



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## **PUBLIC DISCLOSURE**

**June 16, 2008**

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

Prairie National Bank  
Charter Number 13226

110 East Main Street  
Stewardson, IL 62463

Office of the Comptroller of the Currency

CENTRAL ILLINOIS & CENTRAL INDIANA  
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 Outstanding.**

The primary factors supporting the bank's rating include:

- The bank's loan-to-deposit ratio is more than reasonable given the institution's size, financial condition, and assessment area (AA) credit needs.
- A substantial majority of loans is originated to borrowers inside the bank's AA.
- The distribution of loans reflects more than reasonable penetration among individuals of different income levels, including low- and moderate-income, and businesses and farms of different sizes, given the demographics of the AA.

**SCOPE OF EXAMINATION**

We evaluated the bank under the small bank performance standards. Using bank generated reports of all loan originations for the period January 1, 2006 through April 14, 2008; we determined the bank's primary credit products by dollar and number to be commercial, farm, and consumer loans. For this analysis, we used a sample of twenty loans each for business, farm, and consumer loans. We also used deposit information, reported annually to the Federal Deposit Insurance Corporation, to determine the bank's market share and market presence in the AA. The most recent deposit information available is as of June 30, 2007. There is no affiliate activity considered in this evaluation.

**DESCRIPTION OF INSTITUTION**

Prairie National Bank (PNB) is a \$54 million intrastate financial institution located in Stewardson, Illinois. Stewardson is located in the southeast corner of Shelby County, approximately ten miles north of Effingham, Illinois. In 2005, the bank changed its name from Stewardson National Bank to Prairie National Bank. The bank is a wholly owned subsidiary of Prairie Financial Bancorp, a one-bank holding company located in Stewardson, Illinois.

The bank is a full service banking institution and operates two banking offices in Shelby and Effingham counties, including the main bank office in Stewardson and a branch facility in Effingham, Illinois. Automated teller machines (ATMs) are available at three locations, including a gas station in Stewardson, a gas station in Shelbyville, and the branch in Effingham. None of the ATMs accept deposits, but transfers between accounts can be completed. The bank also offers Internet and telephone banking. The bank has not opened or closed any branches during the evaluation period.

The bank offers a full range of retail and commercial banking products and services normally associated with a community bank. Gross loans total \$33 million on March 31,

2008, representing 62% of total assets and 77% of deposits. The following represents the bank's loan portfolio mix as of March 31, 2008: 43 percent commercial business loans, 31 percent residential real estate loans, 19 percent agricultural loans, and 7 percent consumer loans. Tier 1 capital is \$4.8 million as of March 31, 2008. The bank's business strategy during the evaluation period has been to grow through origination of business and farm loans inside and outside the AA. Since the last CRA examination, the bank has also made three loans totaling \$2.3 million to local governments for infrastructure improvements and to purchase equipment. The bank's legal and financial circumstances do not impede its ability to meet the credit needs of the AA. The bank received a Satisfactory rating on its last CRA performance evaluation dated August 25, 2003.

## DESCRIPTION OF ASSESSMENT AREA(S)

The bank's assessment area (AA) consists of two census tracts in Shelby County (census tracts #9594 and #9595) and all eight census tracts in Effingham County. This AA is legal, meets the requirements of the regulation, and does not arbitrarily exclude any low- or moderate-income geography. The AA includes no low- or moderate-income, nine middle-income (90%), and one upper-income (10%) census tracts.

The following demographic information is based on 2000 census data:

Population:	41,586
Population by Geography: <i>Low-, moderate-, middle-, upper-income tract</i>	0%, 0%, 91%, 9%
Housing Stock: <i>1-4 family housing units</i>	93%
Occupancy: <i>Owner-occupied, renter-occupied, vacant</i>	71%, 21%, 8%
Home Values: <i>Median home value</i>	\$81,538
Age of Homes: <i>Median year of homes built</i>	1969
Income: <i>Updated median family income for 2007</i>	\$52,200
Family Income Levels: <i>Low-, moderate-, middle-, upper-income</i>	14%, 18%, 26%, 42%
Income: <i>Weighted Average median household income</i>	\$46,990
Household Income Levels: <i>Low-, moderate-, middle-, upper-income</i>	19%, 15%, 20%, 46%
	<b>2006 Business Data</b>
Farms:	463
Farms: <i>Percent of small farms in the assessment area</i>	99%
Farms: <i>Percent not reporting revenue figures</i>	0%
Businesses:	3,093
Businesses: <i>Percent of small businesses in the assessment area</i>	56%
Businesses: <i>Percent not reporting revenue figures</i>	38%

The local economy is stable. Employment is driven by agriculture, service, and manufacturing industries. Major employers in the AA include International Paper, P&H Manufacturing (steel fabrication), Eagle Creek Resort, and Shelby County Community Services in Shelby County, and Quebecor Petty (printer), Sherwin Williams (paint), Illinois Department of Transportation, Patterson Dental Supply (software), Kingery Printing, Peerless of America (heat exchangers), Fedders Corporation (air conditioners), and Mid America Motorworks (auto parts) in Effingham County, as well as the local

school districts, hospitals, and city and county governments. Effingham County is designated a distressed middle-income nonmetropolitan area due to population loss. The March 2008 unemployment rate for the Shelby County was 5.9%, and Effingham County 5.0%, compared to the state and national rates of 5.7% and 5.1% respectively. The bank faces strong competition from several other financial institutions in the AA, including larger regional and national banks. The bank has the fourth largest deposit market share in Shelby County at 8.4%, but market share in Effingham County is only 1.3% as of June 30, 2007.

