



PUBLIC DISCLOSURE

January 04, 2016

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Tuscola National Bank
Charter Number 14434

900 South Progress Boulevard
Tuscola, IL 61953

Office of the Comptroller of the Currency

Harris Center
3001 Research Road
Champaign, IL 61822-1089

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 Satisfactory

The major factors that support this rating include:

- Tuscola National Bank's (TNB) distribution of loans reflects reasonable penetration among farms and businesses of different sizes, given the demographics of the assessment area (AA).
- The bank originated a substantial majority of loans within the AA.
- The bank's loan to deposit ratio is reasonable based on the institution's size, financial condition, AA's credit needs, unique deposit structure, and competition.

SCOPE OF EXAMINATION

This Performance Evaluation assesses TNB's record of meeting the credit needs of the communities in which it operates. We evaluated the bank under the Small Bank performance criterion, which includes a lending test. The evaluation period for this review is from January 5, 2010, to January 4, 2016. As the primary lending products did not change since the prior examination, the evaluation period for the lending test is from January 1, 2013, through December 16, 2015.

The lending test evaluates a bank's record of helping to meet the credit needs of its AA through its lending activities. The lending test is based on the bank's primary loan products. An analysis of the number and dollar volume of loan origination information supplied by the bank identified the bank's primary loan products for the evaluation period to be farmand commercial loans. From January 1, 2013, through December 16, 2015, the bank originated approximately \$42 million in loans, of which 48 percent were farm, 37 percent were commercial, 9 percent were mortgage, and 6 percent were consumer loans.

Changes in census tracts since the last examination based on 2010 census data did not affect our loan sample. In 2013, 2014, and 2015, the AA had the same five census tracts designated as middle-income, with no low- or moderate-income census tracts in Douglas County. Therefore, we performed only one analysis for 2013, 2014, and 2015 combined data.

The bank is not located in a Metropolitan Statistical Area (MSA) and is not subject to the requirements of the Home Mortgage Disclosure Act (HMDA) to collect data on residential real estate loans, or to maintain revenue information on commercial or farm loans. Additionally, the bank does not collect census tract data on loans. Therefore, for our lending in the AA analysis, we utilized a random sample of twenty agriculture loans and twenty business loans originated during our loan sample period. For our borrower distribution analysis, we reviewed a sample of 20 farm loans and 20 business loans made within the AA. In addition to our loan sample, we utilized 2010 U.S. Census data,

updated FFIEC Median Family Income, 2014 Dun & Bradstreet Business Geodemographic Data, and Federal Deposit Insurance Corporation (FDIC) deposit market share data as of June 30, 2015, in assessing the bank’s lending performance. There is no affiliate activity considered in this evaluation.

DESCRIPTION OF INSTITUTION

TNB is a \$79 million intrastate financial institution located in Tuscola, Illinois (IL). Tuscola, which is located approximately 25 miles south of Champaign, IL along Interstate 57, is the county seat of Douglas County. TNB has one full-service office and one deposit taking ATM located at 900 South Progress Blvd. in Tuscola, IL. TNB did not open or close any branches during this evaluation period.

The bank is fully owned by TNB Bancorp Incorporated, a one-bank holding company. Management’s business strategy is to focus on new loan volume, mostly small business loans, and to seek consumer loans offering competitive rates and terms, particularly in the residential real estate sector. Local lending to small businesses and consumers is at the core of TNB’s business philosophy.

The bank offers a full range of retail and commercial banking products normally associated with a community bank. This includes commercial, mortgage, farm, and consumer loans, as well as deposit accounts, savings accounts, and certificates of deposit. The bank also has a trust department, which offers various trust services. As of September 30, 2015, TNB had total assets of \$79 million. Gross loans were \$29 million as of the same date, and equaled 37 percent of total assets. The following represents the bank’s loan and lease portfolio mix as of September 30, 2015:

Loan Portfolio Summary by Loan Product, as of September 30, 2015	
Loan Category	% of Outstanding Dollars
Commercial Loans	48%
Home Loans	25%
Farm Loans	24%
Consumer Loans	3%

Source: September 30, 2015 Call Report Data

Tier one capital totals \$12 million as of September 30, 2015. There are no financial, legal, or other impediments that would hinder the bank’s ability to help meet the credit needs of the AA. Bank activities are consistent with the bank’s size, its financial capacity, local economic conditions, and credit needs of the community. The bank was rated Satisfactory at its last CRA examination dated January 4, 2010.

