



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

March 8, 2002

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**LNB National Bank
Charter Number 14518**

**200 N. Main Street
Leland, IL 60531**

**Comptroller of the Currency
ADC - Chicago North
85 West Algonquin Road, Suite 340
Arlington Heights, IL 60005**

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.

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INSTITUTION'S CRA RATING

This institution is rated Satisfactory.

The major factors that support LNB National Bank's rating include:

- A substantial majority of loans are in the bank's assessment areas.
- Given the demographics of the assessment areas, the distribution of loans reflects excellent penetration among individuals of different income levels (including low- and moderate-income).
- Given the demographics of the assessment areas, the distribution of loans reflects reasonable penetration among businesses of different sizes.
- The loan-to-deposit ratio is reasonable given the bank's size, financial condition and assessment area credit needs.

DESCRIPTION OF INSTITUTION

The LNB National Bank (LNB) is a \$75.5 million intrastate financial institution. LNB is headquartered in De Kalb, Illinois, approximately 60 miles west of Chicago, Illinois, and 40 miles southwest of Rockford, Illinois.

LNB is a wholly owned subsidiary of Landmark Financial Group, Inc. (LFG) which is headquartered in Belvidere, Illinois. As of December 31, 2001, LFG was a three-bank holding company with approximately \$650 million in consolidated assets.

LNB has three offices and two ATM locations with one being a drive-up. The main office is located in De Kalb, Illinois. The other two branches are in Serena and Leland, Illinois. LNB's two ATM locations are both in De Kalb, Illinois. LNB's previous CRA rating, as of June 27, 1997, was Satisfactory. Other than the bank and its former holding company being acquired by LFG, there have been no changes in the bank's corporate structure since the last CRA exam.

As of December 31, 2001, the bank reported approximately \$43 million in outstanding loans and had a net loans and leases to assets ratio of 57 percent. Tier 1 capital was reported at \$4.3 million. The bank is primarily a residential lender. The loan portfolio consists of the following:

Loan Category	\$(000)	Percent
Residential Loans	\$27,774	64.5%
Commercial Loans	\$ 6,020	14.0%
Individual Loans	\$ 6,100	14.2%
Agricultural Loans	\$ 3,159	7.3%
Other	\$ 13	0.0%
Total	\$43,066	100%

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 its community.

DESCRIPTION OF LNB'S ASSESSMENT AREAS

LNB has two assessment areas (AAs): a portion of **La Salle County**, which is not part of any metropolitan statistical area (MSA); and a portion of **De Kalb County**, which is part of the Chicago Metropolitan Statistical Area (1600). Our analysis focused on the bank's performance separately in each of those AAs since one of the counties is not part of any MSA. The following provides further details regarding each AA.

De Kalb County AA (MSA#1600):

De Kalb County is located in northeastern Illinois, directly north of La Salle County. This AA consists of 15 geographies. One geography (6.67%) is considered low-income. Two geographies (13.33%) are considered moderate-income. Ten geographies (66.67%) are considered middle-income. One geography (6.67%) is considered upper-income and one

geography (6.67%) has no income designation. There is one low-income geography and there are three moderate-income geographies in all of De Kalb County. This AA meets the requirements of the regulation and does not arbitrarily exclude low- and moderate-income geographies.

Major towns in the AA are De Kalb, Sycamore, Genoa, Cortland, and Malta. The total population in the AA is 55,376 based on 1990 census data. The 2001 HUD adjusted median family income for De Kalb County is \$70,500. There are 11,290 families in the AA, of which 19.4% are low-income, 21.6% are moderate-income, 27.0% are middle-income and 31.9% are upper income.

Based on 2001 business demographic data, there were a total of 2,691 businesses in the AA. Of these, 2,397 (89.07%) had revenues of less than \$1 million and 190 (7.06%) had revenues of more than \$1 million and 104 (3.86%) did not report revenue information. There were 3.38 percent of the businesses in the low-income geography and 16.98 percent in moderate-income geographies. The remaining 79.64 percent of the businesses were in middle or upper income geographies.

