



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

July 20, 2009

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Security National Bank
Charter Number 13650

1 West Broadway
Witt, IL 62094

Office of the Comptroller of the Currency

NORTH CENTRAL ILLINOIS & EASTERN IOWA FIELD OFFICE
111 West Washington Street, Suite 300
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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

Security National Bank (SNB) is rated Satisfactory.

The major factors that support SNB's rating include:

- SNB's distribution of loans to borrowers of different income levels and to farms of different sizes is excellent.
- A majority of the loans originated by SNB are to customers from within its assessment area (AA).
- SNB's quarterly average loan-to-deposit ratio of 72 percent over the evaluation period is reasonable, given the bank's size, financial condition, and AA credit needs.

SCOPE OF EXAMINATION

This Performance Evaluation assesses SNB's record of meeting the credit needs of the communities in which it operates. We evaluated SNB 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 September 8, 2003 through June 30, 2009.
- SNB has one AA, generating a majority of the bank's loans and deposits. The lending test is based on SNB's primary loan products.
- Conclusions regarding the bank's lending performance are based on agricultural and residential loans originated or purchased from January 1, 2007, through June 30, 2009, utilizing 2000 census data.
- The bank is not located in a Metropolitan Statistical Area and is not subject to the requirements of the Home Mortgage Disclosure Act.
- SNB is not required to maintain revenue or income information on agricultural, consumer, or residential loans outside of the individual credit files. Thus, a sample of 25 agricultural loans originated during the evaluation period was used to assess the level of lending to farms of different sizes. A sample of 25 residential loans and 25 consumer loans originated during the evaluation period was used in assessing the range of distribution of families of different incomes, and in assessing the range of distribution by households of different incomes.

DESCRIPTION OF INSTITUTION

SNB is a \$61 million intrastate financial institution located along Illinois Highway 16 in Montgomery County in Illinois, approximately 55 miles southeast of Springfield, Illinois. SNB has four full-service offices, including drive-up facilities in Witt, Irving, Fillmore, and Coffeen. SNB has five non-depository automated teller machines (ATM's), all located in Montgomery County. There is an ATM located at the Casey's convenience stores in Witt, Irving, Nokomis, and Coffeen, and one ATM located at Kink's Korner convenience store in Hillsboro.

SNB provides customers additional access to their accounts through telephone banking and the Internet. These services offer customers the ability to conduct transfers between SNB accounts, review account balances and transactions, access loan account information, and on-line bill-paying capability through the Internet banking product. SNB 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 Security Bancshares, Inc., a one-bank holding company. As of June 30, 2009, the holding company had total assets of \$62 million. The holding company does not own any additional subsidiaries, and it does not negatively impact the bank's ability to meet the credit needs of the community. SNB's business strategy of providing personal, friendly service to meet their customer's banking needs, has not changed.

SNB has three primary lending products: consumer, agricultural, and residential loans. Consumer, agricultural, and residential lending account for 82 percent of the amount and 91 percent of the number of all loan originations during the evaluation period, and 83 percent of the outstanding loan balances as June 30, 2009. Commercial lending is not a primary loan product, accounting for 18 percent of the amount and 9 percent of the number of loan originations during the evaluation period, and 17 percent of the outstanding loan balances as of June 30, 2009.

Table 1 – Loan Originations by Loan Type from January 1, 2007 through June 30, 2009				
Loan Category	\$ (000)	%	#	%
Residential Loans	\$ 10,099	21%	187	9%
Agricultural Loans	\$ 21,039	43%	375	19%
Consumer Loans	\$ 8,726	18%	1,286	63%
Commercial Loans	\$ 8,547	18%	178	9%
Total Originations	\$ 48,411	100%	2,026	100%

Source: Bank Records from January 1, 2007 – June 30, 2009

As of June 30, 2009, the bank reported \$35 million in outstanding loans and had a net loans and leases to total assets ratio of 58 percent. The loan portfolio consists of the following:

Table 2 – Loan Portfolio Summary by Loan Type June 30, 2009		
Loan Category	\$(000)	%
Residential Loans	\$ 13,840	40%
Agricultural Loans	\$ 10,420	30%
Consumer Loans	\$ 4,614	13%
Commercial Loans	\$ 6,133	17%
Total Loans	\$ 35,007	100%

Source: Call Report June 30, 2009

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 \$7.1 million as June 30, 2009. The bank's previous CRA rating as of September 8, 2003, was Satisfactory.

