



**SMALL BANK**

---

Comptroller of the Currency  
Administrator of National Banks

---

Washington, DC 20219

## **PUBLIC DISCLOSURE**

October 1, 2007

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

Pekin National Bank  
Charter Number: 15511

329 Court Street  
Pekin, Illinois 61554

Office of the Comptroller of the Currency

North Central Illinois & Eastern Iowa Field Office  
111 West Washington Street, Suite 300  
East Peoria, Illinois 61611

**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**

### **Pekin National Bank (“PNB”) is rated satisfactory.**

- The distribution of loans reflects an excellent penetration among individuals of different income levels (including low-, and moderate-income) and businesses of different sizes.
- The geographic distribution of loans reflects reasonable dispersion throughout the assessment area (“AA”), including the moderate-income census tracts (“CTs”).
- A majority of the loans originated by PNB are to customers from within its AA.
- PNB's average loan-to-deposit ratio is reasonable given the bank’s size, financial condition, and AA credit needs.

## **SCOPE OF EXAMINATION**

This Performance Evaluation assesses PNB’s record of meeting the credit needs of the community in which it operates. We evaluated PNB under the Small Bank performance criterion, which includes a lending test. The lending test evaluates a bank’s record of helping to meet the credit needs of its AA through its lending activities.

- The evaluation period covers loans originated or purchased from May 20, 2002 through June 30, 2007.
- PNB has one AA, generating a majority of the bank’s loans and deposits. The lending test is based on PNB’s primary loan products.
- Conclusions regarding the bank’s lending performance are based on commercial and residential real estate loans originated or purchased from January 1, 2005 through June 30, 2007, utilizing 2000 census data.
- Although the PNB is located in a Metropolitan Statistical Area (“MSA”), it is exempt from the requirements of the Home Mortgage Disclosure Act because PNB is under the asset size threshold.
- PNB is not required to maintain revenue information on commercial and residential real estate loans outside of the individual credit files. Thus, a sample of 25 commercial and 25 residential real estate loans originated during the evaluation period were used to assess the level of lending to businesses of different sizes and to assess the range of distribution to families of different incomes.

## DESCRIPTION OF INSTITUTION

PNB is a \$21 million financial institution located in Pekin, Illinois, which is located on the eastern shore of the Illinois River approximately 15 miles south of Peoria, Illinois. PNB has two full-service offices: 329 Court Street and 2121 Sheridan Road in Pekin, Illinois, and one limited-service location: Capitol & Margaret in Pekin, a drive-up only facility. The bank has one Automated Teller Machine (ATM), located at the Sheridan Road branch office.

Customers may also access their accounts by the Internet. Internet banking services include transfers between PNB accounts, review of account balances or transactions, access loan account information, and on-line bill-paying capability through the Internet banking product. PNB also offers debit cards providing customers with additional access to their accounts at point of sale and ATM locations.

The bank is a wholly owned subsidiary of PNB Bancshares Inc., a one-bank holding company headquartered in Pekin, Illinois. As of December 31, 2006, the holding company had total assets of \$21 million. The bank's affiliate does not negatively impact PNB's ability to meet the credit needs of the community.

Since the last CRA evaluation, PNB did not open or close any facilities. PNB is adequately positioned to provide financial products and services to all areas of the City of Pekin. PNB's strategy of serving the financial needs of businesses and individuals in the greater Pekin area as an independent bank has not changed.

PNB's two primary lending products are commercial and residential real estate loans. These two loan types account for 94 percent of the amount of all loan originations during the evaluation period and make up 96 percent of the outstanding loan balances as June 30, 2007. Thus, these two lending products were used for the analysis of this evaluation. Agricultural and consumer lending are not primary loan products accounting for 6 percent of the amount, and the remaining 4 percent of the outstanding loan balances as of June 30, 2007.

| <b>Table 1 – Loan Originations by Loan Type from January 1, 2005 through June 30, 2007</b> |                 |             |            |             |
|--|-----------------|-------------|------------|-------------|
| <b>Loan Category</b>   | <b>\$ (000)</b> | <b>%</b>    | <b>#</b>   | <b>%</b>    |
| Commercial Loans   | \$ 9,981        | 58%         | 228        | 51%         |
| Residential Loans  | \$ 6,101        | 36%         | 99         | 22%         |
| Consumer Loans   | \$ 980          | 6%          | 117        | 26%         |
| Agricultural Loans   | \$ 36           | 0%          | 2          | 1%          |
| <b>Total Originations</b>  | <b>\$17,098</b> | <b>100%</b> | <b>446</b> | <b>100%</b> |