The local housing demand is strong. The 1990 US Census data shows that there are 18,982 housing units within the AA. Of these, 50.68 percent are owner-occupied units, 45.81 percent are rental-occupied units, and 3.51 percent are vacant housing units. The large volume of rental-occupied units is due to the high demand for off-campus housing for students of Northern Illinois University.

The local economy is considered good with a 2001 unadjusted seasonal unemployment rate of approximately 2.21 percent. Major employers in the community are Northern Illinois University employing about 3,553 persons, Kishwaukee Community Hospital with a staff of approximately 490 persons and Wal-Mart employing about 450 persons. The majority of businesses in the AA are small businesses. Approximately 97 percent of the businesses have less than 50 employees with 1,753 (65.14%) of the businesses having only one to four employees.

LNB's major competitors within this AA include National Bank and Trust of Sycamore representing 21.85 percent of the deposit market share, Castle Bank, National Association with 25.55 percent, Resource Bank, National Association reporting 11.68 percent, and Citizens First National Bank with 5.34 percent. LNB has 1.73 percent of the deposit market share in De Kalb County.

We conducted one community contact interview during our examination relating to this AA. We contacted the Illinois State Representative serving the 70th Congressional District for the State of Illinois. The contact indicated the major credit needs were financing of housing and small businesses. The contact indicated that the performance of local financial institutions has been strong. He added that the local financial institutions all play an active role in the business, housing and agricultural sectors.

La Salle County AA (non-MSA):

La Salle County is also located in northeastern Illinois, directly south of De Kalb County. The

AA consists of four geographies. Two geographies (50%) are considered middle-income and two geographies (50%) are considered upper-income. In all of La Salle County, there are no low-income geographies and there is one moderate-income geography. This AA meets the requirements of the regulation and does not arbitrarily exclude low- and moderate-income geographies.

Major towns in the AA are Leland and Serena. The total population in the AA is 20,099 based on 1990 census data. The 2001 HUD adjusted median family income for La Salle County is \$44,900. There are 5,362 families in the AA, of which 11% are low-income, 12% are moderate-income, 23.9% are middle-income and 53% are upper income.

Based on 2001 business demographic data, there were a total of 945 businesses in the AA. Of these, 853 (90.26%) had revenues of less than \$1 million and 49 (5.19%) had revenues of more than \$1 million and 43 (4.55%) did not report revenue information.

The local housing demand in this AA is moderate. The 1990 US Census data shows that there are 7,422 housing units with the AA. Of these, 70.76 percent are owner-occupied units, 21.22 percent are rental-occupied units, and 8.02 percent are vacant housing units.

The local economy is considered good with a 2001 unadjusted seasonal unemployment rate of approximately 2.53 percent. The major employers in the community are Caterpillar and the local penitentiary. The majority of businesses in the AA are small businesses. Approximately 95 percent of the businesses have less than 50 employees with 704 (74.5%) of the businesses having only one to four employees.

LNB's major competitors within this AA include National Bank of Earlville (1.91% of deposit market share in the county) and Ottawa Savings Bank (4.73% of deposit market share in the County). LNB has 1.34% of the deposit market share in La Salle County.

We conducted one community contact interview during our examination relating to this AA. We contacted the Mayor of the Village of Leland. The contact indicated the major credit need in the community is financing for small businesses. The contact indicated that the performance of local financial institutions has been excellent since most are locally owned and upper management is actively involved in the community.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The bank's average loan-to-deposit ratio is reasonable given the bank's size, financial condition, and AA credit needs. LNB's quarterly average loan-to-deposit ratio for the period from March 31, 1997 to December 31, 2001 was 74.35 percent. The quarterly average loan-to-deposit ratios for other similarly situated financial institutions located within the AA range from 67.24 percent to 82.37 percent. LNB ranked second of five institutions with assets in the range of \$75-250 million and locations in De Kalb County, Illinois. LNB's net loan-to-deposit ratio has remained relatively stable with a low during the period of 67.18 on December 31, 1998, and a high of

83.97 on March 31, 2000.

