



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

March 24, 2003

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Peoples National Bank Of Kewanee
Charter Number 14418**

**207 North Tremont Street
Kewanee, IL 61443**

**Comptroller of the Currency
ADC-north Central Illinois & East Iowa
111 West Washington Street Suite 300
East Peoria, IL 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.

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INSTITUTION'S CRA RATING

This institution is rated “Outstanding”.

- The bank’s record of lending to borrowers of different income levels, including low- and moderate-income individuals, and within moderate-income Census Tracts (CTs) is more than reasonable. A substantial majority of the bank’s loans are to individuals, businesses and farms within its Assessment Area (AA). The bank lends to individuals of all income levels, including low- and moderate-income.
- The number and dollar volume of loans originated to small farms and small business within the Assessment Area satisfactorily demonstrate the bank’s strong commitment to the community.

DESCRIPTION OF INSTITUTION

- Peoples National Bank of Kewanee (PNB) is in Kewanee, Illinois. Kewanee is accessible from Interstate 74 or Interstate 80, approximately 30 miles southeast of the Quad Cities of Davenport, Bettendorf, Rock Island and Moline. Full-service branches are located in Bradford, some 10 miles southeast of Kewanee, and in Sheffield, approximately 10 miles northeast of Kewanee. The population of Kewanee is 13,000, of Bradford 700 and of Sheffield 1,000. Surrounding real estate is principally farmland.
- The bank’s asset size is \$204 million, an increase of \$71 million from the previous Community Reinvestment Act (CRA) assessment.
- The bank has deposit-gathering Automated Teller Machines in downtown and Southtown Kewanee, at the Bradford and Sheffield branches and at Casey’s General Store in Buda, Illinois, near Sheffield. The main bank in Kewanee is located in a moderate-income CT.
- The bank is a subsidiary of Peoples Financial Corp. of Illinois, a one-bank holding company. It has no affiliates.
- No merger or acquisition activity affected the scope of the bank's operations during the evaluation period.
- Other:
 - Gross loans represent 62 percent of total assets.
 - The bank has no foreign deposits.
 - The loan portfolio consists of the following types of loans, consistent with the bank’s strategy:

Residential Real Estate	12%
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Commercial Credit	24%
Consumer Credit	6%
Commercial Real Estate	47%
Agricultural Production	5%
Farmland	6%
	100%

Source: Bank Call Report data

- PNB offers a full range of services, including commercial, agricultural and consumer loans and deposit products, including all traditional bank products. It does not exercise trust powers.
- There are no legal, financial or other factors impeding the bank's ability to help meet the credit needs in its Assessment Area (AA).
- The date of the last CRA examination was January 23, 1997, and the rating was "Outstanding".

DESCRIPTION OF PNB ASSESSMENT AREA

The bank's AA includes the following Block Numbering Areas (BNAs) in Bureau, Marshall and Stark Counties and CTs in Henry County.

Middle-income – 9514, 9515, 9613, 9655, 9656, 0305.00, 0310.00, 0311.00
Moderate-income – 0306.00, 0308.00, 0309.00

There are no low- or upper-income BNAs or CTs in the AA.

Bureau, Marshall and Stark Counties:

- According to 1990 Census data, the population of the AA is 16,259. The 2001 non-Metropolitan Statistical Area (MSA) statewide median family income for Illinois is \$46,700. Potential borrowers earning less than 50 percent of the non-MSA statewide median family income are designated as low-income; those earning 51-80 percent are moderate-income; those earning 81-120 percent are middle-income and those earning more than 120 percent are upper-income. Within the AA, 18 percent of families are low-income; 18 percent are moderate income; 24 percent are middle-income, and 40 percent are upper-income.
- There are 6,595 housing units in the AA, of which 68 percent are owner-occupied, 24 percent are rentals and eight percent are vacant. The median age of homes in the AA is 60 years, while the median housing price is \$36,047.

Henry County

- Per the 1990 Census, the population of the AA is 8,306. Within the AA, 28 percent of families are low-income; 25 percent are moderate-income, 24 percent are middle-income and 23 percent are upper-income. The weighted average of MSA/non-MSA Updated Median Family Income is \$53,600.
- There are 8,306 housing units in the AA, of which 66 percent are owner-occupied, 26 percent are rentals and eight percent are vacant.

