



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## **PUBLIC DISCLOSURE**

**January 04, 2010**

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

Tuscola National Bank  
Charter Number 14434

900 South Progress Boulevard  
Tuscola, IL 61953-0000

Office of the Comptroller of the Currency

Champaign Field Office  
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 represents reasonable penetration among businesses and farms of different sizes.
- TNB's loan to deposit ratio is reasonable.
- A majority of TNB's primary loan products are made within the bank's assessment area (AA).

**SCOPE OF EXAMINATION**

TNB was evaluated under the Small Bank examination procedures, which evaluates the bank's record of meeting the credit needs of its AA through its lending activities. The evaluation period is from June 21, 2004 to January 4, 2010.

To evaluate the bank's lending performance, we utilized loans originated by TNB from January 1, 2008 to December 31, 2009. As the bank's strategic plan has not changed significantly during the evaluation period, the past two years of lending is representative of the evaluation period. During this period, TNB originated 869 loans totaling \$39 million. TNB's primary loan products are business and agricultural loans based on both number and dollar volume of loan origination information supplied by the bank. To evaluate the bank's lending performance within these primary products, we selected a sample of business and agricultural loans made during this time period.

**DESCRIPTION OF INSTITUTION**

TNB is an intrastate bank headquartered in Tuscola, Illinois. Tuscola, the county seat for Douglas County, is a community of approximately 4,500 residents. Tuscola is located in East Central Illinois on Interstate 57, approximately 25 miles south of Champaign, Illinois.

As of September 30, 2009, TNB had total assets of \$75 million and tier one capital of \$11 million. TNB is fully owned by TNB Bancorp Incorporated, a one-bank holding company. TNB closed a branch facility in Tuscola, IL on August 14, 2009. This closing did not adversely affect the bank's ability to service the community.

The bank offers a range of services including deposit and loan products, and trust services. TNB operates a deposit-taking ATM located in the bank's drive-through area. Net loans were \$75 million, as of September 30, 2009, and equaled forty-three percent of total assets. The following table provides information on the current portfolio mix:

<b>Loan Portfolio Summary by Loan Product, as of September 30, 2009</b>	
<b>Loan Category</b>	<b>% of Outstanding Dollars</b>
Business Loans	43%
Agricultural Loans	29%
Home Loans	21%
Consumer Loans	7%

Source: September 30, 2009 Call Report Data

There are no legal or financial impediments to TNB's ability to meet the credit needs of its AA. The bank was rated Satisfactory at its last CRA examination dated June 21, 2004.

## **DESCRIPTION OF ASSESSMENT AREA(S)**

The AA is comprised of Douglas County. Douglas County is not located within a metropolitan statistical area. All five census tracts are middle-income tracts. Population of the AA is 19,922. Eighty-nine percent of the housing stock is 1-4 family units and sixty-seven percent is owner occupied housing. This AA meets the requirements of the regulation and does not arbitrarily exclude any low-or moderate-income areas.

Below is a summary of some demographic information for this AA:

<b>Demographic Information for the AA</b>					
	<b>#</b>	<b>% Low</b>	<b>% Moderate</b>	<b>% Middle</b>	<b>% Upper</b>
Families by Income Level	5,508	12%	20%	25%	43%
Households by Income Level	7,606	15%	16%	23%	46%
Number of Businesses		1,540	Businesses with Gross Revenues of \$1 million or less		73%
Number of Farms		257	Farms with Gross Revenues of \$1 million or less		98%
Census Median Family Income (MFI)		\$43,613	Median Housing Value		\$70,667
HUD- Adjusted MFI: 2009		\$54,400	Households Below the Poverty		7%
HUD- Adjusted MFI: 2008		\$51,900	Unemployment Rate		10%
HUD- Adjusted MFI: 2007		\$50,600			

Source: 2000 U.S. Census Data; Unemployment Information is from the Department of Labor as of November 2009; Adjusted MFI is from HUD. (MFI used is for statewide non- MSA areas.)

The current economy in the AA is characterized as stable, although the unemployment rate increased over the past year. Douglas County's unemployment rate in November 2009 was 9.6 percent and was similar to the national rate of 10.0 percent. The state's unemployment rate was 10.9 percent. The local economy is heavily influenced by agriculture. The strong agriculture economy is helping the local economy respond to the decline in the national economy. A majority of the farms and business are considered small based on revenue size.

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 for the county include: CHI Overhead Doors, Libman Broom Co., Cap & Gown / Herff Jones, Cabot Corporation, The Thomas Monahan Company, Progress Tank, and Lyondell-Equistar Chemicals.

Competition from other financial institutions is moderate. The bank's competitors include seven other banks with at least one location within the AA. TNB has a nineteen percent market share for deposits within Douglas County.

In conducting the assessment of the bank's performance, we utilized two community contacts performed for Douglas County within the past eighteen months. A government official responsible for local economic development and an officer for a social service and housing agency were contacted. The first contact stated that local credit needs are being met. This contact informed us of a survey that was completed by seventy-five businesses within the AA that showed substantial evidence that local businesses had adequate access to capital needs from local financial institutions. The second contact indicated that affordable housing was a need in Douglas County.

## **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 business and agricultural loans. TNB has a reasonable loan-to-deposit ratio and a majority of the loans originated were within the AA. TNB has reasonable distribution among businesses of different sizes and borrowers of different income levels.

