



SMALL BANK

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

PUBLIC DISCLOSURE

September 07, 2004

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**National Bank of Earlville
Charter Number 14403**

**137 South Main Street
Earlville, IL 60518**

**Comptroller of the Currency
Chicago South
7600 County Line Road Unit 3
Burr Ridge, IL 60521**

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 **National Bank of Earlville (NBE)** prepared by **The Office of the Comptroller of the Currency (OCC)**, the institution's supervisory agency, as of September 7, 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 October 15, 1998, the date of the last CRA examination when the bank was rated "**Satisfactory Record of Meeting Community Credit Needs.**"

INSTITUTION'S CRA RATING "Satisfactory"

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

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

- The bank's loan to deposit ratio is reasonable.
- The bank's lending activity in the Assessment Area is reasonable.
- The bank's record of extending credit to individual's of different income levels is reasonable.
- The bank did not receive any written complaints about its performance in helping to meet the credit needs within their AA during this evaluation period.

DESCRIPTION OF INSTITUTION

National Bank of Earlville (NBE) is headquartered in Earlville, Illinois, approximately 70 miles west of Chicago, Illinois. NBE is a wholly owned subsidiary of National Bank of Earlville Bancshares, a two-bank holding company. NBE's affiliate is the State Bank of Paw Paw located in Paw Paw, Illinois. NBE does not have any branches. The bank operates one full service office with drive-up facilities. NBE also owns three automated teller machines (ATMs) located throughout its assessment area (AA).

The bank has total assets of \$50 million as of June 30, 2004. The loan portfolio represents 50 percent of total assets. The table below illustrates the composition of the loan portfolio.

Loan Category	\$(000)	Percent
Residential Real Estate Loans	\$5,190	20%
Commercial and Commercial Real Estate Loans	\$14,202	56%
Agricultural Loans	\$3,321	13%
Individual Loans	\$2,697	11%
Total	\$25,410	100%

There are no legal, financial, or other factors impeding the bank's ability to help meet the credit needs in the bank's assessment areas. There has been no change in the bank's corporate structure since the last CRA examination.

DESCRIPTION OF ASSESSMENT AREA

NBE has one assessment area (AA) encompassing two geographies within LaSalle County, a non-Metropolitan Area (MA) and one geography in DeKalb County in MA 1600. The three geographies are all middle-income using 1990 census data. The 2000 Census changed the income level of the geography in DeKalb County to upper-income geography. These changes were effective January 1, 2003. This AA meets the requirements of the regulation and does not arbitrarily exclude low- and moderate-income geographies. Competition in the bank's AA is strong. There are 35 banks in the three-county area where the bank's AA is located. NBE rank's 23rd out of the 35 other banks with a 1.17 percent deposit market share.

The evaluation period included loans originated from January 1, 1999 through December 31, 2002 and were analyzed using 1990 census data. Loans originated from January 1, 2003 through December 31, 2003 were analyzed using 2000 census data. The results of these analyses were combined to obtain an overall rating.

The total population of the AA is 12,627 based on 2000 census data. Per the 1990 census data the total population of the AA was 11,909. The current AA, based on 2000 census data, consists of 3 geographies. Two (67 percent) are middle-income and 1 (33 percent) is upper-income geography.

There are no low- or moderate-income geographies in the bank's AA. Per the 1990 census data, there were three middle-income geographies in the bank's AA. There were no low- or moderate-income geographies within the bank's AA during either census period.

The updated median annual family income in the bank's AA, based on 2000 census data, is \$55 thousand, compared to \$56 thousand for 1990. This decrease is attributed to different methods used to arrive at median annual family income during the two census periods. The 1990 census data used an estimated figure, and the 2000 census data uses actual figures, causing what appears to be a declining trend in median annual family income. Per the 2000 census 89 percent of the housing in the AA is 1-4 family units with 71 percent owner-occupied. The median home value, based on 2000 census data, is approximately \$109 thousand. This is an 83 percent increase from the 1990 census where median home values were approximately \$59 thousand.

The local economy is stable. The 2003 unadjusted seasonal unemployment rate for LaSalle County as of July 2004 is 7.2 percent and 5.5 percent for DeKalb County. The State of Illinois unemployment rate is 6.7 percent and the 2003 national unemployment rate average is 6.0 percent. As part of this evaluation we contacted a local community official. The contact indicated that the performance of local financial institutions is very good. The credit and financial service needs vary from agricultural credit, home improvement and some small business credit. The area is primarily farming and is economically stable. The local financial institutions are meeting the needs of the local community.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The bank's average loan-to-deposit ratio (LTD) is reasonable given the bank's size, financial condition, and AA credit needs. NBE's LTD has been trending upward since our last evaluation. The bank's LTD ratio as of June 30, 2004 is 61.59 percent. NBE's quarterly average LTD ratio for the period from December 31, 2000 through June 30, 2004 is 63 percent. This is an increase from the 56 percent quarterly average LTD ratio during the previous evaluation period. Banks of various sizes in the AA range from an average of 64 percent to 86 percent in the LTD ratio. NBE is similarly situated in relationship to banks of comparable asset size within the AA.

