mortgage Loans by Borrower Income |            |             |                   |             |                         |
|-----------------------------------------------|------------|-------------|-------------------|-------------|-------------------------|
| Borrower Characteristics by Income            | # of Loans | % of Total  | \$ (000) of Loans | % of Total  | % of Families by Income |
| Low-Income                                    | 5          | 25%         | \$180             | 16.57%      | 16.15%                  |
| Moderate-Income                               | 8          | 40%         | \$384             | 35.36%      | 18.65%                  |
| Middle-Income                                 | 6          | 30%         | \$481             | 44.29%      | 24.65%                  |
| Upper-Income                                  | 1          | 5%          | \$42              | 3.87%       | 40.54%                  |
| <b>Total</b>                                  | <b>20</b>  | <b>100%</b> | <b>\$1086</b>     | <b>100%</b> | <b>100%</b>             |

## Geographic Distribution of Loans

The bank's lending in low- and moderate-income geographies is excellent.

Geographic distribution for home mortgages in low- and moderate-income geographies is excellent. The bank does not have any low-income geographies in their assessment area; the bank does have one moderate-income geography. The bank's lending in their moderate-income geography exceeds the community demographics for residential loans. Our review included a sample of 20 residential mortgage loans inside the bank's AA that were originated during the evaluation period. Table 4 illustrates that the percentage of sampled loans made in the moderate-income geography is above the percentage of AA owner occupied housing within the moderate-income geography. Approximately 15 percent of the number of sampled loans was within the moderate-income geography compared to only 11 percent of the AA owner occupied housing.

Table 4

| Geographic Distribution of Residential Real Estate Loans |                                |                      |                                |                      |                                |                      |                                |                      |
|----------------------------------------------------------|--------------------------------|----------------------|--------------------------------|----------------------|--------------------------------|----------------------|--------------------------------|----------------------|
| Census Tract Income Level                                | Low                            |                      | Moderate                       |                      | Middle                         |                      | Upper                          |                      |
| Loan type                                                | % of AA Owner Occupied Housing | % of Number of Loans | % of AA Owner Occupied Housing | % of Number of Loans | % of AA Owner Occupied Housing | % of Number of Loans | % of AA Owner Occupied Housing | % of Number of Loans |
| <b>Total</b>                                             | <b>0.00%</b>                   | <b>0.00%</b>         | <b>11.00%</b>                  | <b>15.00%</b>        | <b>89.00%</b>                  | <b>85.00%</b>        | <b>0.00%</b>                   | <b>0.00%</b>         |

**Community Development Services**

Senior management actively participates as a board member in an organization that helps provide housing and vocational services to low- and moderate-income individuals within the AA who have developmental disabilities. Duties as a board member include reviewing and approving policies and actively encouraging and promoting donations.

**Responses to Complaints**

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

**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.