



SMALL BANK

Comptroller of the Currency
Administrator of National Banks
Washington, DC 20219

PUBLIC DISCLOSURE

February 20, 2007

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Southeast National Bank
Charter Number 23827**

**2036 East River Drive
Davenport, Iowa 52803**

**Comptroller of the Currency
North Central Illinois & Eastern Iowa Field Office
111 West Washington Street Suite 300
East Peoria, IL 61611**

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

Southeast National Bank (SENB) is rated Satisfactory.

- SENB's distribution of loans to individuals of different income levels and to businesses of different sizes is satisfactory.
- The geographic distribution of loans reflects satisfactory penetration among the census tracts (CT) in the assessment area (AA), including low- and moderate-income CTs.
- A substantial majority of the loans originated by SENB are to customers from within its AA.
- SENB's quarterly average loan-to-deposit ratio of sixty-two percent over the evaluation period is reasonable, given the bank's size, financial condition, and AA credit needs.

SCOPE OF EXAMINATION

This Performance Evaluation assesses Southeast National Bank's record of meeting the credit needs of the communities in which it operates. We evaluated SENB under the Small Bank performance criterion, which includes a lending test. The lending test evaluates a bank's record of helping to meet the credit needs of its assessment area through its lending activities.

- The evaluation period covers loans originated or purchased from August 7, 2001 through January 31, 2007.
- SENB has one assessment area, generating a majority of the bank's loans and deposits. The lending test is based on SENB's primary loan products.
- Conclusions regarding the bank's lending performance are based on residential real estate loans and commercial loans originated or purchased from January 1, 2005 through January 31, 2007, utilizing 2000 census data.
- We reviewed residential related loans reported under the Home Mortgage Disclosure Act (HMDA) for the years 2005 and 2006. We conducted a Data Integrity review of the HMDA data by comparing information from the bank's loan application registers to actual loan files. We found the HMDA data to be accurate and reliable for use in this examination.
- SENB does not maintain revenue information on commercial loan customers outside of the individual credit files. Thus, a sample of 41 commercial loans originated during the evaluation period was used in accessing the level of lending to commercial borrowers of different sizes.

DESCRIPTION OF INSTITUTION

SENB is a \$121 million interstate financial institution located in Davenport, Iowa, on U.S. Highway 67 along the Mississippi River in Scott County, Iowa. Although SENB is legally headquartered in Davenport, Iowa, the primary banking office is located on the Avenue of the Cities in Moline, Illinois. Both of those locations, along with one additional office in Moline, are full-service offices equipped with drive-up facilities and an Automated Teller Machine (ATM). SENB has three additional ATMs located in Moline; at the Highland Park Bowl, at the Radisson Hotel next to the Mark of the Quad Cities, and on John Deere Road next to the McLaughlin Cadillac Volvo car dealership.

Customers may also access their accounts through telephone banking or by the Internet. Internet and telephone banking services include transfers between FNB accounts, review of account balances or transactions, access loan account information, and bill-paying capability for the Internet banking product. The bank also offers debit cards providing customers with additional access to their accounts at point of sale or ATM locations.

Since the previous CRA evaluation, SENB closed one branch office in May 2002. The branch was located inside the Eagle Food Store at 4150 Archer Drive in East Moline, Illinois. The lease was not offered for renewal by the Eagle Food Store because the store was closing. During the examination, SENB opened a new full-service branch at 3401 53rd Avenue in Bettendorf, Iowa. This office opened February 21, 2007, and is equipped with drive-up facilities and an ATM.

The bank is a wholly-owned subsidiary of McLaughlin Holding Company, (MHC), and a one-bank holding company headquartered in Moline, Illinois. As of December 31, 2006, the holding company had total assets of \$124 million. The holding company owns MBC Financial Corp., an equipment leasing company. SENB's affiliate does not negatively impact the bank's ability to meet the credit needs of the community.

SENB's business strategy is to offer a convenient traditional style of banking, with local decision-making, community involvement, and to provide high-quality, personal service to all customers.

SENB's two primary lending products are residential real estate and commercial loans. These two lending categories account for 89 percent of all loan originations during the evaluation period and make up 85 percent of the outstanding loan balances as December 31, 2006. Thus, these two lending products were used for the analysis of this evaluation. Agricultural and consumer lending are not primary loan products accounting for 11 percent of all loan originations during the evaluation period and the remaining 15 percent of the outstanding loan balances as of December 31, 2006.