Source: Bank Records from January 1, 2005 – June 30, 2007

As of June 30, 2007, the bank reported \$10 million in outstanding loans and had a net loans and leases to total assets ratio of 46 percent. The loan portfolio consists of the following:

| <b>Table 2 – Loan Portfolio Summary by Loan Type<br/>June 30, 2007</b> |                 |             |
|--|-----------------|-------------|
| <b>Loan Category</b>   | <b>\$(000)</b>  | <b>%</b>    |
| Commercial Loans   | \$ 5,642        | 58%         |
| Residential Loans  | \$ 3,654        | 38%         |
| Consumer Loans   | \$ 424          | 4%          |
| Agricultural Loans   | \$ 17           | 0%          |
| <b>Total Loans</b>   | <b>\$ 9,737</b> | <b>100%</b> |

*Source: Call Report June 30, 2007*

There are no financial conditions, legal constraints or other factors that would hinder the bank’s ability in helping to meet the credit needs of the communities within its AA. Tier 1 capital was reported at \$4 million as June 30, 2007. The bank’s previous CRA rating as of May 20, 2002, was Satisfactory.

**DESCRIPTION OF ASSESSMENT AREA**

PNB’s assessment area meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income areas. PNB has one AA consisting of the West Central portion of Tazewell County, including the communities of Creve Coeur, Marquette Heights, Pekin, North Pekin, South Pekin, and Tremont. This is a change from the previous evaluation, when all of Tazewell County was included in the AA. The reduction in the AA is appropriate as it is more representative of the area served by PNB. The AA includes twelve CTs within Tazewell County, which is part of the Peoria MSA. The 2000 U.S. Census data shows this AA contains no low- or upper-income CTs, while four CTs are designated as moderate-income, and eight CTs are designated as middle-income.

The four CTs designated as moderate-income are located in the southwestern and eastern portions of the city of Pekin, and in the villages of Creve Coeur and South Pekin.

Competition for financial services within the AA is provided by a large regional credit union, a local national bank, and the branches of larger regional banks that serve the same communities.

The following is demographic information for the assessment area:

| <b>Table 3 - Demographic Information for the Assessment Area</b> |          |                                       |                    |                  |                 |
|--|----------|---------------------------------------|--------------------|------------------|-----------------|
| Demographic Characteristics                                      | #        | Low<br>% of #                         | Moderate<br>% of # | Middle<br>% of # | Upper<br>% of # |
| Geographies (Census Tracts)                                      | 12       | 0%                                    | 33%                | 67%              | 0%              |
| Population by Geography  | 58,097   | 0%                                    | 35%                | 65%              | 0%              |
| Owner-Occupied Housing by<br>Geography                           | 16,899   | 0%                                    | 29%                | 71%              | 0%              |
| Businesses by Geography  | 2,438    | 0%                                    | 28%                | 72%              | 0%              |
| Farms by Geography   | 143      | 0%                                    | 12%                | 88%              | 0%              |
| Family Distribution by Census Tract                              | 15,864   | 0%                                    | 32%                | 68%              | 0%              |
| Family Distribution by Income Level                              | 15,864   | 20%                                   | 22%                | 25%              | 33%             |
| Household Distribution by Income<br>Level                        | 7,913    | 25%                                   | 17%                | 20%              | 38%             |
| Median Family Income   | \$48,744 | Median Housing Value                  |                    |                  | \$82,179        |
| Median Household Income  | \$41,655 | Median Year Built                     |                    |                  | 1960            |
| 2007 HUD Adjusted Median Family<br>Income for the MSA            | \$61,800 | Average Monthly Gross Rent            |                    |                  | \$ 441          |
| Families Below the Poverty Level                                 | 6%       | Households Below the<br>Poverty Level |                    |                  | 8%              |

Source: 2000 U.S. Census Data

### **Economic Data**

The local economy is considered stable. The September 2007 unemployment rate of 4.7% for Tazewell County is in line with the national average of 4.7% and compares favorably to the State of Illinois average of 5.1%. The economy of the AA is concentrated in manufacturing and service related industries. Major employers include: Pekin Insurance Company, Pekin Community Hospital, Caterpillar, Inc., Aventine Energy, Inc., the Pekin Federal Prison, the local school districts, and city and county governments.