Lending in Assessment Area

A substantial majority of the bank's loans are inside the bank's assessment areas. Our review included all HMDA reportable loans for the years 2000, 2001, and year-to-date 2002. For commercial lending, a total sample of 20 loans was used with cumulative originations representing over 80% of LNB's total commercial loan balance as of December 31, 2001. The following table details the bank's residential real estate and commercial lending within the assessment areas by number of loan originations and dollar volume. In the total of both sampled loan types, 81.73% of total loans and 85.42% of total dollar volume was within LNB's assessment areas.

Dollars=\$000		Mortgages			Commercial			Total		
		IN	OUT	Total	IN	OUT	Total	IN	OUT	Total
2002	Count	2	1	3	0	0	0	2	1	3
	%	66.67%	33.33%	100.00%	0.00%	0.00%	0.00%	66.67%	33.33%	100.00%
	\$\$	\$280	\$215	\$495	\$0	\$0	\$0	\$280	\$215	\$495
	%	56.57%	43.43%	100.00%	0.00%	0.00%	0.00%	56.57%	43.43%	100.00%
2001	Count	23	5	28	11	0	11	34	5	39
	%	82.14%	17.86%	100.00%	100.00%	0.00%	100.00%	87.18%	12.82%	100.00%
	\$\$	\$2,484	\$690	\$3,174	\$4,029	\$0	\$4,029	\$6,513	\$690	\$7,203
	%	78.26%	21.74%	100.00%	100.00%	0.00%	100.00%	90.42%	9.58%	100.00%
2000	Count	41	12	53	8	1	9	49	13	62
	%	77.36%	22.64%	100.00%	88.89%	11.11%	100.00%	79.03%	20.97%	100.00%
	\$\$	\$3,603	\$1,010	\$4,613	\$885	\$10	\$895	\$4,488	\$1,020	\$5,508
	%	78.11%	21.89%	100.00%	98.88%	1.12%	100.00%	81.48%	18.52%	100.00%
Total	Count	66	18	84	19	1	20	85	19	104
	%	78.57%	21.43%	100.00%	95.00%	5.00%	100.00%	81.73%	18.27%	100.00%
	\$\$	\$6,367	\$1,915	\$8,282	\$4,914	\$10	\$4,924	\$11,281	\$1,925	\$13,206
	%	76.88%	23.12%	100.00%	99.80%	0.20%	100.00%	85.42%	14.58%	100.00%

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

The overall rating for the bank's lending to borrowers of different is excellent. The bank's record of extending credit to individuals of different income levels reflects excellent lending to low- and moderate-income people within the AAs. The bank's record of lending to small businesses reflects a reasonable level of lending to businesses of different sizes.

LNB's primary loan types are residential and commercial loans. Both of these loan types constitute a significant volume of LNB's lending mix. Residential loans make up 64.5% of LNB's entire loan portfolio and have historically been LNB's primary loan product. The commercial loan portfolio, as illustrated in the table on page 3, is currently the third largest (14.0%) loan type at LNB based on the current dollars outstanding. Individual loans currently make up 14.2% of the loan mix or \$80 thousand more than the commercial loan dollars

outstanding. However, current lending levels and origination activity in the commercial loan portfolio warrant consideration. During calendar year 2001, LNB's commercial loan portfolio grew by about 240%; during that same period, individual loans only grew by about 17%. Furthermore, both of the community contacts made during the course of this exam identified a growing demand in commercial lending in the area. LNB's management strategy has sought to meet the growing commercial demand within its AAs.

LNB's residential HMDA reportable loans consist of home purchase and refinancing loans. Performance in home mortgage products were weighted more heavily than that in commercial loans, as mortgage lending represents a larger portion (64.5%) of LNB's loan portfolio and is still a stronger focus of its business strategy. As mentioned, commercial loans currently represent just 14% of LNB's loan portfolio.

Performance in the De Kalb AA was weighted more heavily than performance in the La Salle AA, as the distribution of opportunities in the MSA AA is much greater. The population in the De Kalb AA is over 3 times larger than that of the La Salle AA. Also, the distribution of businesses, both large and small, is about 4 to 1 between the De Kalb AA and the La Salle AA. About 76% of the number and 80% of the dollar volume of LNB's mortgage loans were made in the De Kalb AA. About 80% of the number and about 95% of the dollar volume of LNB's commercial loans were made in the De Kalb AA.

