



## **PUBLIC DISCLOSURE**

July 5, 2016

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

Peoples National Bank of Kewanee  
Charter Number: 14418

207 North Tremont Street  
Kewanee, IL 61443

Office of the Comptroller of the Currency  
Peoria Field Office  
211 Fulton Street, Suite 604  
Peoria, IL 61602

**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.

**Peoples National Bank's CRA Rating: This institution is rated Satisfactory.**

The primary factors that support this rating include:

- The substantial majority of the loans originated by Peoples National Bank (PNB) are to borrowers inside its assessment area (AA).
- The geographic distribution of loans reflects reasonable dispersion throughout the AA, including moderate-income geographies, given the bank's product offerings and local economic conditions.
- The distribution of loans to farms and businesses of different sizes is satisfactory.
- PNB's quarterly average loan-to-deposit ratio of 47 percent over the evaluation period needs to improve.

**SCOPE OF EXAMINATION**

We evaluated PNB under the Small Bank evaluation procedures, which include a lending test. The lending test evaluates the bank's record of meeting the credit needs of its AA through its lending activities.

The evaluation period is from the previous CRA evaluation, October 18, 2010, through July 5, 2016. We evaluated loans originated from January 1, 2014, through May 31, 2016, under the lending test. PNB's primary loan products are commercial and agriculture loans. The bank is not required to maintain income data on agriculture and commercial loans outside of the individual loan files. Consequently, we sampled loans originated and purchased during the lending test evaluation period and compared them to 2010 census information.

PNB has three assessment areas: Henry County AA, Bureau/Whiteside County AA, and Stark County AA. We conducted a full-scope review of the Henry County AA and Bureau/Whiteside County AA. We performed a limited-scope review of the Stark County AA since the volume of loans and deposits is significantly less than that in the Henry County and Bureau/Whiteside County AAs.

**DESCRIPTION OF INSTITUTION**

PNB is a \$250 million intrastate financial institution headquartered in Kewanee, Illinois. Kewanee is located in northwestern Illinois, approximately half way between the Quad Cities and Peoria, IL. The main office is located at 207 North Tremont Street in Kewanee. There is an additional drive-up facility in Kewanee as well as five branch offices located in Annawan, Bradford, Manlius, Sheffield, and Tampico, Illinois. All locations except for the Bradford office are equipped with drive-up facilities. PNB has twelve automated teller machines (ATM), which do not accept deposits. PNB did not

open or close any facilities since the previous CRA evaluation.

PNB is a wholly owned subsidiary of Peoples Financial Corporation of Illinois, Inc., a one-bank holding company headquartered in Kewanee, Illinois. The holding company does not own any other subsidiaries, and it does not negatively impact the bank's ability to meet the credit needs of the community.

PNB's strategy is to meet the financial service needs of the customers in the communities they serve. The bank offers a full range of deposit and loan products and services. There are no financial, legal, or other factors impeding PNB's ability to help meet the credit needs of the bank's AA. The bank's previous CRA rating was "Satisfactory Record of Meeting Community Credit Needs" as detailed in the Performance Evaluation dated October 18, 2010.

PNB's primary lending products are commercial and agriculture loans. These two lending categories account for 93 percent of loans originated and purchased from January 1, 2014, to May 31, 2016. We used these two lending products for the analysis of this evaluation. Consumer and residential real estate lending are not primary loan products, accounting for the remaining seven percent of the loans originated and purchased during this period.

<b>Table 1 - Loan Originations by Loan Type from January 1, 2014 through May 31, 2016</b>				
<b>Loan Category</b>	<b>Dollars (000s)</b>	<b>% of Dollars</b>	<b>Number of Loans</b>	<b>% of Number of Loans</b>
Commercial Loans	\$ 103,152	68.03%	970	40.93%
Agriculture Loans	\$ 37,525	24.75%	208	8.78%
Consumer Loans	\$ 7,265	4.79%	1,111	46.88%
Residential Loans	\$ 3,676	2.42%	81	3.42%
Total Originations	\$ 151,618	100%	2,370	100%

Source: Bank records from January 1, 2014 to May 31, 2016

As of March 31, 2016, PNB reported total loans of \$93 million and had a net loans and leases to total assets ratio of 36 percent. The loan portfolio composition is as follows:

<b>Table 2 - Loan Portfolio Summary by Loan Product March 31, 2016</b>		
<b>Loan Category</b>	<b>Dollars Outstanding (000s)</b>	<b>% of Outstanding Dollars</b>
Commercial Loans	\$ 47,872	51.46%
Agriculture Loans	\$ 19,635	21.11%
Residential Loans	\$ 19,615	21.09%
Consumer Loans	\$ 5,427	5.83%
Other Loans	\$ 473	0.51%
Total Loans	\$ 93,022	100%

Source: Call report dated March 31, 2016

## **DESCRIPTION OF ASSESSMENT AREAS**

PNB's assessment areas meet the requirements of the regulation and do not arbitrarily exclude any low- or moderate-income areas. PNB has three assessment areas: Henry County AA, Bureau/Whiteside County AA, and Stark County AA.