We contacted a local public official during the examination. The contact indicated the primary credit needs in the AA are small business, commercial, home construction, home mortgage, and other consumer loans. He felt all of the banks in the Pekin area are actively meeting the credit needs of the area. The contact stated the economy is stable and continues to experience steady growth. The Pekin area has not seen a slow down in housing starts, as the number in 2007 is in line with the housing starts from of the past several years. The contact indicated all of the banks in the Pekin area are very involved with community functions and supportive of Pekin. The public official does not know of any credit needs or banking services not met or provided for by the local financial institutions.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

PNB meets the standards for satisfactory performance.

- The distribution of loans reflects an excellent penetration among individuals of different income levels (including low-, and moderate-income) and businesses of different sizes.
- The geographic distribution of loans reflects reasonable dispersion throughout the AA, including the moderate-income census tracts.
- A majority of the loans originated by PNB are to customers from within its AA.
- PNB's average loan-to-deposit ratio is reasonable given the bank's size, financial condition, and AA credit needs.

## LENDING TO BORROWERS OF DIFFERENT INCOMES AND TO BUSINESSES OF DIFFERENT SIZES

The distribution of loans reflects an excellent penetration among individuals of different income levels (including low- and moderate-income) and businesses of different sizes.

### Commercial Loans

PNB's performance of lending to businesses of different sizes is reasonable. Based on our sample, eighty percent of the loans were originated to small businesses, while sixty-four percent of the dollar amounts were loans originated to small businesses. Small businesses are businesses with annual gross revenues equal to or less than one million dollars. The demographic data for the AA shows that sixty-five percent of the businesses reporting revenue data in the AA have revenues equal to or less than one million dollars.

The following table shows the distribution of commercial loans among businesses of different sizes within the AA:

| <b>Table 4 – Borrower Distribution of Loans to Businesses of Different Sizes</b> |                 |      |                      |                  |      |
|--|-----------------|------|----------------------|------------------|------|
| Business Revenues  | Number of Loans |      | % Businesses in AA** | Dollars of Loans |      |
|  | #               | %    |                      | \$(000)          | %    |
| ≤\$1,000,000   | 20              | 80%  | 65%                  | \$ 2,055         | 64%  |
| >\$1,000,000   | 5               | 20%  | 6%                   | \$ 1,178         | 36%  |
| Total  | 25              | 100% | 71%                  | \$ 3,233         | 100% |

Source: Bank records on new loans originated from January 1, 2005 to June 30, 2007; 2000 Census Data.

\*\* 29 percent of AA businesses did not report revenue data.

**Residential Real Estate Loans**

PNB’s lending to borrowers of different income levels regarding residential real estate is excellent. Based on our sample, lending to low- and moderate-income borrowers exceeds the percentage of low- and moderate-income families in the AA.

| <b>Table 5 – Borrower Distribution of Residential Real Estate Loans in the AA</b> |                  |             |                  |             |                  |             |                  |             |
|---|------------------|-------------|------------------|-------------|------------------|-------------|------------------|-------------|
| Borrower Income Level   | Low              |             | Moderate         |             | Middle           |             | Upper            |             |
| Loan Type   | % of AA Families | % of Number | % of AA Families | % of Number | % of AA Families | % of Number | % of AA Families | % of Number |
| Residential Mtg   | 20%              | 32%         | 22%              | 36%         | 25%              | 20%         | 33%              | 12%         |

Source: Bank records on loans originated or purchased from January 1, 2005 to June 30, 2007; 2000 Census Data.

**GEOGRAPHIC DISTRIBUTION OF LOANS**

The geographic distribution of loans reflects reasonable dispersion throughout the Pekin AA. A reasonable geographic distribution determination was made because we placed slightly more emphasis on commercial loans versus residential real estate loans. Although the dispersion of the residential real estate loans was excellent, the dispersion of commercial loans was below the level of businesses located in moderate-income CTs. Commercial loans constituted a majority of the loans originated during the evaluation period and a majority of the loan portfolio as of the evaluation date.