During this examination, we made one community contact with a representative of local government in Effingham. He did not identify any specific unmet credit needs in the community.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

The bank's performance under the Lending Test is outstanding.

### **Loan-to-Deposit Ratio**

The bank's loan-to-deposit ratio is more than reasonable given the institution's size, financial condition, and AA credit needs. The bank's loan-to-deposit ratio averaged eighty-two percent (82%) over nineteen quarters between March 2003 and 2008, ranging from a low of 70% to a high of 92%. The bank's loan-to-deposit ratio was 77% on March 31, 2008. This ratio is above the average loan-to-deposit ratio for similarly situated banks in and near the AA. The similarly situated banks include two banks in Shelby and Effingham Counties with assets ranging between \$45 million and \$54 million. The combined loan-to deposit ratio for the similarly situated banks was seventy-three percent (73%), ranging from 45% to 93%, for the same time period. In addition, the bank sold \$851,000 in residential real estate loans into the secondary market in 2006 and 2007. The bank's adjusted loan-to-deposit ratio would increase to 79% for March 31, 2008.

### **Lending in Assessment Area**

The bank originated a substantial majority of loans within the AA. Eighty-seven percent (87%) of the number and eighty-six percent (86%) of the dollar amount of loans originated to borrowers within the bank's AA.

<b>Lending in the Assessment Area</b>										
Type of Loan	Number of Loans					Dollars of Loans (000's)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Business Loans	17	85%	3	15%	20	\$587	87%	\$90	13%	\$677
Farm Loans	18	90%	2	10%	20	\$706	86%	\$116	14%	\$822
Consumer Loans	17	85%	3	15%	20	\$93	83%	\$19	17%	\$112
Totals	52	87%	8	13%	60	\$1,386	86%	\$225	14%	\$1,611

*Source: Sample of 20 business, 20 farm, and 20 consumer loans from the AA that were originated between January 1, 2006 and April 14, 2008.*

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

The distribution of loans reflects more than reasonable penetration among individuals of different income levels, including low- and moderate-income, and business and farms of different sizes, given the demographics of the AA.

#### Business Loans

The bank's performance of lending to businesses of different sizes is more than reasonable. Ninety percent (90%) of the number of business loans sampled in the AA was made to small businesses. Small businesses are businesses with gross revenues equal to or less than one million dollars. One loan in the sample (9%) for \$56,499 did not have gross revenue information available. Given the small size of this loan, it is likely that this business is also small. Demographic data for the AA shows that fifty-six percent of the businesses in the AA have revenues equal to or less than one million dollars. A high percentage of businesses in the AA have unreported financial information available for analysis.

<b>Borrower Distribution of Loans to Businesses in the Assessment Area</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable	Total
% of AA Businesses*	56%	6%	38%	100%
% of Bank Loans in AA by #	90%	5%	5%	100%
% of Bank Loans in AA by \$	83%	8%	9%	100%

*Source: This table is based on 20 commercial loans from the AA that were originated between January 1, 2006 and April 14, 2008. One small loan totaling \$56,499 in the sample did not have revenue information in the file.*

**Farm Loans**

The bank’s performance of lending to farms of different sizes is more than reasonable. Ninety percent (90%) of the number of farm loans sampled in the AA was made to small farms. Small farms are farms with gross revenues equal to or less than one million dollars. Two loans in the sample (10%) for amounts ranging between \$5,000 and \$20,000 did not have gross revenue information available. Given the small size of these loans, it is likely that these farms are also small. Demographic data for the AA shows that ninety-nine percent (99%) of the farms in the AA have revenues equal to or less than one million dollars.

<b>Borrower Distribution of Loans to Farms in the Assessment Area</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable	Total
% of AA Farms*	99%	1%	0%	100%
% of Bank Loans in AA by #	90%	0%	10%	100%
% of Bank Loans in AA by \$	97%	0%	3%	100%

*Source: This table is based on 20 farm loans from the AA that were originated between January 1, 2006 and April 14, 2008. Two small loans totaling \$23,500 in the sample did not have revenue information in the file.*

**Consumer Loans**

The distribution of consumer loans to borrowers of different income levels is more than reasonable. Performance with moderate-income borrowers significantly exceeds by more than double the demographic comparator. Performance with low-income borrowers is near to, but weaker than the demographic comparator. The effect of this on the bank’s overall CRA rating is mitigated by the high family poverty rate of nearly nine percent (9%) and above average unemployment rate in Shelby County in the AA. Thirty percent (30%) of the population is on social security, and two percent is on public assistance. Furthermore, more than half of the dollar amount of loans sampled was made to low- and moderate-income borrowers at 27% and 28% respectively.

<b>Borrower Distribution of Consumer Loans in the Assessment Area</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	19%	15%	15%	35%	20%	15%	46%	25%

*Source: Sample of 20 consumer loans originated in the AA between January 1, 2006 and April 14, 2008, and 2000 U.S. Census data. Two small loans totaling \$11,300 did not have income information in the file.*

**Geographic Distribution of Loans**

A geographic distribution analysis was not meaningful to the evaluation. There are no low- or moderate-income census tracts in the AA.

### **Responses to Complaints**

The bank has not received any CRA related complaints.

### **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.