### **Henry County AA**

The Henry County AA is located in the Davenport-Moline-Rock Island, IA-IL Metropolitan Statistical Area (MSA) and consists of nine census tracts (CT). Two CTs are designated moderate-income (22 percent), while the remaining CTs are designated middle-income (78 percent). The moderate-income geographies are located in Kewanee, Illinois, and consists of the southern portion of the town. PNB ranks fourth in deposit market share of the thirteen financial institutions in Henry County according to the FDIC Market Share Report dated June 30, 2015.

The local economic condition is stable. According to the U.S. Department of Labor, the June 2016 unemployment rate for Henry County was 5.8 percent. The June 2016 unemployment rate for the State of Illinois was 6.2 percent and 4.9 percent for the U.S. Unemployment is lower than the state average but higher than the national average. Major employers include local school districts, Great Dane Trailers, local hospitals and healthcare facilities, and city and county government.

A community contact from the Henry County AA indicated the primary credit need of the AA is small business loans. The contact also stated there are no unmet credit needs or banking services not met or provided for by the local financial institutions. Overall, the contact felt the local financial institutions are supportive of the community and meet the credit needs of the area.

The Henry County AA generates 68 percent of PNB's deposits and 70 percent of their loans through its two branches (33 percent of PNB locations). The Henry County AA received a full-scope review for our lending test analysis.

The following is demographic information for the Henry County AA:

<b>Table 3 - Demographic Information for the Henry County AA</b>					
Demographic Characteristics	#	Low % of #	Mod % of #	Middle % of #	Upper % of #
Geographies (Census Tracts)	9	0%	22%	78%	0%
Population by Geography	28,604	0%	23%	77%	0%
Owner-Occupied Housing by Geography	8,674	0%	18%	82%	0%
Businesses by Geography	1,719	0%	16%	84%	0%
Farms by Geography	462	0%	5%	95%	0%
Family Distribution by Census Tract	7,706	0%	21%	79%	0%
Family Distribution by Income Level	7,706	23%	20%	24%	32%
Median Family Income	\$55,298	Median Housing Value			\$82,867
2016 FFIEC Estimated Median Family Income	\$68,800	Average Monthly Gross Rent			\$573
Households Below the Poverty Level	14%				

Source: 2010 Census data

**Bureau/Whiteside County AA**

The Bureau/Whiteside County AA is not located in a MSA and consists of four CTs: three CTs in Bureau County and one CT in Whiteside County. All CTs are designated middle-income. PNB ranks fifteenth in deposit market share of the twenty-five financial institutions in Bureau and Whiteside Counties according to the FDIC Market Share Report dated June 30, 2015.

The local economic condition is stable. According to the U.S. Department of Labor, the June 2016 unemployment rate for Bureau County was 5.8 percent and 5.9 percent for Whiteside County. The June 2016 unemployment rate for the State of Illinois was 6.2 percent and 4.9 percent for the U.S. Unemployment is lower than the state average for both counties but higher than the national average. Major employers include local school districts, Martin Engineering, local hospitals and healthcare facilities, and city and county government.

A community contact from the Bureau/Whiteside County AA indicated the primary credit need of the AA is small business loans and affordable housing. The contact also stated there are no unmet credit needs or banking services not met or provided for by the local financial institutions. Overall, the contact felt the local financial institutions met the credit needs of the area.

The Bureau/Whiteside County AA generates 22 percent of PNB’s deposits and 20 percent of their loans through its three branches (50 percent of PNB locations). The Bureau/Whiteside County AA received a full-scope review for our lending test analysis.

The following is demographic information for the Bureau/Whiteside County AA:

<b>Table 4 - Demographic Information for the Bureau/Whiteside County AA</b>					
Demographic Characteristics	#	Low % of #	Mod % of #	Middle % of #	Upper % of #
Geographies (Census Tracts)	4	0%	0%	100%	0%
Population by Geography	12,472	0%	0%	100%	0%
Owner-Occupied Housing by Geography	3,874	0%	0%	100%	0%
Businesses by Geography	630	0%	0%	100%	0%
Farms by Geography	309	0%	0%	100%	0%
Family Distribution by Census Tract	3,624	0%	0%	100%	0%
Family Distribution by Income Level	3,624	17%	20%	26%	37%
Median Family Income	\$53,435	Median Housing Value			\$96,740
2016 FFIEC Estimated Median Family Income	\$58,000	Average Monthly Gross Rent			\$587
Households Below the Poverty Level	10%				

Source: 2010 Census data

**Stark County AA**

The Stark County AA is located in the Peoria, IL MSA and consists of Stark County’s two CTs. Both CTs are designated middle-income. PNB ranks third in deposit market share of the four financial institutions in Stark County according to the FDIC Market Share Report dated June 30, 2015.