Economic conditions in the AA are stable. The percent of individuals below the poverty level is slightly below the statewide average, and home ownership exceeds the statewide average. However, unemployment is high, particularly in Stark County, where it is 8.5 percent. Henry County unemployment is 5.3 percent, and Bureau County is 6.5% as of December 31, 2002. Major employers are Pines Trailer Corp., Compaction America, Kewanee Manufacturing Co. and Empire Clothing Mfg. Co.

The AA meets the requirements of the regulation.

Competition from other financial institutions in the area is strong.

A community contact was made with a local business person during the examination. The contact indicated no significant unmet credit needs in the communities.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

- The loan-to-deposit ratio is reasonable, and meets the standard for satisfactory performance.
- PNB's loan-to-deposit ratio at 73 percent, compares satisfactorily to similarly situated banks in the four counties. It also compares favorably to banks identified as its primary competitors.

Henry County: The peer group ratio ranges from 58 to 74 percent.

Bureau County: The peer group ratio ranges from 51 to 91 percent.

Marshall County: The peer group ratio ranges from 49 to 84 percent.

Stark County: The peer group ratio ranges from 47 to 63 percent.

- Over the past few years, the bank's quarterly average loan-to-deposit ratio has grown steadily beginning at 47 percent at December 31, 1999. The average from December 1999 to December 2002 is 56 percent.

Lending in Assessment Area

- A substantial majority of the loans, by number, are to borrowers within the bank's AA. This exceeds the standard for satisfactory performance. By dollar, the bank lends equally in and out of the AA. This is attributable to a number of particularly large commercial credits outside the area, which the bank originated to improve yields on funds for which there was no demand in the AA.

Table 1 - Lending in PNB Assessment Area										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Commercial Loans	1,045	77%	314	23%	1,359	\$24,827,138	31%	\$55,345,397	69%	\$80,172,535
Commercial Real Estate	92	97%	3	3%	95	\$9,621,702	98%	\$220,894	2%	\$9,842,596
1-4 Family Residential R/E	212	97%	7	3%	219	\$7,359,910	94%	\$502,460	6%	\$7,862,370
Rental Properties	54	96%	2	4%	56	\$1,219,557	98%	\$24,876	2%	\$1,244,433
Agricultural Production	231	81%	55	19%	286	\$2,568,918	63%	\$1,490,338	37%	\$4,059,256
Farmland	20	87%	3	13%	23	\$2,649,142	78%	\$758,703	22%	\$3,407,845
Consumer Loans	3,067	95%	162	5%	3,229	\$11,879,352	93%	\$919,197	7%	\$12,798,549
Totals	4,721	90%	546	10%	5,267	\$60,125,719	50%	\$59,261,865	50%	\$119,387,584

Source: Bank MIS – originations in 2001-2002

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

- The bank's performance under this criterion exceeds the standard for satisfactory performance. In addition to providing real estate financing for low- and moderate-income individuals, the bank originates a significant number of small dollar business and personal loans.
- Of 210 HMDA-reportable real estate-secured loans originated in 2002, 43 percent were for less than \$10,000; 21 percent were between \$10-25,000; 25 percent were between \$25-50,000, 10 percent were between \$50-100,000 and one percent was greater than \$100,000.
- PNB was cited by the Small Business Administration in its 2001 edition of "Micro-Business-Friendly Banks in the United States" as one of the "top small bank micro-lenders", lenders who have an outstanding record of making business loans of less than \$100,000. It was one of only two Illinois banks included in the listing.

Table 2 – Distribution of Residential Real Estate Loans in Non-MSA Assessment Area								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of Number	% of AA Families	% of Number	% of AA Families	% of Number	% of AA Families	% of Number	% of AA Families
Mortgage Loans	36%	18%	28%	18%	26%	24%	10%	40%

Source: HMDA data, U.S. Census data.

