



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

August 7, 2001

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Southeast National Bank
Charter Number 23827

2036 East River Drive
Davenport, Iowa 52803

Comptroller of the Currency
ADC-North Central Illinois & East Iowa
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.

GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the 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. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the Community Reinvestment Act (CRA) performance of Southeast National Bank (SENB), Davenport, Iowa, as prepared by The Comptroller of the Currency, the institution's supervisory agency, as of August 7, 2001. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.

INSTITUTION RATING

INSTITUTION'S CRA RATING: This institution is rated "Satisfactory".

SENB's rating is based on the following:

- The bank's distribution of lending to individuals of different income levels reflects reasonable lending to low- and moderate-income people.
- The bank's record of lending to small businesses reflects a good level of lending to businesses of different sizes.
- The bank's average net loan-to-deposit ratio over the last five quarters is reasonable.

DESCRIPTION OF INSTITUTION

SENB is an interstate institution headquartered in Davenport, Iowa. SENB serves the Quad City area, which includes the cities of Davenport and Bettendorf, Iowa and Rock Island and Moline, Illinois. Other major cities located in the Davenport-Moline-Rock-Island (DMRI) Metropolitan Statistical Area (MSA) are East Moline, Milan, and Silvis, Illinois. The DMRI MSA has a population of 299,702 according to 1990 census data.

The AA consists of Scott and Rock Island counties within the DMRI MSA. SENB operates four locations within the AA, three in Rock Island County, Illinois, and one in Scott County, Iowa, which is the newest and was opened in December 1999. Drive-up facilities are available at all locations, except for the Eagle Grocery Store, in-store location. There are seven Automated Teller Machines (ATM's) available, six in Illinois and one in Iowa.

SENB is owned by McLaughlin Holding Company, a one-bank holding company headquartered in Moline, Illinois with assets of \$135 million. There is one affiliate, MBC Financial Corp., an equipment leasing company. As of June 30, 2001 SENB had \$127 million in total assets. The bank's Tier 1 capital was \$13 million and the loan portfolio was 48% of total assets.

The bank offers traditional banking services and lending products. SENB continues to be community oriented and offers a wide variety of loan products; commercial business, commercial real estate, consumer, and many types of residential real estate related products.

Loan Portfolio Mix by Loan Type		
Type of Loan	\$ (000's)	Percent
Commercial related loans	\$ 26,605	43%
Residential related loans	\$ 21,134	34%
Consumer related loans	\$ 14,398	23%
Total Loans	\$ 62,137	100%

Source: 6/30/01 Call Report

To increase SENB's presence in the Quad Cities' market and to expand its growth opportunities, a new facility was built in Davenport, Iowa. The Iowa side of the Quad Cities has a larger population and has had the majority of economic expansion in the area during the past 10 to 15 years. In order to meet the requirements of the State of Iowa statutes, the bank had to make the new facility its main location, although, the majority of its operations and customers remain on the Illinois side of the Quad Cities.

There are no financial conditions, legal constraints, or other factors that hinder the bank's ability to meet the credit needs of its AA. A "Satisfactory" rating was received during the December 10, 1996 CRA examination.

DESCRIPTION OF ASSESSMENT AREA

SENB has one AA in the DMRI multi-state MSA. The AA is comprised of Rock Island County in Illinois and Scott County in Iowa. The AA meets the legal requirements of the regulation and does not arbitrarily exclude any low- or moderate-income areas. Based on the median family income from the 1990 census of \$34,082, seven of the CTs are low-income, eighteen are moderate-income, forty-four are middle-income, and thirteen are upper-income.

Based on the 2000 HUD adjusted median family income for the DMRI MSA of \$51,800, 20% of the families are low-income, 17% are moderate-income, 23% are middle-income and 40% are upper-income families.

There are 124,706 total housing units in the AA of which 63% are owner-occupied, 31% are renter-occupied, and 6% are vacant. The median age of the homes in the AA is 44 years old and the median housing price is \$50,975.

The market for financial services is highly competitive. The bank's primary competitors are Metrobank, Blackhawk State Bank, Quad City Bank & Trust Company, IH Mississippi Valley Credit Union, First National Bank of Moline, and American Bank & Trust Company.

There are 12,590 businesses within the AA, 947 are farms and 11,643 are non-farms.

Demographics on the Non-Farm Businesses in the AA					
Census Tract Type	Number	Percent	\$ of Annual Revenues	Number	Percent
Low-Income	882	8%			
Moderate-Income	2,455	21%	<= \$1,000,000	9,942	86%
Middle-Income	6,211	53%	> \$1,000,000	1,077	9%
Upper-Income	2,095	18%	Not Reported	624	5%
Totals	11,643	100%	Totals	11,643	100%

Of the non-farm businesses, 86% or 9,942 have revenues below \$1 million, 9% or 1,077 have revenues over \$1 million and 5% or 624 did not report revenues. There are 882 non-farm businesses in low-income CTs, 2,455 in moderate-income CTs, 6,211 in middle-income CTs, and 2,095 in upper-income CTs.