DESCRIPTION OF ASSESSMENT AREA(S)

The AA consists of five census tracts (#9520 - #9524), which makes up the whole of Douglas County. The Douglas County census tracts include five middle-income designations. Douglas County is not located within an MSA. This AA conforms to the regulation and does not arbitrarily exclude low- or moderate-income areas.

TNB's AA was not impacted by 2014 MSA changes. Therefore, we used the information in the following table in our borrower distribution analysis for 2013, 2014, and 2015. The following demographic information for the AA is based on 2010 census data:

Demographic Information for the AA					
	#	% Low	% Mod	% Middle	% Upper
Families by Income Level	5,361	15.00%	19.72%	20.97%	44.31%
Households by Income Level – (owner occupied)	7,572	19.03%	16.05%	19.53%	45.39%
Census Median Family Income (MFI)		\$54,499	Median Housing Value		\$91,872
			Weighted Average of Median Year Built		1962
FFIEC Updated MSA MFI:		<u>2015</u> \$60,100 <u>2014</u> \$58,600 <u>2013</u> 56,200	Households Below the Poverty Level		10.91%
			2010 Business & Farm Data		
Businesses: % of small businesses in the AA		74.88%	Percent of businesses not reporting revenue figures		19.56%
Farms: % of small farms in the AA		98.01%	Percent of farms not reporting revenue figures		1.49%

Economic Data:

The local economy and that of the surrounding area is stable. The local economy, which is heavily driven by agriculture, experienced a very good year in 2013. Agriculture pricing was down in 2014 and 2015; however, these were record production years. Douglas County's economy is also influenced by tourism, as it includes a portion of the only Amish settlement in Illinois.

Some of the major employers in Douglas County, with over 100 employees, include Cabot Corporation, School District, Tanger Outlet Center, and Equistar Chemicals. Other employers include Douglas County, Tuscola Health Care Center, Panhandle Eastern Gas, Cargill, Inc., City of Tuscola, and Northrup King. The October 2014 unemployment rate for Douglas County was 4.9 percent, compared to the state unemployment rate of 5.3 percent, and the national unemployment rate of 5.0 percent for the same time-period.

TNB faces competition from six community banks in Douglas County. As of June 30, 2015, the bank owned approximately 18 percent of the deposit market share, which represents the second largest in the county.

We performed one community contact with a local economic development organization, during the evaluation period. Needs identified by this organization include community

development and other credit related projects or financial programs such as: recruitment of small business loans via local marketing programs; recruitment of small businesses via referrals; implementation of revolving loan funds for small businesses, and participation in small business financial seminars and skill development work-shops for manufacturing jobs. The contact stated that TNB is active in the community and provides use of the bank's community room for meetings and seminars. The contact also stated that TNB's president is actively involved with area community development organizations.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

TNB's performance of meeting the community credit needs is satisfactory. This review concentrated on the bank's primary loan products, which include farm and business loans. TNB has a reasonable loan-to-deposit ratio, and a substantial majority of the loans originated was within the AA. TNB has reasonable distribution among farms and businesses of different sizes.

Loan-to-Deposit Ratio

The bank's loan-to-deposit ratio is reasonable based on the institution's size, financial condition, AA's credit needs, unique deposit structure, and local competition. TNB's quarterly average loan-to-deposit ratio for the period January 5, 2010, through September 30, 2015, was 39.15 percent, with a low of 32.50 percent and a high of 48.50 percent. Since third quarter 2014, ratios have been steadily improving. This is due in large part to management's efforts to solicit commercial loans outside of their market area in recent years.

The quarterly average loan-to-deposit ratio for other similarly situated financial institutions over the same time-period was 56.76 percent with a range from 14.00 percent to 81.31 percent. TNB's average loan-to-deposit ratio is higher than one of six similarly situated banks, which range in asset size from \$71 million to \$117 million. The similarly situated banks utilized for comparison purposes are all community banks with up to \$120 million in total assets located in Moultrie, Coles, and Douglas Counties. TNB's assets at September 30, 2015 were \$79 million.

TNB's average loan-to-deposit ratio does not reflect all home mortgage lending activity, as the bank has sold some of its originated home mortgage loans to the secondary market. Recognition for making this credit available is given, since the bank is accepting these mortgage applications, underwriting the mortgage credits, and originating these loans.

