



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

December 17, 2012

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Southeast National Bank
Charter Number 23827

2036 East River Drive
Davenport, Iowa 52803-3931

Office of the Comptroller of the Currency
Des Moines Field Office
1089 Jordan Creek Parkway, Suite 230
West Des Moines, Iowa 50266

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.

Southeast National Bank (SENB or bank) satisfactorily meets the credit needs of its assessment area (AA).

- The bank's loan-to-deposit (LTD) ratio is reasonable.
- A substantial majority of the bank's loans are within its AA.
- The distribution of loans to business of different sizes is reasonable.
- The geographic distribution of loans reflects reasonable dispersion among the low- and moderate-income census tracts (CTs) in the AA.

SCOPE OF EXAMINATION

SENB was evaluated under the Small Bank examination procedures, which includes a lending test. The lending test evaluates a bank's record of helping to meet the credit needs of its AA through its lending activities. The lending test for SENB covers its performance from January 1, 2010 through December 31, 2011, as this is representative of its lending strategy since the last Community Reinvestment Act (CRA) examination.

SENB's primary lending products are residential and commercial loans. This has not changed since last examination. The bank has also increased the volume of loans sold on the secondary market with the addition of a new mortgage lender during the examination period.

The bank reports data under the requirements of the Home Mortgage Disclosure Act (HMDA). The HMDA data were tested and found to be reliable at our recent data integrity examination. Therefore, HMDA data were used to evaluate the bank's home loan performance. To evaluate the bank's business lending performance, we selected a sample of 20 business loans made from January 1, 2010 to December 31, 2011.

DESCRIPTION OF INSTITUTION

SENB is a \$146 million interstate financial institution located in Davenport, Iowa on US Highway 67 along the Mississippi River in Scott County, Iowa. SENB is legally headquartered in Davenport, Iowa; however, the primary banking office is located in Moline, Illinois. Both of these locations, along with two additional offices in Moline, Illinois and Bettendorf, Iowa, are full-service offices equipped with drive-up facilities and automated teller machines (ATMs). SENB has two additional ATMs. One is a drive-up location in Moline on John Deere Road, next to McLaughlin Motors. The second is also located in Moline at the Highland Park Bowl but is not a drive-up. Since the prior CRA examination in February 2007, SENB has not opened or closed any branches.

Customers may also access their accounts through telephone banking or on the internet. In January 2013, customers will also be able to use mobile banking. Internet and telephone banking services include transfers between SENB accounts, review of balances and transactions, loan account information, and bill-pay for internet banking customers. Debit cards are offered to provide customers with additional access to their accounts at point of sale terminals or ATMs.

SENB is a wholly-owned subsidiary of McLaughlin Holding Company, a one bank holding company (HC) headquartered in Moline, Illinois. As of December 31, 2011, the HC had assets totaling \$142 million. The HC also owns MBC Financial Corporation, which is an equipment leasing company. The HC structure and ownership have not changed since the prior CRA examination.

SENB’s two primary lending products are residential real estate and commercial loans. These primary products account for 67 percent of the number of loans originated during the evaluation period (2010 and 2011) and represent 90 percent of the outstanding loan balances as of December 31, 2011.

Loan Origination by Loan Type				
Loan Category	\$ (000)	%	#	%
Commercial Loans	\$31,304	48%	230	30%
Residential Loans	\$30,509	47%	286	37%
Consumer Loans	\$3,508	5%	253	33%
Agricultural Loans	\$0	0%	0	0%
Total Originations	\$65,321	100%	769	100%

Source: Bank records from January 1, 2010 – December 31, 2011

As of December 31, 2011, the bank reported \$57 million in outstanding loans, which was 41 percent of total assets. The loan portfolio consists of the following:

Loan Portfolio Summary by Loan Type December 31, 2011		
Loan Category	\$ (000)	%
Commercial Loans	\$30,164	53%
Residential Loans	\$20,901	37%
Consumer Loans	\$4,876	8%
Agricultural Loans	\$956	2%
Total Originations	\$56,897	100%

Source: Call Report December 31, 2011

There are no legal or financial constraints that would hinder the bank’s ability to meet the credit needs of its AA. The bank’s previous CRA rating as of February 20, 2007 was Satisfactory.