Table 3 - Distribution of Residential Real Estate Loans in MSA Assessment Area								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of Number	% of AA Families	% of Number	% of AA Families	% of Number	% of AA Families	% of Number	% of AA Families
Mortgage Loans	53%	28%	24%	25%	16%	24%	7%	23%

Source: HMDA data, U.S. Census data.

We used loan size as a proxy to demonstrate the bank’s effectiveness in meeting the credit needs of small businesses and small farms. PNB originates commercial and agricultural loans for working capital, equipment and inventory; FSA and other government guaranteed loans for agricultural production, and loans on commercial and farm real estate.

Table 4 - Distribution of Loans to Businesses by Loan Size in PNB Assessment Area				
Loan Size (000's)	Number of Loans	Percent of Number	Dollar Volume of Loans	Percent of Dollar Volume
\$0 - \$9,999	494	33%	\$2,051,581	2%
\$10,000-\$24,999	353	22%	\$6,000,632	7%
\$25,000 - \$49,999	312	21%	\$10,863,349	12%
\$50,000 - \$99,999	211	14%	\$15,065,282	17%
\$100,000 – \$500,000	106	7%	\$20,596,654	23%
\$500,000- \$1 million	25	2%	\$15,895,864	17%
More than \$1 million	9	1%	\$20,786,202	22%
Total	1,510	100%	\$91,259,564	100%

Source: Bank MIS – 2001-2002 Commercial Originations

Table 5 - Distribution of Loans to Farms by Loan Size in PNB Assessment Area				
Loan Size (000's)	Number of Loans	Percent of Number	Dollar Volume of Loans	Percent of Dollar Volume
\$0 - \$24,999	242	78%	\$1,797,175	24%
\$25,000 - \$49,999	45	15%	\$1,624,481	22%
\$50,000 - \$99,999	10	3%	\$635,931	9%
\$100,000 – \$500,000	10	3%	\$1,604,414	21%
\$500,000- \$1 million	3	1%	\$1,805,100	24%
Total	310	100%	\$7,467,101	100%

Source: Bank MIS –2001- 2002 Ag Originations

Geographic Distribution of Loans

- The bank has three moderate-income CTs. In 2001-2002, the bank originated a significant number of loans in those CTs. Of 402 real estate-secured loans in the AA, 169, or 42 percent, were secured by properties in CTs 0306, 0308 and 0309. Half of those were secured by owner-occupied residential real estate, and the balance were rental properties or commercial properties.

Community Development Loans

The bank has made a concerted effort to lend to projects that benefit low- and moderate-income individuals and moderate-income CTs in the AA. Most of Kewanee is in moderate-income areas. Some examples are:

- Kewanee Downtown Rehabilitation Loans to Guzzardo's, Inc., and B Kirley Estate Partnership,
- Operating loan for the Kewanee Park District, and
- Remodeling loan for the Kewanee Public Library.

Qualified Investments

- \$200,000 bond for the Kewanee Hospital
- \$570,000 municipal bonds for the Kewanee Public Library
- \$1,475,000 municipal bonds for the Kewanee Park District

Credit Availability

The location of branches in Bradford and Sheffield enhance credit availability in the AA, as there are no other banking facilities in either town. Hours of operation provide reasonable access to potential borrowers. The Bradford office is open Monday through Thursday from 9 a.m. to 3

p.m., Friday until 5 p.m., and Saturday from 8:30 a.m. until noon. The Sheffield office is open Monday through Wednesday from 9 a.m. to 3 p.m., Thursday until noon, Friday until 5 p.m. and Saturday from 9 a.m. to noon. The Sheffield drive-up window is open Monday through Friday from 8 a.m. to 5 p.m., and Saturday until noon.

The Kewanee office is open Monday through Wednesday from 9 a.m. until 3 p.m., Thursday and Saturday until noon and Friday until 6 p.m. The drive up facilities downtown and at Southtown are open Monday through Friday from 8 a.m. until 6 p.m. and Saturday until noon.

Responses to Complaints

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

Fair Lending Review

Based on an analysis of available information and according to the OCC's risk based fair lending approach, the OCC decided 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 exam was performed in 2000. No violations of the substantive provisions of the anti-discrimination laws and regulations were identified.