Lending in Assessment Area

NBE's primary loan types are home-mortgage, agricultural and commercial loans. These loan types constitute a significant volume of the bank's lending mix. Residential loans comprise 20 percent of NBE's portfolio. The commercial and commercial real estate loan portfolio comprises 56 percent, agricultural loans comprise 13 percent, and loans to individuals are 11 percent.

NBE's lending within the AA is satisfactory. Loans inside NBE's AA represent 82 percent of the number of loans sampled (60 loans) and 73 percent of the dollar amount (\$2.2 million). The following table details the bank's lending within the AA by the number of loans originated and dollar volume since its last CRA evaluation.

Lending in Assessment Area										
Loan Type	Number of Loans					Dollars of Loans (000 omitted)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Purchase**	5	71	2	29	100	\$356,262	58%	\$256,760	42%	\$613,022
Home Refinance**	7	88	1	12	100	\$640,579	88%	\$85,000	12%	\$725,579
Home Improve**	4	80	1	20	100	\$94,251	80%	\$24,200	20%	\$118,451
Total Residential Real Estate**	16	80	4	20	100	\$1,091,092	75%	\$365,960	25%	\$1,457,052
Small Business **	16	80	4	20	100	\$348,698	89%	\$43,000	11%	\$391,698
Small Farm	18	90	2	10	100	\$780,633	76%	\$248,303	24%	\$1,028,936
TOTAL Loans	50		10		60	\$2,220,423	77%	\$657,263	23%	\$2,877,686

* Represents loans originated between January 1, 1999 and December 31, 2003

NBE is not a Home Mortgage Disclosure Act or a small business reporter, therefore; the analysis performed on the portfolio is based solely on the sample size of 20 from each product type.

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

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

In evaluating the borrower distribution of home mortgage loans, we considered the number of households that live below the poverty level (9 percent using 1990 census and 6 percent using 2000 census), the unemployment rate for DeKalb County (5.5 percent) and for LaSalle County (7.2 percent). The average median housing cost for 1990 census was \$59 thousand and in the 2000 census it increased to \$109 thousand. The poverty level, the unemployment rate and the increased cost of housing are barriers that may have a negative affect on home ownership.

Residential Real Estate Loan Originations (January 1, 1999 – December 31, 2002)

The borrower distribution of home purchase loans is good. Home purchase loans made to low-income borrowers meets the percentage of low-income families within the AA. Home purchase loans made to moderate-income borrowers are near the percentage of moderate-income-families within the AA.

The borrower distribution of home improvement loans is excellent. Home improvement loans made to low-income borrowers greatly exceed the percentage of low-income families within the AA. Home improvement loans made to moderate-income borrowers exceed the percentage of moderate-income families within the AA.

The borrower distribution of home refinance loans is excellent. Home refinance loans made to low-income borrowers exceed the percentage of low-income families within the AA. Home refinance loans made to moderate-income borrowers also exceed the percentage of moderate-income families within the AA.

Table 2a – Borrower Distribution of Residential Real Estate Loans (1999 – 2002)								
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
Home Purchase*	16.50	17.00%	18.45	17.00%	28.43	33.00%	36.63	33.00%
Home Improvement*	16.50	40.00%	18.45	20.00%	28.43	20.00%	36.63	20.00%
Home Refinance*	16.50	22.00%	18.45	22.00%	28.43	44.00%	36.63	33.00%

*Represents loans originated between January 1, 1999 and December 31, 2002 as analyzed using a sample of 20 loans.

Residential Real Estate Originations (2003)

The borrower distribution of home purchase loans is good. The bank did not make any home purchase loans to low-income borrowers. Opportunities to make home purchase loans to low-income borrowers are limited. The poverty level is 6 percent, and the average median housing cost using 2000 census is \$109 thousand, therefore limiting opportunities of low-income borrowers for home ownership. Home purchase loans made to moderate-income borrowers greatly exceed the percentage of moderate income-families within the AA.

The borrower distribution of home improvement loans is excellent. Home improvement loans made to low- income borrowers greatly exceed the percentage of low- income families within the AA. Home improvement loans made to moderate- income borrowers also greatly exceed the percentage of moderate-income families within the AA.

The borrower distribution of home refinance loans is good. NBE did not make any home refinance loans to low-income borrowers. Refinance loans to moderate-income borrowers greatly exceed the percentage of moderate-income families in the AA.