DESCRIPTION OF ASSESSMENT AREA

SENB's AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income areas. SENB is located in the Davenport-Moline-Rock Island Metropolitan Service Area (MSA), which includes Rock Island County, Henry County, and Mercer County in Illinois, and Scott County in Iowa. The bank's AA includes Scott County and Rock Island County. The AA consists of 86 CTs; 24 are moderate-income level CTs and 4 are low-income CTs. There are 58 middle- and upper-income level CTs (67 percent of all CTs in the AA).

The four low-income CTs are located in the older portions of downtown Davenport, Rock Island, and Moline, near the Mississippi River. Twenty-one of the 24 moderate-income CTs are along both sides of the Mississippi River, located near the low-income CTs and manufacturing areas. Two of the other moderate-income CTs are along the Rock River in Illinois, while the one remaining moderate-income CT is on the far western side of Davenport.

Competition for financial services within the AA remains strong. There are many large banks, thrifts, and credit unions within the AA. There are many manufacturing plants along the river located in the low- and moderate-income CTs. Some of the larger manufacturing employers have their own credit unions, which further increases lending competition in the AA.

The local economy is stable, with most of the AA concentrated in the retail, healthcare, manufacturing, and agricultural industries. Major employers include Rock Island Arsenal, Deere & Company, Genesis Health Systems, HNI Corporation, Allsteel, Trinity Region Health System, Tyson Fresh Meat, Alcoa, and city, county, and state government entities.

We contacted two economic development officials during the examination. They both felt the AA has weathered the recession fairly smoothly and is beginning to improve. The contacts felt local institutions are meeting the credit needs of the area, although they are more cautious in their lending. Unemployment has remained relatively low compared to the rest of the nation. Both contacts indicated the primary credit needs of the area were low- and moderate-income housing and small business lending, especially along the river and the downtown area. SENB offers and originates these types of loans.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

LENDING TEST

SENB's performance with regard to the lending test is satisfactory. The bank's LTD ratio is reasonable, and a substantial majority of the bank's loans are originated inside its AA. There were no complaints regarding the bank's CRA performance.

The overall borrower distribution is poor. This is mainly due to the low penetration of home loans to low-income borrowers. The bank has made efforts to expand this type of lending, but competition from credit unions is strong. The borrower distribution for commercial loans to small businesses is reasonable. The overall geographic distribution is reasonable.

Loan-to-Deposit Ratio

SENB's lending level is reasonable and meets the criteria for satisfactory performance given its size, financial condition, and credit needs of the AA. SENB's ratio averaged 55.0 percent over the past 20 quarters, with a quarterly low of 48.9 percent and a quarterly high of 67.4 percent. The LTD ratio was 54.2 percent as of December 31, 2011. SENB also sells a fair amount of loans on the secondary market that are not reflected in the LTD ratio. When added back, the LTD is 80.1 percent.

The bank's LTD ratio is comparable to two out of five other community banks of similar size, location, and product offerings, and ranks fifth among the six banks. Including the loans sold on the secondary market, the average LTD is more comparable to the other banks. The other five banks had an average LTD ratio of 75.1 percent, and ranged from 51.0 percent to 99.5 percent over the past 20 quarters.

Lending in Assessment Area

SENB exceeds the standards for lending within its AA. SENB originates a substantial majority of its loans within the AA. Management originated 92.4 percent by number and 94.0 percent by dollar of loans within the AA.

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

The overall borrower distribution of loans in the AA area is poor. The distribution of home loans to low- and moderate-income families is poor. The distribution of business loans to low- and moderate-income businesses was reasonable. However, it is not enough to raise the overall borrower distribution to satisfactory.

