



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

March 3, 2008

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Baytree National Bank & Trust Company
Charter Number: 23983

9 Market Square Court
Lake Forest, IL 60045

Office of the Comptroller of the Currency
Chicago North Field Office
Two Century Centre, Suite 800
1700 E. Gold Road
Schaumburg, IL 60173

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 Community Reinvestment Act (CRA) RATING: This institution is rated SATISFACTORY.

The major factors supporting Baytree National Bank & Trust Company (BNBTC) rating include:

- The loan-to-deposit ratio is excellent given the bank's size, financial condition, and assessment area (AA) credit needs.
- A majority of loans are in the bank's AA.
- Overall lending to borrowers of different incomes and businesses of different sizes is good.

SCOPE OF EXAMINATION

We determined that small business lending was the primary loan category. This was based on the business strategy of the bank and the percentage of the number and dollar amount of loans originated during the evaluation period. While small business lending received more weight in reaching our conclusions, we did analyze Home Mortgage Data Act (HMDA) and consumer lending as well. We validated 100% of the loan data provided to us by the bank. As BNBTC is a relatively new financial institution (opened October, 2000) with the previous CRA examination dated July 7, 2003, we based our assessment of the bank's CRA performance on the most recent lending activity utilizing data from 2006 and 2007. BNBTC has only one delineated community which we used as our full scope AA.

DESCRIPTION OF INSTITUTION

BNBTC is a wholly owned subsidiary of Baytree Bancorp, Inc. (BBI) a one bank holding company. BNBTC is headquartered in Lake Forest, Illinois, approximately 30 miles north of Chicago.

BNBTC is organized into four lines of business: commercial and personal banking; insurance premium finance; commercial equipment leasing; and wholesale residential mortgage banking. Baytree Finance Company (BFC) is in the business of providing loans to finance the payment of premiums for property and casualty insurance coverage by commercial businesses throughout the United States. BFC is a wholly-owned subsidiary of the bank and located in Lake Forest, Illinois. Baytree Leasing Company (BLC) is a 51%-owned subsidiary of the bank and is in the business of providing lease financing for the acquisition of equipment by medical professionals and commercial businesses located throughout the United States. BLC is located in Lincolnshire, Illinois. Baytree Lending Company, formerly St. Francis Mortgage Corporation, is a mortgage

banking company that originates home equity lines of credit through wholesale sources primarily for sale to the secondary market on a service-released basis. Baytree Lending Company is located in West Allis, Wisconsin.

BNBTC offers traditional loan, deposit, and other bank services at its branch locations in Lake Forest, Illinois and Lake Bluff, Illinois. As of December 31, 2007 BNBTC had total assets of \$235 million, net income of \$1.1 million, and tier one capital of \$17 million. Loans represent approximately 81% of total assets. Commercial, commercial real estate, and commercial leasing represents 80% while residential real estate represents 17%, and consumer loans represents 3% of gross loans.

There are no financial circumstances, legal constraints, or other factors that would hinder BNBTC's ability to help meet the credit needs of their community. The prior CRA evaluation was dated July 7, 2003 at which the bank received a "Satisfactory" rating.

DESCRIPTION OF ASSESSMENT AREA

BNBTC has designated a portion of Lake County, Illinois, a metropolitan division of the Chicago Metropolitan Statistical Area (MSA) as their AA. The AA meets the requirements of the CRA regulation and does not arbitrarily exclude any low- or moderate-income geographies.

The AA consists of thirty-two census tracts surrounding the bank's two retail offices. The bank's AA is primarily upper-income with twenty-six upper-income tracts or 81.25%. There are two middle-income census tracts (6.25%) and four moderate-income census tracts (12.5%). There are no low-income census tracts in the bank's delineated community. Six percent of the AA's businesses are located in the moderate-income tracts. Only thirty-three percent of the housing units in the moderate-income tracts are owner occupied.

Sixty-eight percent of the businesses have less than \$1 million in annual gross revenues and fifty-eight percent have 1-4 employees. The primary business type is services companies. Thirteen percent of the families in the AA are low-income and another thirteen percent are moderate-income. Only four percent of the households are below the poverty level.

Competition among financial institutions in the AA is strong. BNBTC competes with several large national and regional banks as well as many well established local financial institutions. According to the Federal Deposit Insurance Corporation's June 30, 2007 deposit market share report, BNBTC ranks thirteenth out of twenty-six financial institutions in their AA with 2% of the deposit market share. The top four financial institutions capture 62% of the AA's deposit market share.

