



SMALL BANK

Comptroller of the Currency
| Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

February 08, 2010

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

National Bank of Earlville
Charter Number 14403

137 South Main Street
Earlville, IL 60518-0000

Office of the Comptroller of the Currency

Chicago South Field Office
2001 Butterfield Road, Suite 400
Downers Grove, IL 60515

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.

National Bank of Earlville's lending is satisfactory and addresses the credit needs of the community. The major factors supporting this rating are:

- The bank's average quarterly loan-to-deposit (LTD) ratio for the period since the previous CRA exam is reasonable given the bank's size, financial condition, and assessment area (AA) credit needs.
- The bank originates a substantial majority of their primary loan products inside the bank's AA.
- The bank's distribution of loans reflects a more than reasonable penetration among individuals of different income levels and farms of different sizes given the bank's product offerings and local economic conditions.
- There are no adverse complaints regarding the banks CRA performance.

SCOPE OF EXAMINATION

The evaluation period for this examination covers loans originated during 2008 and 2009, utilizing 2000 census data for evaluating Consumer and Agricultural loans. National Bank of Earlville has one assessment area and a full scope review was performed on that AA during this examination.

DESCRIPTION OF INSTITUTION

National Bank of Earlville (NBE) is headquartered in Earlville, Illinois, approximately 70 miles west of Chicago, Illinois. NBE is a wholly owned subsidiary of National Bank of Earlville Bancshares, a two-bank holding company. NBE's affiliate is the State Bank of Paw Paw, located in Paw Paw, Illinois; the activities of that affiliate were not considered in this evaluation. NBE does not have any branches. The bank operates one full service office with drive up facilities. NBE also owns three automatic teller machines (ATMs) located throughout its assessment area (AA).

The bank has two primary lending products: Consumer loans and Agricultural loans. These two loan types account for 77 percent of all loan originations during the evaluation period and make up 22 percent of the outstanding loan balances as of September 30, 2009. Thus, these products were used in the analysis for this evaluation. Commercial, Residential Real Estate, and Construction loans are not primary loan products as they only account for 23 percent of all loan originations during the evaluation period and make up the remaining 78 percent of the outstanding loan balances as of September 30, 2009.

The table below illustrates the composition of originated loans by loan type:

Loan Originations by Loan Type for 2008 and 2009		
Loan Category	\$ (000)	%
Commercial Loans	\$ 5,398	11%
Residential Loans	\$ 4,648	10%
Agricultural Loans	\$15,717	33%
Consumer Loans	\$20,275	44%
Construction	\$1,004	2%
Total	\$47,042	100%

Source: Bank Records from 2008 and 2009

DESCRIPTION OF ASSESSMENT AREA(S)

NBE has one AA, encompassing two geographies within LaSalle County, a non-Metropolitan Area (MA) and one geography in DeKalb County in MA 1600. The two geographies in LaSalle County are middle-income geographies and the geography in DeKalb County is upper-income geography. This AA meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income geographies. Competition within the bank's AA is strong with 35 other banks in the two county area where the bank's AA is located. According to the FDIC Summary of Deposits from June 30, 2009, NBE ranks 21 out of 35 banks with a deposit market share of less than one percent.

The total population of the bank's AA is 12,627 based on 2000 Census Data. The bank's AA consists of three geographies; two are middle-income and one is upper-income based on 2000 Census Data. There are no low- or moderate-income geographies in the bank's AA; therefore, there will be no geographic distribution analysis included in this performance evaluation, as an analysis would not be meaningful.

The updated median family income in the bank's AA, based on 2000 Census data, is \$61 thousand. Per the 2000 Census, 89 percent of the housing in the AA is 1-4 family units with 66 percent owner-occupied. The median home value, based on 2000 Census Data, is approximately \$109 thousand. Current economic conditions have negatively impacted the area. The average unemployment rate for the two counties in the bank's AA is 12.5 percent*. According to our community contact, a local government official, there is a need for agricultural loans, small consumer loans for home repairs, home loan modifications, and small business loans.

*Department of Labor

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The bank’s average loan to deposit ratio (LTD) is reasonable given the bank’s size, financial condition and AA needs. NBE’s LTD ratio has remained fairly steady over the last fourteen quarters averaging 92 percent. The LTD ratios of the other banks of various sizes in the AA range from an average of 84 percent to 90 percent. NBE’s LTD is similar to the LTD ratios of banks of comparable asset size in the two counties in which the bank’s AA lies.

Lending in Assessment Area

NBE originates a substantial majority of their primary loan products inside the bank’s AA. Out of a 40 loan sample, the bank originated 88 percent of the number and 81 percent of the dollar amount of loans within the banks AA. The following table displays details on both categories of primary loan products by number and dollar amount of loans originated during the evaluation period.

Lending in the Assessment Area										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Agricultural Loans	19	95%	1	5%	20	\$966,500	84%	\$180,000	16%	\$1,146,500
Consumer Loans	16	80%	4	20%	20	\$105,100	58%	\$77,500	42%	\$182,600
Totals	35	88%	5	12%	40	\$1,071,600	81%	\$257,500	19%	\$1,329,100

Source: Sample of 20 loans originated during the 2008 and 2009 evaluation period from each of the two primary product types

Lending to Borrowers of Different Incomes and to Farms of Different Sizes

NBE’s distribution of loans reflects a more than reasonable penetration among individuals of different income levels and farms of different sizes given the bank’s product offerings and local economic conditions. The bank actively helps meet two of the primary credit needs of the community, agricultural loans and small consumer loans.

Consumer Loans

The distribution of consumer loans to borrowers reflects excellent penetration among borrowers of different income levels. One of the credit needs in the AA was identified as smaller consumer loans. We analyzed the borrower distribution on a sample of twenty consumer loans. Analysis showed that NBE made 80 percent of their consumer loans to low- and moderate-income individuals. This substantially exceeds the percentage of low- and moderate-income households located within the AA.

The following table shows the distribution of consumer loans among borrowers of

different income levels in the AA:

Borrower Distribution of Consumer Loans in the AA								
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	17%	50%	15%	30%	18%	10%	50%	10%

Source: 2000 Census data using updated median family income and a sample of consumer loans originated by the bank in 2008 and 2009

Agricultural Loans

NBEs performance of lending to farms of different sizes is more than reasonable. From a sample of 20 agricultural loans in the bank’s AA (that were originated from 2008 and 2009), the all of the loans, or 100 percent, are loans to small farms with annual revenues less than \$1 million. According to 2008 business demographic data from the Census Bureau, 98 percent or 210 of all farm businesses in the bank’s AA have revenues under \$1 million. Farms with revenues under \$1 million generally have credit needs for smaller loans.

The following table shows distribution of loans to small farms in the AA:

Borrower Distribution of Loans to Farms in AA				
Farm Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Farms	98.59%	0.47	0.94	100%
% of Bank Loans in AA by #	100%	0.00%	0.00%	100%
% of Bank Loans in AA by \$	100%	0.00%	0.00%	100%

Source: Sample of 20 loans from bank records and demographic data from 2000 Census information

Geographic Distribution of Loans

There are no low- or moderate-income geographies in the bank’s AA; therefore, a geographic analysis would not be meaningful.

Responses to Complaints

NBE has no outstanding 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.