Home Loans

The distribution of home loans to borrowers reflects poor penetration among borrowers of different income levels. The bank originated 224 home loans in 2010 and 2011 in the AA. While the bank meets or exceeds the percent of both home purchase and home improvement loans to moderate-income families, they have a low penetration of re-financing loans. This was the primary type of loan made in 2010 and 2011, which accounted for 146 of the total 224 loans originated. The percent of loans to low-income families is considerably lower in all categories.

The majority of low- and moderate-income families are located near the manufacturing areas. Some of the manufacturers have credit unions, and loan rates for employees are challenging to match. SENB has made efforts to expand this type of lending.

Table 2 - Borrower Distribution of Residential Real Estate Loans in Rock Island/Scott County AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Purchase	19.2	6.5	18.2	19.6	23.5	17.4	39.1	41.3
Home Improvement	19.2	6.7	18.2	26.7	23.5	13.3	39.1	40.0
Home Refinance	19.2	6.1	18.2	13.5	23.5	13.5	39.1	57.7
Total	19.2	6.3	18.2	15.6	23.5	14.3	39.1	53.1

Source: 2010 and 2011 HMDA Data

Business Loans

The distribution of loans to businesses reflects reasonable penetration among businesses of different sizes. Sixty-five percent of the bank's loans to businesses originated and purchased during the loan-sampling period were made to small businesses. This is reasonable compared to demographic data that show 65.3 percent of the area's businesses are considered small.

The following table shows the distribution of business loans among different sized businesses in the AA.

Table 2A - Borrower Distribution of Loans to Business in Rock Island/Scott County AA				
Farm Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Business	65.3	3.3	31.4	100%
% of Bank Loans in AA by #	65.0	35.0	0.0	100%
% of Bank Loans in AA by \$	32.0	68.0	0.0	100%

Source: Demographic Data; Commercial loan sample from January 1, 2010 to December 31, 2011

Geographic Distribution of Loans

The bank's overall geographic distribution reflects a reasonable dispersion throughout the CTs of different income levels. The distribution of home loans reflects a poor dispersion, while the distribution of business loans reflects an excellent dispersion throughout the CTs of different income levels.

Home Loans

The bank's geographic distribution of home loans in this AA reflects a poor dispersion throughout CTs of different income levels. The level of home loans originated in the moderate-income CTs (6.7 percent) is considerably lower than the percent of owner-occupied housing in moderate-income CTs within the AA (15.1 percent). Home loans

originated in low-income CTs is low as well considering the total, but the percentage of home improvement loans made in low-income CTs exceeds the demographics. The AA has four low-income CTs, which are mainly located in the downtown areas of the cities with more businesses, so opportunities for this type of lending in low-income CTs are minimal.

Table 3 - Geographic Distribution of Residential Real Estate Loans in Rock Island/Scott County AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Purchase	1.5	0.0	15.1	6.5	57.9	71.7	25.5	21.7
Home Improvement	1.5	6.7	15.1	6.7	57.9	73.3	25.5	13.3
Refinancing	1.5	0.6	15.1	6.8	57.9	56.4	25.5	36.2
Total	1.5	0.9	15.1	6.7	57.9	60.7	25.5	31.7

Source: 2010-2011 HMDA Data

Business Loans

The bank’s geographic distribution of business loans reflects excellent dispersion throughout the CTs of different income levels. While the bank did not originate any business loans in the low-income CTs in the AA, this is considered reasonable because there were fewer businesses located in these CTs. Furthermore, the bank had excellent penetration of lending in the moderate-income CTs with 40.0 percent compared to the 18.0 percent of business in the moderate-income CTs within the AA.

Table 3A - Geographic Distribution of Loans to Businesses in Rock Island/Scott County AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Business Loans	5.57%	0.0%	17.98%	40.0%	46.16%	45.0%	30.29%	15.0%

Source: 2010-2011 Demographic Data; Commercial loan sample of loans originated from January 1, 2010 to December 31, 2011

Responses to Complaints

SENB has not received any CRA-related complaints since the last CRA examination.

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 AA 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.