De Kalb AA-

HMDA Loan Originations:

The borrower distribution of home purchase loans is excellent. Home purchase loans made to low- and moderate-income borrowers (29.2 and 45.8 percent, respectively) exceeded the percentage of low- and moderate-income families (19.4 and 21.6 percent, respectively) within the AA. The bank made 24 home purchase loans within the AA during 2000 and 2001. Seven loans totaling \$316 thousand were made to low-income borrowers and eleven loans totaling \$1.104 million were made to moderate-income borrowers.

The borrower distribution of refinancing loans is reasonable. Refinancing loans made to low- and moderate-income borrowers (9.1 and 9.1 percent, respectively) trailed the percentage of low- and moderate-income families (19.4 and 21.6 percent, respectively) within the AA. However, the bank only made 11 refinancing loans within the AA during 2000 and 2001. Two loans totaling \$81 thousand were made to low- and moderate-income borrowers and nine loans totaling \$641 thousand were made to middle- and upper-income borrowers.

MSA	LOW					MODERATE					MIDDLE					UPPER				
	LNB				AA	LNB				AA	LNB				AA	LNB				AA
Loan type:	#Ins	%Ins	ttl.\$\$	%\$\$	%fam	#Ins	%Ins	ttl.\$\$	%\$\$	%fam	#Ins	%Ins	ttl.\$\$	%\$\$	%fam	#Ins	%Ins	ttl.\$\$	%\$\$	%fam
Home purchase	7	29.2%	\$316	15.6%	19.4%	11	45.8%	\$1,104	54.5%	21.6%	4	16.7%	\$360	17.8%	27.0%	2	8.3%	\$247	12.2%	31.9%
Refinancing	1	9.1%	\$23	3.2%	19.4%	1	9.1%	\$59	8.2%	21.6%	3	27.3%	\$70	9.7%	27.0%	6	54.6%	\$571	79.0%	31.9%

Commercial Loan Originations:

The distribution of commercial loans reflects reasonable penetration among businesses of different sizes. In the sample, LNB made 12 loans (75%) to businesses with revenues under \$1 million; the dollar volume of those loans was just over \$3.3 million (71.24%). Businesses with revenues under \$1 million make up 92.08% of the businesses in this AA. The other 25% of LNB's commercial loans were made to businesses with revenues over \$1 million; the dollar volume of those loans made up almost 29% of LNB's total dollar volume of loans in this sample. Businesses with revenues over \$1 million made up about 8% of the businesses in this AA.

Number:	MSA	%of Total loan amount in MSA	# of Busns in the MSA	% of Busns in the MSA
Number of loans:				
Busn.with revenues >\$1MM	4	25.00%	180	7.92%
Busn.with revenues <\$1MM	12	75.00%	2,092	92.08%
Total dollars:				
Busn.with revenues >\$1MM	\$1,350,000	28.76%		
Busn.with revenues <\$1MM	\$3,343,989	71.24%		

La Salle AA-

HMDA Loan Originations:

The total number and dollar volume of home purchase loans made in this AA is minimal. While there were no home purchase loans made to low- and moderate-income borrowers, LNB only made four home purchase loans in this entire AA during 2000 and 2001. The total dollar volume of those four loans only amounted to \$250 thousand or 11% of all of the home purchase loans LNB made during that period.

The borrower distribution of refinancing loans is reasonable. Refinancing loans made to low- and moderate-income borrowers (14.3 and 14.3 percent, respectively) exceeded the percentage of low- and moderate-income families (11.0 and 12.0 percent, respectively) within the AA. However, the bank only made 7 refinancing loans within the AA during 2000 and 2001. Two loans totaling \$66 thousand were made to low- and moderate-income borrowers and five loans totaling \$370 thousand were made to middle- and upper-income borrowers.