**Table 1 – Loan Originations by Loan Type from
January 1, 2005 through January 31, 2007**

Loan Category	\$ (000)	%
Commercial Loans	\$ 54,581	56%
Residential Loans	\$ 32,150	33%
Consumer Loans	\$ 9,639	10%
Agricultural Loans	\$ 1,301	1%
Total Originations	\$ 97,671	100%

Source: Bank Records from January 1, 2005 – January 31, 2007

As of December 31, 2006, the bank reported \$66 million in outstanding loans and had a net loans and leases to total assets ratio of 55 percent. The loan portfolio consists of the following:

Table 2 – Loan Portfolio Summary by Loan Type December 31, 2006		
Loan Category	\$(000)	%
Commercial Loans	\$ 30,399	46%
Residential Loans	\$ 25,860	39%
Agricultural Loans	\$ 8,646	13%
Consumer Loans	\$ 1,319	2%
Total Loans	\$ 66,224	100%

Source: Call Report December 31, 2006

There are no financial conditions, legal constraints or other factors that would hinder the bank's ability in helping to meet the credit needs of the communities within its assessment area. Tier 1 capital was reported at \$14 million as December 31, 2006. The bank's previous CRA rating as of August 7, 2001 was Satisfactory.

DESCRIPTION OF THE ASSESSMENT AREA

SENB's Assessment Area (AA) meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income areas. SENB has one AA (no change from the prior evaluation), consisting of Rock Island County in Illinois and Scott County in Iowa. The AA lies entirely in the Davenport-Moline-Rock Island MSA (DMRI) and contains eighty-six census tracts (CTs). There are four CTs designated low-income (4%); twenty-four CTs are designated moderate-income (28%), while the remaining fifty-eight CTs are designated as middle- or upper-income (68%).

The four CTs designated as low-income are located in the older portions of downtown Davenport, Rock Island, and Moline, near the Mississippi River. Twenty-one of the twenty-four moderate-income CTs are along both sides of the Mississippi River front. Two of the other moderate-income CTs are along the Rock River in Illinois, while the one remaining moderate-income CTs is on the far western side of Davenport.

Competition for financial services within the AA remains strong. There are no less than thirty-

four banks, thrifts, and credit unions with facilities in the Quad Cities area.

The following is demographic information for the assessment area:

Table 3 - Demographic Information for the Assessment Area					
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #
Geographies (Census Tracts)	86	4%	28%	48%	20%
Population by Geography	308,042	3%	19%	55%	23%
Owner-Occupied Housing by Geography	86,256	1%	15%	58%	26%
Businesses by Geography	19,350	7%	21%	45%	27%
Farms by Geography	953	2%	8%	60%	30%
Family Distribution by Census Tract	81,511	3%	17%	56%	24%
Family Distribution by Income Level	81,511	19%	18%	24%	39%
Distribution of Low- and Moderate- Income Families throughout the AA	30,493	6%	26%	54%	14%
Median Family Income	\$51,183	Median Housing Value			\$86,961
2006 HUD Adjusted Median Family Income for the MSA	\$60,100	Median Year Built			1959
Families Below the Poverty Level	8%	Average Monthly Gross Rent			\$ 468

Source: 2000 U.S. Census Data

Economic Data

The local economy is considered stable. The December 2006 unemployment rates for both of the counties within the AA compare favorably to the 4.5% national average. The December 2006 unemployment rate for Rock Island County is 3.7% and compares favorably to the 4.1% State of Illinois average rate. Meanwhile, the December 2006 unemployment rate for Scott County is slightly above the 3.5% State of Iowa average rate. The economy of the AA is concentrated in the retail, healthcare, manufacturing, and agricultural industries. Major employers include; Caterpillar, Inc., Deere & Co., Rock Island Arsenal, IBP, Inc., Genesis Medical Center, Trinity Medical Center, the local school districts, and city, county, and state governmental entities.

We contacted an economic development official during the examination. The official indicated the primary credit needs in the assessment area are commercial, small business, residential, car, and general consumer loans. He felt SENB and other local financial institutions were actively meeting the credit needs of the area. The contact stated the economy in the assessment area continues to experience stabilized growth. He said the Quad Cities area economy is now exceeding the peak level established in 1979. Unemployment continues to decline, and while this is good, it is making it more difficult to attract new businesses. The contact indicated

several area banks, including SENB, are actively involved with the economic development organizations in the area and remain very supportive of efforts to increase commercial opportunities to strengthen the local economy. The contact indicated there are not any credit needs or banking services not met or provided for by the local financial institutions.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

SENB meets the standards for satisfactory performance.

- The distribution of loans to individuals of different income levels and businesses of different sizes is satisfactory.
- The geographic distribution of loans reflects satisfactory penetration among the census tracts in the AA, including low- and moderate-income census tracts.
- A substantial majority of the loans originated by SENB are to customers from within its AA.
- SENB's average loan-to-deposit ratio is reasonable given the bank's size, financial condition, and AA credit needs.

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

The distribution of loans reflects a reasonable penetration among individuals of different income levels (including low-, and moderate-income) and businesses of different sizes.