The local economic condition is stable. According to the U.S. Department of Labor, the June 2016 unemployment rate for Stark County was 6.7 percent. The June 2016 unemployment rate for the State of Illinois was 6.2 percent and 4.9 percent for the U.S. Unemployment is higher than both the state and national averages. Major employers include local school districts, agriculture service providers, and local and county government.

The Stark County AA generates 10 percent of PNB’s deposits and 10 percent of their loans through its one branch (17 percent of PNB locations). The Stark County AA received a limited-scope review for our lending test analysis due to the smaller volume of loans and deposits derived from this market.

The following is demographic information for the Stark County AA:

<b>Table 5 - Demographic Information for the Stark County AA</b>					
Demographic Characteristics	#	Low % of #	Mod % of #	Middle % of #	Upper % of #
Geographies (Census Tracts)	2	0%	0%	100%	0%
Population by Geography	5,994	0%	0%	100%	0%
Owner-Occupied Housing by Geography	1,969	0%	0%	100%	0%
Businesses by Geography	367	0%	0%	100%	0%
Farms by Geography	98	0%	0%	100%	0%
Family Distribution by Census Tract	1,700	0%	0%	100%	0%
Family Distribution by Income Level	1,700	22%	19%	28%	31%
Median Family Income	\$59,870	Median Housing Value			\$90,030
2016 FFIEC Estimated Median Family Income	\$69,500	Average Monthly Gross Rent			\$497
Households Below the Poverty Level	11%				

Source: 2010 Census data

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

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

PNB’s quarterly average loan-to-deposit ratio is less than reasonable given the bank’s size, financial condition, and AA credit needs. PNB’s quarterly average loan-to-deposit ratio for the period October 1, 2010, to March 31, 2016, is 47 percent. PNB had a quarterly low of 41 percent and a quarterly high of 55 percent. PNB’s 47 percent is down from the previous CRA evaluation’s average loan-to-deposit ratio of 60 percent. We attribute this to market competition in the bank’s AA as well as economic conditions. Competition for financial services within the AA is primarily from several local banks that serve the same communities and have a similar business focus.

PNB’s quarterly average loan-to-deposit ratio compares unfavorably to other community banks of similar size, location, and product offerings. PNB ranks seventh among seven similarly situated banks serving its AA. The quarterly average loan-to-deposit ratio for the other six banks over the same period ranged from 47 to 80 percent. The other similarly situated banks used for comparison are community banks located in the AA and range in asset size from \$200 million to \$500 million.

### **Lending in Assessment Area**

A substantial majority of the loans originated by PNB are to borrowers inside its AA. PNB’s lending to customers within its AA is outstanding for its primary loan types. The

following table details the bank’s lending within the AA by number of loan originations and dollar volume during the evaluation period:

<b>Table 6 - Lending in the Assessment Area</b>										
Loan Product	Number of Loans					Dollars of Loans \$(000)s				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Commercial	75	91%	7	9%	82	\$2,320	34%	\$4,409	66%	\$6,731
Agriculture	51	94%	3	6%	54	\$7,791	96%	\$349	4%	\$1,243
<b>Total</b>	<b>126</b>	<b>93%</b>	<b>10</b>	<b>7%</b>	<b>136</b>	<b>\$10,111</b>	<b>68%</b>	<b>\$4,758</b>	<b>32%</b>	<b>\$9,745</b>

Source: Sample of 82 commercial and 54 agriculture loans originated between 1/1/14 and 5/31/16

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

PNB’s lending reflects reasonable penetration among businesses and farms of different sizes, given the demographics of the AA.

**Business Loans**

The distribution of loans to businesses reflects excellent penetration among businesses of different sizes. Loans to small businesses are those with gross annual revenues of \$1 million or less.

Henry County AA

PNB originated 79 percent of commercial loans to small businesses. This is considered excellent when compared to demographic data that shows 71 percent of businesses in the Henry County AA are considered small businesses. The following table shows the distribution of commercial loans among different sized businesses in the AA.

<b>Table 7 - Borrower Distribution of Loans to Businesses of Different Sizes In Henry County AA</b>				
Business Revenues	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Business	71%	5%	24%	100%
% of Bank Loans in AA by #	79%	18%	3%	100%
% of Bank Loans in AA by \$	83%	16%	1%	100%

Source: Commercial loan data sampled; 2014 Business Geodemographic Data

Bureau/Whiteside County AA

PNB originated 100 percent of commercial loans to small businesses in the Bureau/Whiteside County AA. This is considered excellent when compared to demographic data that shows 70 percent of businesses in the Bureau/Whiteside County AA are considered small businesses. The following table shows the distribution of commercial loans among different sized businesses in the AA.