DESCRIPTION OF ASSESSMENT AREA(S)

SNB's assessment area meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income areas. SNB has one AA, consisting of the eastern half of Montgomery County and the northwestern portion of Fayette County. The AA includes five census tracts (CT's), four in Montgomery County and one in Fayette County. The 2000 U.S. Census data shows all five CTs in the AA are middle-income CTs; there are no low-, moderate- or upper-income CTs.

Competition for financial services within the AA is primarily from financial institutions that serve the same communities and have a similar business focus. Other competitors consist of an array of mortgage companies, investment services, farm services, and insurance company offices that offer loan and deposit products.

The following is demographic information for the assessment area:

Table 3 - Demographic Information for the Assessment Area					
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #
Geographies (Census Tracts)	5	0%	0%	100%	0%
Population by Geography	21,601	0%	0%	100%	0%
Owner-Occupied Housing by Geography	6,326	0%	0%	100%	0%
Businesses by Geography	1,298	0%	0%	100%	0%
Farms by Geography	241	0%	0%	100%	0%
Family Distribution by Census Tract	5,542	0%	0%	100%	0%
Family Distribution by Income Level	5,542	21%	21%	25%	33%
Household Distribution by Income Level	7,953	25%	18%	20%	37%
Median Family Income	\$40,085	Median Housing Value		\$54,442	
Median Household Income	\$33,006	Median Year Built		1955	
2009 HUD Adjusted Median Family Income for Illinois Non-MSA	\$54,400	Average Monthly Gross Rent		\$ 390	
Families Below the Poverty Level	10%	Households Below the Poverty Level		14%	

Source: 2000 U.S. Census Data

Economic Data

The local economy is dominated by agriculture and is reasonably stable. Agriculture has experienced several good years in a row, and remains healthy. Commodity prices have declined recently while input prices have remained high, thus the outlook for 2009 is cautious. The May 2009 unemployment rate of 9.4 percent for Fayette County and 9.8 percent for Montgomery County are below the State of Illinois average of 10.1 percent and consistent or slightly higher than the national average of 9.4 percent. Major employers in the AA outside of the agricultural industry include: Graham Correctional Center, Hillsboro Energy, LLC, Hillsboro Area Hospital, the local school districts and the local governmental entities.

We contacted a local businessman during the examination. The contact indicated the primary credit needs in the AA are agriculture, residential, and general consumer loans. He felt SNB, along with other financial institutions, are actively meeting the credit needs of the area. The contact stated the economy in the area is a little depressed, similar to the state and the nation as a whole. However, there is a lot of optimism surrounding the opening of a coal mining operation near Hillsboro. It is expected to provide a significant economic boost to Montgomery County. The contact indicated SNB remains supportive of the community and a number of the employees are actively involved with community

organizations. The contact did 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

SNB exceeds the standards for satisfactory performance.

- The distribution of loans to individuals of different income levels for residential loans and consumer loans is excellent.
- The distribution of lending to farms of different sizes is reasonable.
- A majority of the loans originated by SNB are to customers from within its AA.
- SNB'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 FARMS AND BUSINESSES OF DIFFERENT SIZES

The distribution of borrowers reflects, given the demographics of the AA, excellent penetration among individuals of different income levels (including low-, and moderate-income) and farms of different sizes.

Agriculture Loans

SNB's performance of lending to farms of different sizes is reasonable. Based on our sample, 96 percent of the number of loans and 97 percent of the dollar amounts were made to small farms. Small farms are farms with annual gross revenues equal to or less than one million dollars. The demographic data for the AA shows that 99 percent of the farms reporting revenue data in the AA have revenues equal to or less than one million dollars. With the increased commodity prices in 2007 and 2008, increasing yields, and further consolidation in farming, the number of farms generating over one million dollars in annual revenues has increased. The census data from 2000 indicates there are no farms within the AA with annual revenues over one million, while SNB had one customer in the sample.