Table 2b – Borrower Distribution of Residential Real Estate Loans (2003)								
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
Home Purchase*	13.52	00.00	17.53	33.00	25.06	00.00	43.89	67.00
Home Improvement*	13.52	67.00	17.53	33.00	26.06	00.00	43.89	00.00
Home Refinance*	13.52	00.00	17.53	100.00	25.06	00.00	43.89	00.00

*Represents loans originated in 2003 as analyzed using a sample of 10 loans.

Small Loans to Businesses

The bank's lending to small businesses with revenues of \$1 million or less is excellent. Our review included a sample of 20 loans inside the bank's AA between January 1, 1999 and December 31, 2002 and 10 loans inside the bank's AA that originated in 2003.

Small Loans to Businesses Originated (January 1, 1999 – December 31, 2002)

Borrower distribution of small loans to businesses is excellent based on the sample size of twenty loans. NBE's small loans to businesses with revenues of \$1 million or less, (95 percent) is well above the percentage of small businesses (78 percent which represents 489 businesses) in the AA.

Borrower Distribution of Loans to Businesses by Loan Size (1999-2002)				
Loan Size (000's)	Number of Loans	Percent of Number	Dollar Volume of Loans	Percent of Dollar Volume
\$0 - \$100,000	17	85.00%	\$733,753	36.00%
\$100,001 - \$250,000	1	5.00%	\$110,448	6.00%
\$250,001 - \$500,000	1	5.00%	\$289,068	14.00%
\$500,001 - \$1,000,000	1	5.00%	900,000	44.00%
Over \$1,000,000	0	00.00%	\$00.00	00.00%

Small Loans to Businesses Originated (2003)

Borrower distribution of small loans to businesses is excellent based on the sample size of ten loans. NBE's small loans to businesses with revenues of \$1 million or less (100 percent) exceed the percentage of small businesses (64 percent which represents 383 businesses) in the AA.

Borrower Distribution of Loans to Businesses by Loan Size (2003)				
Loan Size (000's)	Number of Loans	Percent of Number	Dollar Volume of Loans	Percent of Dollar Volume
\$0 - \$100,000	8	80.00%	\$125,753	23.00%
\$100,001 - \$250,000	1	10.00%	\$102,000	19.00%
\$250,001 - \$500,000	1	10.00%	\$320,000	58.00%
\$500,001 - \$1,000,000	0	00.00%	\$00,00	00.00%
Over \$1,000,000	00	00.00%	\$00.00	00.00%

Small Loans to Farms

The bank's lending to small farms with revenues of \$1 million or less is excellent. Our review included a sample of 20 loans inside the bank's AA between January 1, 1999 and December 31, 2002 and 10 loans inside the bank's AA that originated in 2003.

Small Loans to Farms Originated (January 1, 1999 – December 31, 2002)

Borrower distribution of small loans to farms is excellent based on the sample size of twenty loans. NBE's small loans to farms with revenues of \$1 million or less, (100 percent) is above the percentage of small farms (98 percent which represents 226 farms) in the AA.

Borrower Distribution of Loans to Farms by Loan Size (1999-2002)				
Loan Size (000's)	Number of Loans	Percent of Number	Dollar Volume of Loans	Percent of Dollar Volume
\$0 - \$100,000	18	90.00%	\$479,633	64.00%
\$100,001 - \$250,000	2	10.00%	\$272,500	36.00%
\$250,001 - \$500,000	0	0.00%	\$00.00	00.00%
\$500,001 - \$1,000,000	0	0.00%	\$00.00	00.00%
Over \$1,000,000	0	00.00%	\$00.00	00.00%

Small Loans to Farms Originated (2003)

Borrower distribution of small loans to farms is excellent based on the sample size of ten loans. NBE's small loans to farms with revenues of \$1 million or less (100 percent) exceed the percentage of small farms (98 percent which represents 229 farms) in the AA.

Borrower Distribution of Loans to Businesses by Loan Size (2003)				
Loan Size (000's)	Number of Loans	Percent of Number	Dollar Volume of Loans	Percent of Dollar Volume
\$0 - \$100,000	9	90.00%	\$205,033	62.00%
\$100,001 - \$250,000	1	10.00%	\$125,000	38.00%
\$250,001 - \$500,000	0	00.00%	\$00,00	00.00%
\$500,001 - \$1,000,000	0	00.00%	\$00,00	00.00%
Over \$1,000,000	00	00.00%	\$00.00	00.00%

Geographic Distribution of Loans

An analysis of the geographic distribution of loans is not meaningful as there are no low- or moderate-income geographies in the bank's AA for data analyzed using the 1990 and 2000 census.

Responses to Complaints

NBE has no outstanding complaints about its performance in helping to meet the credit needs within its AA during this evaluation period.

Fair Lending Review

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

