



SMALL BANK

Comptroller of the Currency
Administrator of National Banks
Washington, DC 20219

PUBLIC DISCLOSURE

June 21, 2004

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Tuscola National Bank
Charter Number 14434**

**900 South Progress Boulevard
Tuscola, IL 61953**

**Comptroller of the Currency
Central Illinois & Central Ind
3001 Research Road Suite E2
Champaign, IL 61822**

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.

- **A majority of the loans are originated within the bank's assessment area.**

- **The bank’s loan-to-deposit ratio is reasonable based on the institution’s size, financial condition, and assessment area’s credit needs.**
- **The distribution of loans reflects, given the demographics of the assessment area, satisfactory penetration among individuals of different income levels (including low- and moderate-income) and businesses and farms of different sizes.**

DESCRIPTION OF INSTITUTION

Tuscola National Bank (TNB) is a \$90 million intrastate institution situated in Tuscola, Illinois. Tuscola, the county seat of Douglas County, is located in East Central Illinois on Interstate 57, approximately 25 miles south of Champaign, Illinois. This institution is owned by TNB Bancorp Inc., a one-bank holding company.

TNB operates a branch facility, which is also located in Tuscola. TNB offers one ATM located in the main bank’s drive-up area. TNB has closed one branch on August 31, 1999. This branch was also located in Tuscola at the local grocery store. The closing did not adversely affect the bank’s ability to service the community.

TNB offers a full range of retail and commercial banking products normally associated with a community bank. Net loans were \$35 million on December 31, 2003, or 39% of total assets. The following represents this institution’s loan and lease portfolio mix as of December 31, 2003:

Commercial	\$13.6 million	36%
Agricultural related	\$10.2 million	27%
Residential Real Estate	\$ 9.3 million	25%
Consumer Installment	\$ 4.4 million	12%

During 2002 and 2003, the bank originated 1,555 loans. According to bank reports, 941 of these loans were commercial, including agricultural-related credits. Consumer installment loans totaled 471 of the originations and 1-4 family real estate comprised 143 originations.

The bank offers standard loan products to the community. Additional loan products that the bank offers include Farm Service Administration (FSA) guaranteed loans, Small Business Administration (SBA) loans, Illinois Farm Development Authority (IFDA) guaranteed loans, and the State of Illinois Agricultural Program. The bank has also worked with the city of Tuscola to provide TIF district loans with interest subsidized by the city. TNB has purchased stock and made loans to the Illini Community Development Corporation, which in turn loans to small businesses.

Tier one capital totals \$12 million. There were no financial, legal, or other impediments that would hinder the bank’s ability to help meet the credit needs of its assessment area. Bank activities are consistent with the bank’s size, its financial capability, local economic conditions, and credit needs of the community. The bank was rated “Satisfactory” at its last CRA examination on February 1, 1999.

DESCRIPTION OF THE ASSESSMENT AREA

This assessment area consists of Douglas County. Douglas County includes five census tracts that are all designated middle-income. Douglas County is not in a Metropolitan Statistical Area (MSA). This assessment area conforms to the regulation and does not arbitrarily exclude low- or moderate- income areas. The following demographic information for the assessment area is based on census data:

Table 1 – Demographic Information for Assessment Area (AA)		
	1990 Census Data	2000 Census Data
Population:	19,464	19,922
Housing Stock: <i>1-4 family housing units</i>	87%	88%
Occupancy: <i>owner-occupied, renter-occupied, vacant</i>	71%, 24%, 5%	73%, 22%, 5%
Home Values: <i>Median home value</i>	\$44,162	\$70,667
Age of Homes: <i>Median year of homes built</i>	1956	1958
Income: <i>Median family income</i>	\$32,102	\$45,697
Family Income Levels (%): <i>Low-, moderate-, middle-, upper-income</i>	15%, 18%, 24%, 43%	12%, 20%, 25%, 43%
Household Income Levels(%): <i>Low-, moderate-, middle-, upper-income</i>	19%, 15%, 20%, 46%	15%, 16%, 23%, 46%
Updated Income: <i>2002 HUD Non-MSA Illinois median family income was \$46,700. 2003 HUD Non-MSA Illinois median family income was \$48,200.</i>		
Farms: <i>% of small farms in the assessment area</i>	99%	98%
Businesses: <i>% of small businesses in the assessment area</i>	78%	62%

The local economy is stable and driven by agriculture. Many of the residents commute to Mattoon, Decatur, and Champaign-Urbana for employment. Some of the major employers in the area are Equistar Chemicals, Cabot Corp., Libman Broom, and Douglas County Government. Several other smaller manufacturers, local governments, and school systems make up some of the other employers found in the assessment area. April 2004 unemployment rate for Douglas County was 3.5%. The state unemployment rate was 6.1%, compared to the national rate of 5.6%.

TNB faces competition from rural community banks with locations in the county and from larger regional and national competition located in Champaign-Urbana. There are seven other community banks with locations in Douglas County.