<b>Table 8 - Borrower Distribution of Loans to Businesses of Different Sizes In Bureau/Whiteside County AA</b>				
Business Revenues	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Business	70%	4%	26%	100%
% of Bank Loans in AA by #	100%	0%	0%	100%
% of Bank Loans in AA by \$	100%	0%	0%	100%

Source: Commercial loan data sampled; 2014 Business Geodemographic Data

PNB’s performance in the Stark County AA also shows excellent penetration and is consistent with the Henry and Bureau/Whiteside County AA results.

***Agriculture Loans***

The distribution of loans to farms reflects reasonable penetration among farms of different sizes. Loans to small farms are those with gross annual revenues of \$1 million or less. Higher commodity prices, increasing yields, and further consolidation in farming has resulted in an increase in the number of farms generating over one million dollars in annual revenues. The census data from 2010 indicates there are only a few farmers in the three AAs with annual revenues over \$1 million; however, PNB has several customers in the sample with higher annual revenues.

Henry County AA

PNB originated 85 percent of agricultural loans to small farms. This is considered reasonable compared to demographic data that shows 99 percent of farms in the AA are considered small farms. The following table shows the distribution of agriculture loans among different sized farms in the AA.

<b>Table 9 - Borrower Distribution of Loans to Farms of Different Sizes In Henry County AA</b>				
Farm Revenues	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Farm	99%	1%	0%	100%
% of Bank Loans in AA by #	85%	15%	0%	100%
% of Bank Loans in AA by \$	37%	63%	0%	100%

Source: Agriculture loan data sampled; 2014 Business Geodemographic Data

Bureau/Whiteside County AA

PNB originated 79 percent of agricultural loans to small farms. This is considered reasonable compared to demographic data that shows 99 percent of farms in the AA are considered small farms. The following table shows the distribution of agriculture loans among different sized farms in the AA.

<b>Table 10 - Borrower Distribution of Loans to Farms of Different Sizes In Bureau/Whiteside County AA</b>				
Farm Revenues	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Farm	99%	1%	0%	100%
% of Bank Loans in AA by #	79%	21%	0%	100%
% of Bank Loans in AA by \$	83%	17%	0%	100%

Source: Agriculture loan data sampled; 2014 Business Geodemographic Data

PNB’s performance in the Stark County AA also shows reasonable penetration and is consistent with the Henry and Bureau/Whiteside County AA results.

**Geographic Distribution of Loans**

The geographic distribution of loans reflects reasonable dispersion throughout the bank’s AA. The geographic distribution of loans is limited to the Henry County AA because there are no low- or moderate-income geographies in the Bureau/Whiteside and Stark County AAs. Since all of the geographies in the Bureau/Whiteside and Stark County AAs are middle- or upper-income, the analysis is not meaningful for these areas.

**Business Loans**

PNB’s geographic distribution of commercial lending reflects excellent dispersion in geographies of different income levels, including moderate-income geographies. The percentage of commercial loans originated in the moderate-income geographies exceeds the level of commercial businesses located in the moderate-income geographies of the Henry County AA.

<b>Table 11 – Geographic Distribution of Loans to Businesses in the Henry County AA</b>								
CT Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number	% of AA Businesses	% of Number	% of AA Businesses	% of Number	% of AA Businesses	% of Number
Commercial	0%	0%	16%	32%	84%	68%	0%	0%

Source: Commercial loan data sampled; 2014 Business Geodemographic Data

Agriculture Loans

PNB’s geographic distribution of agriculture lending reflects a reasonable dispersion in geographies of different income levels, including moderate-income geographies. The percentage of agriculture loans originated in the moderate-income geographies is commensurate the level of farms located in the moderate-income geographies of the Henry County AA.

Table 12 – Geographic Distribution of Loans to Farms in the Henry County AA								
CT Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Farms	% of Number	% of AA Farms	% of Number	% of AA Farms	% of Number	% of AA Farms	% of Number
Agriculture	0%	0%	5%	5%	95%	95%	0%	0%

Source: Agriculture loan data sampled; 2014 Business Geodemographic Data

### Responses to Complaints

PNB did not receive any complaints regarding its performance in helping to meet the credit needs within its AA during this evaluation period.

### Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. 25.28(c), or 12 C.F.R. 195.28(c), in determining a national bank’s (bank) or federal savings association’s (FSA) CRA rating, respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or FSA, or in any assessment area by an affiliate whose loans have been considered as part of the bank’s or FSA’s lending performance.

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