**Commercial Loans**

PNB’s geographic distribution of commercial lending reflects a reasonable dispersion in CTs of different income levels, including moderate-income CTs. Based on a sample of commercial loans originated in the evaluation period, the percentage of commercial loans originated in moderate-income CTs is below the level of commercial businesses located in the moderate-income CTs within the Pekin AA.

| <b>Table 6 – Geographic Distribution of Loans to Businesses in the Pekin AA</b> |                    |             |                    |             |                    |             |                    |             |
|---|--------------------|-------------|--------------------|-------------|--------------------|-------------|--------------------|-------------|
| Census Tract Income Level   | Low                |             | Moderate           |             | Middle             |             | Upper              |             |
| Loan Type   | % of AA Businesses | % of Number | % of AA Businesses | % of Number | % of AA Businesses | % of Number | % of AA Businesses | % of Number |
| Commercial  | 0%                 | 0%          | 28%                | 19%         | 72%                | 81%         | 0%                 | 0%          |

Source: Bank records on new loans originated from January 1, 2005 - June 30, 2007; 2000 Census Data.

**Residential Real Estate Loans**

PNB’s geographic distribution of residential lending reflects an excellent dispersion in CTs of different income levels, including moderate-income CTs. Based on a sample of residential loans originated in the evaluation period, the percentage of residential loans originated in moderate-income CTs exceeds the level of owner occupied housing located in the moderate-income CTs within the AA.

| <b>Table 7 – Geographic Distribution of Residential Real Estate Loans in the Pekin AA</b> |                                |             |                                |             |                                |             |                                |             |
|---|--------------------------------|-------------|--------------------------------|-------------|--------------------------------|-------------|--------------------------------|-------------|
| Census Tract Income Level   | Low                            |             | Moderate                       |             | Middle                         |             | Upper                          |             |
| Loan Type   | % of AA Owner Occupied Housing | % of Number | % of AA Owner Occupied Housing | % of Number | % of AA Owner Occupied Housing | % of Number | % of AA Owner Occupied Housing | % of Number |
| Residential   | 0%                             | 0%          | 29%                            | 51%         | 71%                            | 49%         | 0%                             | 0%          |

Source: Bank records on new loans originated from January 1, 2005 - June 30, 2007; 2000 Census Data.

**LENDING IN THE ASSESSMENT AREA**

A majority of the loans originated by PNB are to customers within its AA. PNB’s lending to customers within the AA for commercial and residential real estate loans is reasonable. The dollar amount of commercial loans outside of the AA is high due to the purchase of 10 participations from outside of the AA for \$3,605M. The following table details the bank’s lending within the AA by number of loan originations and dollar volume during the evaluation period.

| <b>Table 8 – Loans Originated within the Assessment Area</b> |                 |     |         |     |       |                  |     |         |     |           |
|--|-----------------|-----|---------|-----|-------|------------------|-----|---------|-----|-----------|
| Loan Type  | Number of Loans |     |         |     |       | Dollars of Loans |     |         |     |           |
|  | Inside          |     | Outside |     | Total | Inside           |     | Outside |     | Total     |
|  | #               | %   | #       | %   |       | \$(000)          | %   | \$(000) | %   |           |
| Commercial   | 113             | 50% | 115     | 50% | 228   | \$ 3,972         | 40% | \$6,009 | 60% | \$ 9,981  |
| Residential  | 71              | 72% | 28      | 28% | 99    | \$ 4,546         | 75% | \$1,555 | 25% | \$ 6,101  |
| Totals   | 184             | 56% | 143     | 44% | 327   | \$ 8,518         | 53% | \$7,564 | 47% | \$ 16,082 |

Source: Bank records on new loans originated from January 1, 2005 through June 30, 2007.

## **LOAN-TO-DEPOSIT RATIO**

PNB's average loan-to-deposit ratio is reasonable given the bank's size, financial condition, and AA credit needs. PNB's quarterly average loan-to-deposit ratio for the period April 1, 2002, to June 30, 2007, was fifty-one percent. The quarterly average loan-to-deposit ratio for other similarly situated financial institutions over the same time period ranged from fifty-four percent to eighty percent. PNB's average loan-to-deposit ratio is slightly below the other five similarly situated banks, which range in asset size from \$20 million to \$59 million. The similarly situated banks utilized for comparison purposes are community banks located in Tazewell and Mason County.

## **RESPONSES TO COMPLAINTS**

PNB has not received any complaints about its performance in helping to meet the credit needs within its AA 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.