NONMSA	LOW					MODERATE					MIDDLE					UPPER				
	LNB					AA					LNB					AA				
Loan type:	#Ins	%Ins	tvl.\$	\$\$	%fam	#Ins	%Ins	tvl.\$	\$\$	%fam	#Ins	%Ins	tvl.\$	\$\$	%fam	#Ins	%Ins	tvl.\$	\$\$	%fam
Home purchase	0	0.0%	\$0	0.0%	11.0%	0	0.0%	\$0	0.0%	12.0%	1	25.0%	\$90	36.0%	23.9%	3	75.0%	\$160	64.0%	53.0%
Refinancing	1	14.3%	\$39	8.9%	11.0%	1	14.3%	\$27	6.2%	12.0%	0	0.0%	\$0	0.0%	23.9%	5	71.4%	\$370	84.9%	53.0%

Commercial Loan Originations:

The distribution of commercial loans reflects reasonable penetration among businesses of different sizes. In the sample, LNB made 3 loans (75%) to businesses with revenues under \$1 million; the dollar volume of those loans was \$215 thousand (87.76%). Businesses with revenues under \$1 million make up 92.94% of the businesses in this AA. The other 25% of LNB's commercial loans were made to businesses with revenues over \$1 million; the dollar

volume of those loans made up just over 12% of LNB's total dollar volume of loans in this sample. Businesses with revenues over \$1 million made up about 7% of the businesses in this AA.

Number:	Non-MSA	% of Total loan amount in Non-MSA	# of Busns in the Non-MSA	% of Busns in the Non-MSA
Number of loans:				
Busn.with revenues >\$1MM	1	25.00%	45	7.06%
Busn.with revenues <\$1MM	3	75.00%	592	92.94%
Total dollars:				
Busn.with revenues >\$1MM	\$30,000	12.24%		
Busn.with revenues <\$1MM	\$215,000	87.76%		

Geographic Distribution of Loans

The geographic distribution of the bank's home mortgage loans and commercial loans reflects a reasonable dispersion throughout the geographies in LNB's AAs.

De Kalb AA-

LNB's De Kalb AA is made up of 15 geographies with one (6.67%) low income geography, two (13.33%) moderate income geographies, ten (66.67%) middle income geographies, one (6.67%) upper income geography and one (6.67%) geography has no income designation.

LNB made one (4.17%) home purchase and no refinance loans to individuals residing in the one low income tract (6.67%) in LNB's De Kalb AA. LNB made two (8.33%) home purchase and one (9.09%) refinance loans to individuals residing in the two (13.33%) moderate-income tracts in LNB's De Kalb AA. LNB made 75% and 54.55% of its home purchase and refinancing loans to individuals residing in the ten (66.67%) middle-income tracts in LNB's De Kalb AA. The remaining 12.5% of home purchase loans and 36.36% of refinance loans were made to individuals residing in LNB's one (6.67%) upper-income tract.

La Salle AA-

LNB's La Salle AA is made up of four geographies with no low- or moderate-income geographies, two (50%) middle income geographies and two (50%) upper income geographies.

Since there are no low- or moderate-income geographies in LNB's La Salle AA, analysis of the bank's geographic lending performance would be meaningless and, consequently, was not performed.

Tract Income Level	LNB HMDA PURCHASE LOANS IN MSA AA				TRACTS IN LNB MSA AA		Owner occupied units	
	Applicant Count	%	\$Amount	%	Tract Count	%	Count	%
Low	1	4.17%	\$54	2.66%	1	6.67%	51	0.53%
Mod	2	8.33%	\$176	8.68%	2	13.33%	881	9.16%
Mid	18	75.00%	\$1,423	70.20%	10	66.67%	7494	77.90%
Upper	3	12.50%	\$374	18.45%	1	6.67%	1194	12.41%

NA	0	0.00%	\$0	0.00%	1	6.67%	0	0.00%
Total:	24	100.00%	\$2,027	100.00%	15	100.00%	9620	100.00%

Responses to Complaints

LNB has received no complaints about its performance in helping to meet the credit needs within its AA during this evaluation period.

Fair Lending Review

Any analysis of recent public comments, consumer compliant information, and Home Mortgage Disclosure act (HMDA) lending data was performed according to the OCC's risk based fair lending approach. Based on its analysis of the information, the OCC decided that a comprehensive fair lending examination would not need to be conducted in connection with the CRA evaluation this year. The latest comprehensive fair lending exam was performed in June of 1997.