The following table shows the distribution of agricultural loans among farms of different sizes within the AA:

Table 4 – Borrower Distribution of Loans to Farms of Different Sizes					
Farm Revenues	Number of Loans		% Farms in AA**	Dollars of Loans	
	#	%		\$(000)	%
≤\$1,000,000	24	96%	99%	\$ 1,719	97%
>\$1,000,000	1	4%	0%	\$ 60	3%
Total	25	100%	99%	\$ 1,779	100%

Source: Bank records on new loans originated from January 1, 2007 to June 30, 2009; 2000 Census Data.

** 1 percent of AA farms did not report revenue data.

Residential Real Estate Loans

The distribution of borrowers reflects, given the demographics of the AA, excellent penetration among individuals of different income levels. In making this determination, we weighed the performance with low- and moderate-income families.

SNB’s lending to low- and moderate-income borrowers is excellent and exceeds the percentage of low- and moderate-income families. The overall lending to low- and moderate-income borrowers is excellent, given 10 percent of the families in the AA are below the poverty level.

Table 5 – Borrower Distribution of Residential Real Estate Loans in the AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Families	% of Number	% of AA Families	% of Number	% of AA Families	% of Number	% of AA Families	% of Number
Residential Real Estate	21%	28%	21%	40%	25%	4%	33%	28%

Source: Bank records on loans originated or purchased from January 1, 2007 to June 30, 2009; 2000 Census Data.

Consumer Loans

SNB’s lending to borrowers of different income levels regarding consumer loans is excellent. Based on our sample, lending to low-income borrowers is significantly above the percentage of low-income households in the AA, and the lending to moderate-income borrowers is slightly above the percentage of moderate-income households in the AA. This volume of lending is excellent given 14% of the households in the AA are

below the poverty level.

Table 6 – Borrower Distribution of Consumer Loans in the AA								
Household Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number	% of AA Households	% of Number	% of AA Households	% of Number	% of AA Households	% of Number
Consumer	25%	36%	18%	20%	20%	32%	37%	12%

Source: Bank records on loans originated or purchased from January 1, 2007 to June 30, 2009; 2000 Census Data.

LENDING IN THE ASSESSMENT AREA

A majority of the loans originated by SNB are to customers within its AA. SNB's lending to customers within the AA for all loan types is reasonable. The following table details the bank's lending within the AA by number of loan originations and dollar volume during the evaluation period.

Table 7 – Loans Originated within the Assessment Area										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$(000)	%	\$(000)	%	
Agriculture	304	81%	71	19%	375	\$17,786	85%	\$ 3,253	15%	\$21,039
Residential	164	88%	23	12%	187	\$ 8,992	89%	\$ 1,107	11%	\$10,099
Consumer	1,055	82%	231	18%	1,286	\$ 6,907	79%	\$ 1,819	21%	\$ 8,726
Commercial	140	79%	38	21%	178	\$ 6,909	81%	\$ 1,638	19%	\$ 8,547
Totals	1,663	82%	363	18%	2,026	\$40,594	84%	\$ 7,817	16%	\$48,411

Source: Bank records on new loans originated in 2007, 2008, and through June 30, 2009.

LOAN-TO-DEPOSIT RATIO

SNB's average loan-to-deposit ratio is reasonable given the bank's size, financial condition, and AA credit needs. SNB's quarterly loan-to-deposit ratio averaged 72 percent over 23 quarters from July 1, 2003, to March 31, 2009, with a low of 66 percent and a high of 80 percent.

The bank's loan-to-deposit ratio compares favorably with other community banks of similar size located in Christian, Fayette, and Montgomery County. SNB ranks fifth among fourteen other similarly situated banks. The fourteen other banks have an average loan-to-deposit ratio of 64 percent ranging from a low of 42 percent to a high of 85 percent, and range in asset size from \$19 million to \$160 million.

GEOGRAPHIC DISTRIBUTION OF LOANS

A geographic distribution of loans was not performed at this examination. Since all the geographies are middle-income, the analysis would not be meaningful.

RESPONSES TO COMPLAINTS

SNB 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.