The service industry accounts for 39% of all the businesses in the AA. This is followed by retail trade with 20%, finance, insurance, and real estate with 9%, and construction with 8%. Major employers in the MSA are: Deere & Company, a farm implement manufacturer with 7,800 employees; Rock Island Arsenal, a federal munitions depot and manufacturing facility with 6,000 employees; Genesis Medical Center with 3,000 employees; and ALCOA, an aluminum-steel manufacturer with 2,600 employees. The Case IH combine plant in East Moline was purchased by New Holland in 2000 and will be closing it within the next nine months, eliminating approximately 1000 jobs. The unemployment level for the MSA averaged 5.1% in

2000, compared to the Illinois State unemployment rate of 4.3%, the Iowa State unemployment rate of 2.5% and the U.S. unemployment rate of 4.2%.

We met with two representatives of economic development organizations in the Quad Cities. They both described the area as being stagnant. There has been a loss of jobs in the manufacturing sector. The primary needs of the Quad Cities are identified as competitive wage jobs and affordable housing. Credit counseling was identified as a service that the area needs.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

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

SENB's lending to borrowers of different incomes and to businesses of different sizes is reasonable based upon the lending performance of the bank within the AA.

The distribution of residential real estate lending reflects a reasonable penetration among individuals of different income levels including low- and moderate-income individuals. SENB originated 11% of their home purchase loans to low-income families and 20% to moderate-income families. This is reasonable given 20% are low-income, 17% are moderate-income, and 13% of the households in the assessment area are below the poverty level.

The number of home improvement loans made to low- and moderate-income families is consistent with the number of low- and moderate-income families within the AA, 12% versus 20% for low-income and 22% versus 17% for moderate-income.

The number of home refinance loans made to low and moderate-income families is lower than the number of low- and moderate-income families in the AA, 10% versus 20% for low-income and 6% versus 17% for moderate income families. SENB does not have as many home refinance loans as compared to home purchase and home improvement loans. This is due a stable rate environment in 1998 and 1999, followed by a rising rate environment in 2000. Home refinancing primarily occurs in a declining rate environment.

Residential Real Estate Lending to Borrowers of Different Income Levels Within the AA							
Borrower Income Level	Families	Home Purchase		Home Improvement		Home Refinance	
		Number	Percent	Number	Percent	Number	Percent
Low-Income	20%	14	11%	13	12%	6	10%
Moderate-Income	17%	26	20%	24	22%	4	6%
Middle-Income	23%	31	23%	33	31%	20	32%
Upper-Income	40%	60	46%	37	35%	32	52%
Total	100%	131	100%	107	100%	62	100%

Source: HMDA LAR Data (1/1/97 through 12/31/00)

The distribution of consumer lending reflects an excellent penetration among individuals of different income levels including low- and moderate-income individuals. Based on a sample of fifty consumer loans originated within the AA during the evaluation period, 32% of consumer loans were originated to low-income borrowers, and 42% to moderate-income families. SENB's consumer lending to low- and moderate-income individuals is above the percentage of families in these income levels in the AA, 20% and 17% respectively.

Consumer Lending to Borrowers of Different Income Levels					
Borrower Income Level	Families	# of Loans	Percent	\$ (000's)	Percent
Low-Income	20%	16	32%	\$328	18%
Moderate-Income	17%	21	42%	\$700	40%
Middle-Income	23%	9	18%	\$447	25%
Upper-Income	40%	4	8%	\$307	17%
Total	100%	50	100%	\$1,782	100%

Source: A sample of 50 loans originated between 1/1/97 and 4/30/01

The bank's record of lending to small businesses is reasonable. Using loan amount as a proxy for business size, the following table details the distribution by loan size of business loans within the AA between November 1998 and April 2001. Sixty-seven percent of business loans originated during the evaluation period were for original amounts of less than \$50,000. This is reasonable given the large amount of small businesses in the AA.

Distribution of Business & Commercial Loan Sample by Loan Size						
Loan/Revenue Size	Businesses in AA		Originations			
	Number	Percent	\$ (000's)	Percent	Number	Percent
<\$50,000	10,004	79%	\$ 6,266	15%	373	67%
\$50,000 - \$99,999	759	6%	\$ 5,137	12%	78	14%
\$100,000 - \$249,999	1,089	8%	\$ 10,265	24%	70	13%
\$250,000 - \$999,999	50	1%	\$ 12,202	28%	30	5%
>\$1,000,000	47	1%	\$ 9,249	21%	7	1%
Not Reported	641	5%	\$ 0	0%	0	0%
Total Sample	12,590	100%	\$ 43,119	100%	558	100%

Source: Trial Balance (1/97 to 4/01)

GEOGRAPHIC DISTRIBUTION OF LOANS

SENB's geographic distribution of residential real estate, business, and consumer loans is reasonable based upon the demographics of the AA.