A local government official was contacted during this examination. According to the contact, community financial needs are basic financial services. The contact stated that area banks are meeting the community's credit needs. Start-up businesses have credit needs in the community. TNB is meeting those needs by offering SBA loans, TIF district loans, and providing loans to the Illini Community Development Corporation.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

This review concentrated on the bank's primary loan products, which based on origination information provided by the bank included commercial, agricultural, and consumer loans. We utilized 2002 and 2003 originations to evaluate the bank's performance. 1990 and 2000 census data was utilized for evaluating consumer loans originated in 2002 and 2003, respectively.

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

The overall distribution of loans reflects, given the demographics of the assessment area, satisfactory penetration among individuals of different income levels (including low- and moderate-income) and businesses and farms of different sizes.

Agricultural loans

The bank's performance of lending to farms of different sizes is reasonable. Ninety-five percent of the agricultural loans sampled in the assessment area were made to small farms. Small farms are farms with annual gross revenues of less than one million dollars. One loan out of the sample did not contain financial information. Demographic data for the AA shows that ninety-eight percent of the farms in the assessment area have revenues equal to or less than one million dollars.

Gross Revenues (or Sales)	≤\$1,000,000	>\$1,000,000
% of AA Farms*	98%	0%
% of Bank Loans in AA by #	95%	0%
% of Bank Loans in AA by \$	69%	0%

Source: This table is based on the 17 commercial loans from the AA that were originated in 2002 and 2003. The largest origination in the sample did not have revenue information in the file.

Commercial Loans

The bank's performance of lending to businesses of different sizes is less than reasonable compared to the area's demographics. Forty-five percent of the business loans originated in the assessment areas during 2002 and 2003 were made to small businesses, while thirty-eight percent of the dollar amounts were loans made to small businesses. Small businesses are businesses with annual gross revenues of less than one million dollars. The demographic data for the AA shows that sixty-two percent of the businesses in the assessment area have revenues equal to or less than one million dollars. It is important to note that five of the nine originations to large business were to the same company. Twenty-one percent of the number of bank originations for 2002 and 2003 were made to this business, a car dealership. The bank places individual notes on vehicles, instead of one large floor plan. If you combine the five notes into one, then 31% of the originations were made to large businesses. This ratio is still high compared to demographics. The following table shows the distribution of commercial loans among businesses of different sizes within the assessment area:

Table 3 - Borrower Distribution of Loans to Businesses in the AA		
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000
% of AA Businesses*	62%	7%
% of Bank Loans in AA by #	45%	45%
% of Bank Loans in AA by \$	38%	60%

Source: This table is based on the 17 commercial loans from the AA that were originated in 2002 and 2003. Two originations did not have revenue information in the file. * 32% of AA businesses did not report revenue data.

Consumer Loan Originations

The distribution of loans reflects, given the demographics of the assessment area, more than reasonable penetration for consumer originations, among individuals of different income levels (including low- and moderate-income).

The bank's 2002 and 2003 performance in originating consumer loans to low- and moderate-income borrowers is favorable compared to demographic data. The following tables show the distribution of consumer loan originations among borrowers of different income levels within the assessment area:

Table 4 – Consumer Loans in the AA by Income Distribution						
<u>Income Level</u>	<u>Year</u>	<u>% of households in the AA</u>	<u># of Loans</u>	<u>% of #</u>	<u>\$ of Loans</u>	<u>% of \$</u>
Low-Income Less than 50% of Median	2002 ¹	19%	9	45%	\$58,932	46%
	2003 ²	15%	5	25%	\$18,800	12%
Moderate-Income 50%-79% of Median	2002 ¹	15%	5	25%	\$19,803	15%
	2003 ²	16%	5	25%	\$9,514	6%
Middle-Income 80%-119% of Median	2002 ¹	20%	3	15%	\$37,829	29%
	2003 ²	23%	5	25%	\$77,867	48%
Upper-Income 120% or more of Median	2002 ¹	46%	2	10%	\$10,003	8%
	2003 ²	46%	5	25%	\$56,635	35%

Source: ¹ Sample of 20 consumer loans originated in the AA for 2002 and 1990 U.S. Census data. One loan of \$2,737, from the 2002 sample, did not have income information available. ² 20 loans in the AA originated in 2003 and 2000 U.S. Census data.

Lending in Assessment Area

A majority of the loans are originated within the bank's assessment areas. Based on a sample of twenty loans originated in 2002 and 2003 by the bank, 83% of the number and 81% of the dollar amount were made within the bank's assessment areas.

Loan-to-Deposit Ratio

The bank's loan-to-deposit ratio is reasonable based on the institution's size, financial condition, and assessment area's credit needs. During the past twenty-two quarters, TNB's loan-to-deposit ratio has averaged 61%. This average ratio is favorable compared to the 58% quarterly average for the four banks headquartered in Douglas, Moultrie, or Coles counties with total assets between \$65 million and \$100 million.

Geographic Distribution of Loans

A geographic distribution was not performed, as the assessment areas do not include any low- or moderate-income census tracts.

Responses to Complaints

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

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of illegal discrimination or other illegal credit practices.