It should also be noted that TNB has a unique deposit structure in that total deposits include deposits from 29 retail stores located in a nearby outlet mall. While deposits are steady, there is no loan demand for these type accounts. Additionally, the bank has approximately \$2.9 million in public funds, which are stable. Douglas County exhibits lower than typical loan demand, partially due to the culture of the Amish community

located within the AA. Inherently, within the Amish culture, there is less residential real estate and consumer credit needs. Finally, the area is a farming community, which experienced higher prices in 2013. Although prices dropped in 2014 and 2015, the farm community experienced record production during these years. Because of the strong farm economy, farmers have had less credit needs due to increased cash flow.

Lending in Assessment Area

A substantial majority of TNB's primary loan products are made within the bank's AA. Ninety-three percent of the number of loans sampled and 95 percent of the dollars of loans sampled were made within the AA. The following table illustrates loans made inside and outside of the bank's AA during the loan sample evaluation period:

Lending in the AA										
Type of Loans	Number of Loans					Dollar of Loans (000's)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Farm	18	90.00%	2	10.00%	20	\$2,630	92.44%	\$215	7.56%	\$2,845
Business	19	95.00%	1	5.00%	20	\$1,631	99.82%	\$3	.18%	\$1,634
Totals	37	92.50%	3	7.50%	40	\$4,261	95.13%	\$218	4.87%	\$4,479

Source: Random sample of 20 agriculture and 20 business loans originated between 1/1/13 and 12/16/15.

Lending to Farms and Businesses of Different Sizes

The overall distribution of loans reflects reasonable penetration among farms and businesses of different sizes, given the demographics of the AA. The distribution of farm loans reflects reasonable penetration among farms of different sizes. The distribution of business loans reflects more than reasonable penetration among businesses of different sizes. Funding for small business loans is identified as a community credit need. We placed greater weight on farm loans than business loans due to the volume of originations.

Farm Loans

The distribution of agricultural loans reflects reasonable penetration among farms of different sizes. The bank originated 85 percent of the number of farm loans sampled and 89 percent of the dollar of farm loans sampled in the AA to small farms, as compared to the 98 percent of small farms located in the AA. A small farm is defined as a farm with gross revenues of one million dollars or less. The following table illustrates the borrower distribution of farm loan originations in the AA by revenues and by loan size:

Borrower Distribution for Farm Loans within AA				
Farm Revenues (or Sales)	< = \$1,000,000	> \$1,000,000	Unavailable	Total
% of AA businesses	98.01%	0.50%	1.49%	100.00%
% of bank loans in AA by #	85.00%	15.00%	0.00%	100.00%
% of bank loans in AA by \$	89.47%	10.53%	0.00%	100.00%

Sources: Sample of 20 agriculture loans originated between 1/1/13 and 12/16/15 made within the AA and 2015 Business Geo-demographic data.

Business Loans

The distribution of loans to businesses reflects more than reasonable penetration among businesses of different sizes. The bank originated 75 percent of the number of business loans sampled and 63 percent of the dollars of business loans sampled to small businesses in the AA, as compared to 75 percent of small businesses located in the AA. Small businesses are businesses with gross annual revenues of one million dollars or less. It is important to recognize that some of the businesses that did not report revenues in the demographic data are likely also small businesses. One of the 20 loans tested did not have revenue information available. The following table illustrates the borrower distribution of business loan originations in the AA by revenues and by loan size:

Borrower Distribution for Business Loans within AA				
Business Revenues (or Sales)	< = \$1,000,000	> \$1,000,000	Unavailable	Total
% of AA businesses	74.88%	5.56%	19.56%	100.00%
% of bank loans in AA by #	75.00%	20.00%	5.00%	100.00%
% of bank loans in AA by \$	63.05%	18.78%	18.17%	100.00%

Sources: Sample of 20 business loans originated between 1/1/13 and 12/16/15 made within the AA and 2010 Business Geo-demographic Data. One business loan did not have gross revenue information available.

Geographic Distribution of Loans

We did not perform a geographic distribution analysis during this examination, as an analysis would not be meaningful. There are no low- to moderate-income census tracts in the bank’s AA.

Responses to Complaints

TNB has not received any complaints about its performance in helping to meet the AA credit needs during this evaluation period.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 CFR 25.28(c), in determining a national bank’s CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank, or in any AA by an affiliate whose loans have been considered as part of the bank’s lending performance.

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.