Our analysis is based on the dollar volume and number of originations of residential real estate, consumer, and business loans. The following three tables reflect the geographic distribution of these loan originations between January 1997 through December 2000.

Residential Real Estate Loan Origination's By Census Tracts						
Census Tract Type	Owner Occupied Units		Originations			
	Number	Percent	Number	Percent	\$ (000's)	Percent
Low-Income	1,283	2%	0	0%	\$ 0	0%
Moderate-Income	9,365	12%	27	8%	\$ 873	6%
Middle-Income	52,478	67%	234	74%	\$ 11,563	73%
Upper-Income	14,653	19%	57	18%	\$ 3,389	21%
Total	77,779	100%	318	100%	\$ 15,825	100%

Source: HMDA LAR Data (1/1/97 through 12/31/00)

SENB's residential real estate lending reflects a reasonable distribution of lending in low- and moderate-income census tracts. Residential real estate lending in both the low-income and moderate-income census tracts of 0% and 8%, respectively, is below the level of 2% and 12% of all low- and moderate-income owner occupied units in the MSA.

There are only 1,283 owner occupied units in the seven low-income CTs, this is less than 2% of the owner occupied units in the MSA. These CTs are located in the downtown area of Davenport and in Rock Island. SENB does not have any offices near these CTs and there are a number of branches of other financial institutions located in these CTs and between SENB's branches and the low-income CTs.

Consumer Loan Originations By Census Tracts						
Census Tract Type	Population Distribution		Originations			
	Number	Percent	Number	Percent	\$ (000's)	Percent
Low-Income	10,124	3%	76	6%	\$ 963	5%
Moderate-Income	45,806	15%	272	21%	\$ 4,243	25%
Middle-Income	193,738	65%	846	67%	\$ 10,891	64%

Upper-Income	50,034	17%	103	6%	\$ 1,369	6%
Total	299,702	100%	1,297	100%	\$ 17,466	100%

Source: Trial Balance (1/97 to 4/01)

SENB's consumer lending reflects a good distribution of lending in low- and moderate-income census tracts. The number of consumer loans in the low- and moderate-income CTs of 6% and 21% respectively is above the population levels of 3% and 15% in the low- and moderate-income CTs.

Commercial Loan Originations By Census Tracts						
Census Tract Type	Business Distribution		Originations			
	Number	Percent	Number	Percent	\$ (000's)	Percent
Low-Income	882	8%	19	4%	\$ 1,902	5%
Moderate-Income	2,455	21%	66	13%	\$ 6,462	18%
Middle-Income	6,211	53%	326	63%	\$18,092	52%
Upper-Income	2,095	18%	110	21%	\$ 8,569	24%
Total	11,643	100%	521	100%	\$35,025	100%

Source: Trial Balance (1/97 to 4/01)

SENB's commercial lending reflects a reasonable distribution of lending in low- and moderate-income census tracts. The number of commercial loans in the low- and moderate-income CTs of 4% and 13% respectively, is below the number of businesses of 8% and 21% in the low- and moderate-income CTs. A majority of the commercial loans were originated in the middle- and upper-income CTs. Demand for commercial development in the low- and moderate-income CTs is limited. This dispersion is reasonable considering the size and location of the branches.

LOAN-TO-DEPOSIT RATIO

SENB's loan-to-deposit (LTD) ratio is reasonable given the bank's size, financial condition, and the assessment area's credit needs. Due to the re-organization of the institution as explained in the Description of Institution section, historical loan-to-deposit information was not available for prior thirteen quarters. Therefore we used the bank's average LTD ratio of 59% for only the last five quarters. This is comparable to five similarly situated community banks in Rock Island and Scott Counties. All five banks are community banks with facilities in each county. They range in asset size from \$90 million to \$414 million, and have a LTD ratio average ranging from 42% to 86%. The average LTD ratio for SENB falls in the middle of the range, with two banks having lower average LTD ratios and the other three banks having higher average LTD ratios than SENB.

LENDING IN ASSESSMENT AREA

SENB's record of lending within the AA is good. A majority of the loans originated by SENB are within the AA.

Lending Table For All Loans Inside And Outside The Assessment Area				
Loan Type	Within AA	Outside AA	Within AA	Outside AA
	Number of Loans		Dollar Volume (000's)	
Residential Real Estate	318	29	\$15,825	\$2,022
	92%	8%	89%	11%
Business/Commercial	521	35	\$35,025	\$4,302
	94%	6%	89%	11%
Consumer	1,297	500	\$17,466	\$7,203
	72%	28%	71%	29%
Total	2,136	564	\$68,316	\$13,527
	79 %	21%	83 %	17 %

Source: Trial Balance (1/97 to 4/01)

RESPONSE TO COMPLAINTS

The bank has not received any complaints about its performance in helping to meet AA needs during this evaluation period.

COMPLIANCE WITH ANTIDISCRIMINATION LAWS

An analysis of recent public comments, consumer complaint information, and Home Mortgage Disclosure Act (HMDA) lending data was performed according to the Comptroller of the Currency's (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 September 30, 1999.