



Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

January 23, 1997

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Peoples National Bank of Kewanee
Charter No. 14418
207 N. Tremont Street
Kewanee, Illinois 61443**

**Office of the Comptroller of the Currency
111 West Washington Street, Suite 300
Peoria, Illinois 61611**

NOTE: 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.

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 Community Reinvestment Act (CRA) performance of the **Peoples National Bank of Kewanee** prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **January 23, 1997**. The last CRA examination of this institution was performed as of **December 31, 1993** in which the bank received an Outstanding rating. This evaluation is based on information from **September 30, 1994** to the current examination dated **January 23, 1997**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.*

INSTITUTION'S CRA RATING: This institution is rated Outstanding.

A substantial majority of the Peoples National Bank of Kewanee's (PNB's) loan originations are located within their assessment area. The bank's distribution of lending to people and businesses of different income levels, including low- and moderate-income individuals and small businesses is excellent.

The following table indicates the performance level of the Peoples National Bank of Kewanee with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	PEOPLES NATIONAL BANK OF KEWANEE'S PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does Not Meet Standards for Satisfactory Performance
Loan-to-Deposit Ratio		X	
Lending in Assessment Area	X		
Lending to Borrowers of Different Incomes and to Businesses of Different Sizes	X		
Geographic Distribution of Loans	X		
Response to Complaints	No complaints were received since the prior examination.		

DESCRIPTION OF INSTITUTION

PNB is a \$133 million bank located in Kewanee, Illinois. The bank serves customers with two full service facilities, a main bank located in Kewanee and a branch office located in Bradford, IL. The main office is equipped with a drive-up facility, and both locations have Automated Teller Machines (ATMs). Additionally, the bank owns ATMs at two other locations (Southtown & Wal-Mart Super Center). The Southtown location is primarily a drive-up facility with an ATM.

The main bank is located in a moderate-income Census Tract (CT) and the Bradford branch is located in a middle-income Block Numbering Area (BNA). Both remote ATMs are located in middle income Cts.

PNB's parent holding company is Peoples Financial Corp. of Illinois. The bank offers traditional banking services and lending products. The loan portfolio mix is as follows: residential real estate 22%; commercial/agricultural real estate 25%; commercial 23%, agriculture 12%, and loans to individuals 18%. There are no financial conditions, legal constraints, or other factors that hinder the bank's ability to help meet the credit needs of its assessment area.

DESCRIPTION OF ASSESSMENT AREA

The bank's assessment area (AA) consists of portions of Bureau, Stark, Marshall and Henry Counties.

Henry County Assessment Area

The Henry County AA consists of census tracts (CTs) 305 through 311 in the Davenport/Moline/Rock Island Metropolitan Statistical Area. Four of the seven CTs in the AA are designated as moderate-income tracts while the remaining three are middle-income. There are no low- or upper-income tracts in this AA. The moderate-income CTs combined encompass substantially all of the city limits of Kewanee. According to the 1990 census, the median family income for CTs 305 through 311 is \$26,343, and the total population is 20,222. Within the Henry County AA, 29% of the families are low-income, 25% are moderate-income, 24% are middle-income, and 23% are upper-income. There are 8,866 total housing units in the Henry County AA of which 65% are owner-occupied, 25% are rental-occupied, and 10% are vacant units.

Bureau, Stark, and Marshall County - Tri-County Assessment Area

The bank's AA in the Counties of Bureau, Stark, and Marshall consists of Block Numbering Areas (BNAs) 9655 and 9656 in Bureau County, BNAs 9514 and 9515 in Stark county, and BNA 9613 in Marshall County. All BNAs in the Tri-county AA are designated as middle income tracts. The State-wide median family income for these rural areas is \$36,000. According to the 1990 census, the population totaled 16,259.

Within the Tri-county AA, 18% of the families are low-income, 19% are moderate-income, 24% are middle-income, and 40% are upper-income. There are 6,595 total housing units in this AA of which 69% are owner-occupied, 24% are rental-occupied, and 7% are vacant units.

Economic Data

Kewanee, with a population of approximately 13,000, is the largest city in the combined assessment areas. Economic activity is spurred by employment opportunities in manufacturing, service, and agriculture. Major employers include Pines Trailer, Kewanee Boiler, Kewanee Hospital, Wal-mart, and several other firms employing between 50 and 100 people. The local economy has stabilized from recessions in the late 1970's and early 1980's. Unemployment in the assessment area is around 3.7% in Henry County, 4.6% in Bureau, 7% in Stark, and 7.2% in Marshall.

The moderate number of banks, thrift institutions, Farm Credit Services, and finance companies provide a high level of competition in the financial services market. Bank management identified seven banks within their assessment area which they feel are primary competitors given their close proximity and business focus.