All criteria of the lending test are documented below:

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

TNB's net loan-to-deposit ratio is reasonable given the bank's size, financial condition, AA's credit needs, and local competition. The bank's net loan-to-deposit ratio averaged forty-five percent over the twenty-three quarters since the last CRA examination. This ratio ranged from a quarterly low of thirty-seven percent to a quarterly high of fifty-two percent during the time period.

The bank's net loan-to-deposit ratio is lower when compared with the other seven financial institutions, with total assets between \$25 million and \$150 million, located in Coles, Douglas, Edgar, and Moultrie Counties. The average quarterly net loan-to-deposit ratio for these peer banks was sixty-five percent over the same time period. The bank has moderate competition located within the AA, as there is one financial institution for every 2,427 individuals.

Douglas County exhibits lower than typical loan demand. Part of this is due to the culture of the Amish community located within the area. There is less residential real estate and consumer credit needs inherent in the Amish culture. In addition, the area is a farming community and has experienced several strong years recently. As a result of the recent strong farm economy, farmers have less credit needs due to increased cash flow.

It is also important to note, the loan to deposit ratio above does not include loans sold into the secondary market. TNB originated twenty-nine residential real estate loans, totaling over two million dollars that were sold into the secondary market.

TNB has eleven customers with total deposits over \$400,000, including two public funds. The deposits of these customers total over \$6.5 million or 10 percent of total deposits. These customers have only \$239,348 in outstanding loans. TNB has purchased loans from other institutions in an effort to increase the loan to deposit ratio.

### **Lending in Assessment Area**

A majority of TNB's primary loan products are made within the bank's assessment area. Sixty-five percent of the loans sampled were made within the AA.

Lending in the AA										
Type of Loans	Number of Loans					Dollar of Loans (000's)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Business	14	70.00%	6	30.00%	20	\$3,931	42.23%	\$5,378	57.77%	\$9,309
Agricultural	12	60.00%	8	40.00%	20	\$864	46.09%	\$1,010	53.91%	\$1,874
Totals	26	65.00%	14	35.00%	40	\$4,795	42.88%	\$6,388	57.12%	\$11,183

Source: Sample of 20 business and 20 agricultural loans originated between 1/1/08 and 12/31/09.

## Lending to Businesses and Farms of Different Sizes

The distribution of loans reflects reasonable penetration among businesses and farms of different sizes.

### Business Loans

The distribution of loans to businesses reflects reasonable penetration among businesses of different sizes. Sixty-one percent of businesses in the AA have gross revenues of one million dollars or less. Forty-five percent of our sample did not contain gross revenue information; we had to use proxy by loan sizes. Seventy-five percent of the loans in the sample were \$100,000 or less in size. Typically, smaller businesses request smaller dollar loans.

Loans by number were weighed heavier than loans by dollar amount for this conclusion. The sample included one very large loan to a large business that skewed the loans by dollar amount analysis. Also, the information on loan sizes had a significant amount of weight in determining conclusions for this area, as many of the smaller loans did not contain gross revenue information.

Borrower Distribution for Business Loans within AA				
Business Revenues (or Sales)	< = \$1,000,000	> \$1,000,000	Unavailable	Total
% of AA businesses	60.93%	5.28%	33.79%	100.00%
% of bank loans in AA by #	20.00%	35.00%	45.00%	100.00%
% of bank loans in AA by \$	8.86%	86.34%	4.80%	100.00%

Sources: Sample of 20 business loans originated between 1/1/08 and 12/31/09 made within the AA and 2008 Dun & Bradstreet data.

Business Loans by Loan Size within AA				
Loan Size	Number of Loans	Percent by #	Dollar of Loans	Percent by \$
\$50,000 and less	12	60.00%	\$226,619	4.79%
\$50,001 - \$100,000	3	15.00%	\$204,000	4.31%
\$100,001 - \$500,000	4	20.00%	\$848,531	17.94%
\$500,001 - \$1,000,000	0	0.00%	\$0	0.00%
Above \$1,000,000	1	5.00%	\$3,451,461	72.96%
Total	20	100.00%	\$4,730,611	100.00%

Sources: Sample of 20 business loans originated between 1/1/08 and 12/31/09 made within the AA.

## Agricultural Loans

The distribution of agricultural loans reflects reasonable penetration among farms of different sizes. Eighty percent of the loans in the sample were made to small farms. A small farm is defined as a farm with gross revenues of one million dollars or less. Demographic data show that a substantial majority (98 percent) of farms within the AA are small farms.

Borrower Distribution for Agricultural Loans within AA				
Business Revenues (or Sales)	< = \$1,000,000	> \$1,000,000	Unavailable	Total
% of AA businesses	98.05%	0.00%	1.95%	100.00%
% of bank loans in AA by #	80.00%	20.00%	0.00%	100.00%
% of bank loans in AA by \$	78.71%	21.29%	0.00%	100.00%

*Sources: Sample of 20 business loans originated between 1/1/08 and 12/31/09 made within the AA and 2008 Dun & Bradstreet data.*

## Geographic Distribution of Loans

The geographic distribution of loans was not meaningful for this examination, as all census tracts within the AA are middle-income census tracts. Lending was noted in all five census tracts that make up the AA.

## Responses to Complaints

TNB has not received any complaints about its performance in helping to meet the assessment area needs 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.