Commercial Loans

SENB's performance of lending to businesses of different sizes is reasonable. Based on our sample, sixty-six percent of the loans were made to small businesses, while forty-one percent of the dollar amounts were loans made to small businesses. Small businesses are businesses with annual gross revenues equal to or less than one million dollars. The demographic data for the AA shows that sixty-one percent of the businesses reporting revenue data in the AA have revenues equal to or less than one million dollars.

The following table shows the distribution of commercial loans among businesses of different sizes within the AA:

Table 4 – Borrower Distribution of Loans to Businesses of Different Sizes					
Business Revenues	Number of Loans		% Businesses in AA**	Dollars of Loans	
	#	%		\$(000)	%
≤\$1,000,000	27	66%	61%	\$ 2,558	41%
>\$1,000,000	14	34%	6%	\$ 3,632	59%
Total	41	100%	67%	\$ 6,190	100%

Source: Bank records on new loans originated from January 1, 2005 to January 31, 2007; 2000 Census Data.

** 33 percent of AA businesses did not report revenue data.

Residential Real Estate Loans

SENB's lending to borrowers of different income levels regarding residential real estate is adequate. Based on our sample, lending to moderate-income borrowers exceeds the percentage of moderate-income families in the AA, while lending to low-income borrowers is below the percentage of low-income families in the AA. Although the lending to low-income borrowers is below the percentage of low-income families in the AA, this is still considered adequate given an eight percent family poverty rate in the AA.

Table 5 – Borrower Distribution of Residential Real Estate Loans in the AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number	% of AA Families	% of Number	% of AA Families	% of Number	% of AA Families	% of Number
Residential	19%	12%	18%	20%	24%	25%	39%	43%

Source: Bank records on loans originated or purchased from January 1, 2005 to January 31, 2007; 2000 Census Data.

GEOGRAPHIC DISTRIBUTION OF LOANS

The geographic distribution of loans reflects reasonable dispersion throughout the AA.

Commercial Loans

SENB's geographic distribution of commercial lending reflects a reasonable dispersion in CTs of different income levels, including low- and moderate-income CTs. Based on the commercial loans originated during the evaluation period, the percentage of commercial loans originated in low-income CTs is slightly below the level of commercial businesses located in the low-income CTs within the AA. Meanwhile, the percentage of commercial loans originated in moderate-income CTs is well above the level of commercial businesses located in moderate-income CTs within AAs.

Table 6 – Geographic Distribution of Loans to Businesses in the AA								
Census Tract 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	7%	5%	21%	37%	45%	39%	27%	19%

Source: Bank records on new loans originated or purchased from January 1, 2005 to January 31, 2007; 2000 Census Data.

Residential Real Estate Loans

SENB's geographic distribution of residential lending reflects a satisfactory level of penetration in census tracts of different income levels, including low- and moderate-income CTs. Based on the residential loans originated during the evaluation period, the percentage of residential loans originated in low-income CTs meets the level of owner occupied housing located in the low-income CTs within the AA. The percentage of residential loans originated in moderate-income CTs is below the level of owner occupied housing located in the moderate-income CTs within the AA.

Table 7 – Geographic Distribution of Residential Real Estate Loans in the AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Owner Occupied Housing	% of Number	% of AA Owner Occupied Housing	% of Number	% of AA Owner Occupied Housing	% of Number	% of AA Owner Occupied Housing	% of Number
Residential	1%	1%	15%	11%	58%	62%	26%	26%

Source: Bank records on new loans originated or purchased from January 1, 2005 to January 31, 2007; 2000 Census Data.

LENDING IN THE ASSESSMENT AREA

A substantial majority of the loans originated by SENB are to customers within its AA. SENB's lending to customers within the AA for all loan types is reasonable. The following table details the bank's lending within the AA by number of loan originations and dollar volume during the evaluation period.

Table 8 – Loans Originated within the Assessment Area										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$(000)	%	\$(000)	%	
Commercial	315	94%	20	6%	335	\$ 52,782	97%	\$ 1,799	3%	\$ 54,581
Residential	161	94%	11	6%	172	\$ 18,579	93%	\$ 1,406	7%	\$ 19,985
Totals	476	94%	31	6%	507	\$ 71,361	96%	\$ 3,205	4%	\$ 74,566

Source: Bank HMDA-LAR and bank records on new loans originated in 2005, 2006, and through January 31, 2007.

LOAN-TO-DEPOSIT RATIO

SENB's average loan-to-deposit ratio is reasonable given the bank's size, financial condition, and AA credit needs. SENB's quarterly average loan-to-deposit ratio for the period July 1, 2001, to December 31, 2006, was sixty-two percent. The quarterly average loan-to-deposit ratio for other similarly situated financial institutions over the same time period ranged from forty-nine percent to eighty-two percent. SENB's average loan-to-deposit ratio is comparable with the other five similarly situated banks, which range in asset size from \$71 million to \$150 million.

The similarly situated banks utilized for comparison purposes are community banks located within the AA counties.

RESPONSES TO COMPLAINTS

SENB has not received any 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.