A community contact was made with one local business organization during the examination. The contact indicated that area financial institutions do a favorable job of meeting the credit needs of the assessment area and there are no significant unmet credit needs in the community.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA :

LOAN-TO-DEPOSIT RATIO

The bank's average loan-to-deposit ratio for the 9 quarters ending 9/30/96 equals 32.03%, somewhat below their similarly-situated primary competitors' average of 47.26%. During these nine quarters, the loan-to-deposit ratio of PNB has remained very steady. Management feels that two factors mitigate their low loan-to-deposit ratio:

- * A large portion of the bank's customer base is older (19%) and/or retired (30%) and therefore do not present the demand for loans that a younger customer base would.
- * Two Thrift institutions located in Kewanee offer stiff competition for real estate loans. The majority of the bank's loan demand is for small dollar personal and real estate loans. Commercial loans are often made for small dollar amounts also. Thirty-two percent of consumer loans originated since September 30, 1994 were less than \$1,000 and over 90% were less than

\$10,000. Seventy-six percent of commercial loans originated during the same time frame were less than \$25,000.

- * Several large businesses utilize the bank's deposit services, (Wal-Mart, Farm King, Kewanee Boiler, Pines Trailer, Illinois Power, etc.) however, due to their out-of-area headquarter sites, they do not borrow locally.
- * The bank is involved in other investment and community development activities which offset and/or mitigate the low loan/deposit ratio. These activities are further described under the "Other Factors" section of this report.

LENDING IN THE ASSESSMENT AREA

A substantial majority of loans are originated within the bank's assessment area as detailed in the following chart. Our analysis includes all real estate, consumer, agriculture, and commercial loans originated between September 30, 1994 through December 31, 1996. We utilized information made available by bank management including loan trials and Home Mortgage Disclosure Act (HMDA) data.

**PNB'S
RECORD OF LENDING WITHIN ASSESSMENT AREA**

September 30, 1994 through December 31, 1996	WITHIN AA	PERCENT IN AA	OUTSIDE AA	PERCENT OUTSIDE AA
RESIDENTIAL REAL ESTATE	\$5,621,433	89%	\$671,266	11%
	258	86%	41	14%
CONSUMER	\$9,016,756	82%	\$1,998,267	18%
	2,842	87%	412	13%
AGRICULTURAL	\$2,314,835	68%	\$1,074,225	32%
	281	67%	140	33%
COMMERCIAL	\$25,871,142	97%	\$904,583	3%
	1187	93%	83	7%

AA = Assessment Area

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

The distribution of PNB’s lending activity to borrowers of different incomes and to farms/businesses of different sizes is good. PNB is especially accommodating to low and moderate income individuals by granting small dollar personal and real estate loans. Table 1 clearly shows the bank’s excellent distribution of lending to low- and moderate-income individuals in the Henry County AA. Although 54% of the Henry County AA is comprised of low- and moderate-income individuals, PNB originated 68% of it’s residential real estate loans to this group. Table 2 also indicates PNB’s real estate lending to low- and moderate-income groups (40%) exceeds the Tri-county AA’s percentage composition (37%) for this group of individuals. Table 3 reveals that 32% of all personal loans originate at less than \$1,000, and over 90% originate at less than \$10,000. Table 4 illustrates PNB’s focus on meeting the needs of small farms and businesses with nearly 75% of all loans originating at \$25,000 or less.

Table 1

Henry County Assessment Area

DISTRIBUTION OF RESIDENTIAL REAL ESTATE AND HOME IMPROVEMENT LOANS AMONG BORROWERS OF DIFFERENT INCOME LEVELS

September 30, 1994 through December 31, 1996	# OF LOANS	PERCENT	\$ OF LOANS	PERCENT
LOW-INCOME	107	36%	\$987,000	21%
MODERATE-INCOME	96	32%	\$1,421,000	30%
MIDDLE-INCOME	56	19%	\$1,095,000	23%
UPPER-INCOME	39	13%	\$1,269,000	26%

Table 2

Bureau, Stark, Marshall Counties: Tri-County Assessment Area

DISTRIBUTION OF RESIDENTIAL REAL ESTATE AND HOME IMPROVEMENT LOANS AMONG BORROWERS OF DIFFERENT INCOME LEVELS

September 30, 1994 through December 31, 1996	# OF LOANS	PERCENT	\$ OF LOANS	PERCENT
LOW-INCOME	19	22%	\$100,000	7%
MODERATE-INCOME	16	18%	\$230,000	16%
MIDDLE-INCOME	38	43%	\$676,000	48%
UPPER-INCOME	15	17%	\$408,000	29%

Table 3
Combined Assessment Areas

**DISTRIBUTION OF PERSONAL CONSUMER LOANS AMONG BORROWERS OF
DIFFERENT INCOME LEVELS**

September 30, 1994 through December 31, 1996	# OF LOANS	PERCENT
LOANS LESS THAN \$1,000	1,050	32%
LOANS MORE THAN \$1,000 AND LESS THAN \$10,000	1,924	59%
LOANS OVER \$10,000	280	9%

Table 4
**DISTRIBUTION OF COMMERCIAL AND AGRICULTURAL LENDING AMONG
BORROWERS OF DIFFERENT INCOME LEVELS**

September 30, 1994 through December 31, 1996	# OF LOANS	PERCENT	\$ OF LOANS	PERCENT
LOANS LESS THAN \$25,000	956	76%	\$9,507,129	37%
LOANS MORE THAN \$25,000 AND LESS THAN \$100,000	278	22%	\$11,797,747	46%
LOANS OVER \$100,000	23	2%	\$4,231,097	17%

GEOGRAPHIC DISTRIBUTION OF LOANS

The bank's geographic distribution of all lending activities is excellent. PNB's lending patterns reflect a higher focus and level of lending in moderate-income tracts. Our analysis was based on lending trials made available by bank management during our examination and includes loans originated between September 30, 1994 and December 31, 1996. Table 5 reflects real estate lending distribution; Table 6 reflects consumer lending distribution, and Table 7 reflects commercial lending distribution. All three tables clearly indicate the bank's lending presence in both moderate- and middle-income geographies, with more emphasis on meeting the needs of the moderate-income tracts.

Table 5

Combined Assessment Area
DISTRIBUTION OF RESIDENTIAL REAL ESTATE LOANS
AMONG GEOGRAPHIES OF DIFFERENT INCOME LEVELS

September 30, 1994 through December 31, 1996	# OF LOANS	PERCENT	\$ OF LOANS	PERCENT
LOW-INCOME	There are no low-income tracts in the AA.			
MODERATE-INCOME	169	65%	\$3,229,402	57%
MIDDLE-INCOME	89	35%	\$2,392,031	43%
UPPER-INCOME	There are no upper-income tracts in the AA.			

Table 6

Combined Assessment Area
DISTRIBUTION OF CONSUMER LOANS
AMONG GEOGRAPHIES OF DIFFERENT INCOME LEVELS

September 30, 1994 through December 31, 1996	# OF LOANS	PERCENT	\$ OF LOANS	PERCENT
LOW-INCOME	There are no low-income tracts in the AA.			
MODERATE-INCOME	2,001	70%	\$5,363,901	59%
MIDDLE-INCOME	841	30%	\$3,652,855	41%
UPPER-INCOME	There are no upper-income tracts in the AA.			

Table 7
Combined Assessment Area
DISTRIBUTION OF COMMERCIAL LOANS
AMONG GEOGRAPHIES OF DIFFERENT INCOME LEVELS

September 30, 1994 through December 31, 1996	# OF LOANS	PERCENT	\$ OF LOANS	PERCENT
LOW-INCOME	There are no low-income tracts in the AA.			
MODERATE-INCOME	654	55%	\$10,647,633	41%
MIDDLE-INCOME	533	45%	\$15,223,509	59%
UPPER-INCOME	There are no upper-income tracts in the AA.			

COMPLIANCE WITH ANTI-DISCRIMINATION LAWS

We did not identify violations of any substantive provisions of the antidiscrimination laws and regulations during our examination.

OTHER FACTORS

PNB is involved in other activities which seek to make credit more widely available to low- and moderate-income people and to stabilize/revitalize moderate-income geographies. These activities are as follows:

- PNB began offering a first-time home buyers program in 1991. This program is specifically set up to assist low- and moderate-income people to acquire their first home. The program income restrictions are revised annually to mirror the Federal Poverty data. Based upon these guidelines, the only applicants able to qualify under the program are low- and moderate-income people. Since the program's inception in 1991, PNB has originated 28 loans totaling \$247,000. However, due to increased promotion of similar FNMA and GNMA programs offered by local Thrifts, the bank has experienced a rapid decline in demand for this program. During the evaluation period, the bank originated only 2 loans amounting to \$21,200.
- The bank is also a participant in the Kewanee Downtown Revitalization Alliance Loan Pool (KDRA). The purpose of the KDRA is to provide loans for the rehabilitation of commercial and mixed-used buildings in the City of Kewanee with initial focus in the downtown area. The downtown area is located in a moderate-income census tract and the remaining 3 moderate-income census tracts encompass substantially all of the city limits of Kewanee. Since the inception of this program in 1993, the bank participated in the origination of 2 loans amounting to \$78,000.

- PNB contributes to the Kewanee Economic Development Corporation. The non-profit corporate purpose/mission is “to retain primary business and industrial jobs in Kewanee through support for existing industry and aid in its Kewanee-based expansion, and to attract new primary business and industrial jobs to our community”.
- Qualified investments purchased during the evaluation period include:
 - * Kewanee IL Tax Exempt Special Service Area - PNB holdings totaled \$140,000 purchased in August 1995, proceeds were used for ongoing maintenance, sidewalk repair, and marketing costs for the downtown Kewanee area. The downtown area is located in a moderate-income census tract.
 - * City of Kewanee, IL Hospital Facility Revenue Bonds - PNB holdings totaled \$25,000, purchased in May 1995, proceeds used to construct a 2,888 square foot addition and remodel an existing 6,200 square foot hospital facility. The buildings are located in a moderate-income census tract.