A significant geographic barrier exists within the bank's AA, that being Great Lakes Naval Training Center. Great Lakes Naval Training Center divides North Chicago and physically separates the BNBTC AA's northern most census tracts from the bank's

closest retail office in Lake Bluff. Great Lakes Naval Training Center itself is one of the bank's moderate-income census tracts and another moderate-income census tract is located north of the base.

Community contacts made during this examination identified the need for credit education, affordable housing, traditional consumer loans, as well as small business credit. Contacts also discussed that the area: while predominately upper-income, is experiencing the same financial hardships in the region/nation with higher than normal foreclosure rates and a relative slowdown in the local economy.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The CRA evaluation period is from the last examination (July 7, 2003) to the current examination (March 3, 2008). The lending test evaluated performance from January 1, 2006 through December 31, 2007. The Loan to Deposit ratio, consumer complaints, and all other factors considered cover the entire evaluation period.

Loan-to-Deposit Ratio

Baytree National Bank and Trust Company's (BNBTC) quarterly average loan-to-deposit ratio is reasonable given the bank's size, financial condition, and AA credit needs. BNBTC's quarterly average loan-to-deposit ratio for the evaluation period ending March 31, 2003 to December 31, 2007 was 90 percent. The most recent loan-to-deposit ratio (December 2007) was 85 percent. The quarterly loan-to-deposit ratio for other similar financial institutions located in Lake County, IL ranged from 70 percent to 110 percent over the evaluation period. BNBTC's loan-to-deposit ratio ranked second out of seven financial institutions with assets of \$51-638 million located in Lake County, Illinois.

Lending in Assessment Area

BNBTC's record of lending within its AA is reasonable as a majority of the bank's loans assessed during our examination were originated within the delineated AA. See the breakdown by loan type, number and amount of loans in Table 1.

Table 1 - Lending in the Assessment Area (AA)										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total (000s)
	#	%	#	%		\$ (000s)	%	\$ (000s)	%	
Small Business Loans	81	49.09	84	50.91	165	36,753	51.28	34,924	48.72	71,677
HMDA* Loans	41	59.42	28	40.58	69	17,091	58.45	12,147	41.55	29,238
Consumer Loans	31	47.69	34	52.31	65	10,600	49.20	10,944	50.80	21,544
Totals	153	51.17	146	48.83	299	64,444	52.62	58,015	47.38	122,459

Source: Data reported under HMDA and loan listings provided by the bank.

*HMDA loans consists of home purchase, home improvement, and home refinancing loans reported by the bank under the Home Mortgage Disclosure Act.

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

Overall lending to borrowers of different incomes and businesses of different sizes is good. The bank's record of extending credit to small businesses reflects an excellent level of performance. HMDA lending shows a good borrower distribution and consumer lending reflects an adequate level of lending to borrowers of different income levels. Details of the bank's borrower distribution lending performance are discussed and shown in the tables below.

Lending to businesses of different sizes is excellent. BNBTC's lending to businesses in their AA with gross annual revenues of \$1 million or less exceeded the percentage of businesses located in their AA with gross annual revenues of \$1 million or less. See table 2 below.

Table 2 - Borrower Distribution of Loans to Businesses				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	67.78	7.11	25.11	100%
% of Bank Loans in AA by #	77.78	19.75	2.47	100%
% of Bank Loans in AA by \$	72.83	24.03	3.14	100%

Source: Loan listings provided by bank, Dunn and Bradstreet data.

HMDA lending to low-income borrowers is excellent. BNBTC's percentage of HMDA loans in their AA to low-income borrowers significantly exceeds the percentage of low-income families in the AA. HMDA lending to moderate-income borrowers is good. BNBTC's percentage of HMDA loans in their AA to moderate-income borrowers is close to the percentage of moderate-income families in the AA. See table 2A below.

Table 2A - Borrower Distribution of HMDA Loans in 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
HMDA	12.69	20.59	12.94	11.76	16.47	11.76	57.90	55.89

*Source: Data reported under HMDA, U.S. Census data.
20.59% of the HMDA AA loans did not have income reported.*

Consumer lending to low-income borrowers is adequate. BNBTC's percentage of consumer loans in their AA to low-income borrowers is below the percentage of low-income households in the AA. Consumer lending to moderate-income borrowers is poor with the bank's percentage of loans to moderate-income borrowers well below the percentage of moderate-income households. See table 2B below.

Table 2B - Borrower Distribution of Consumer Loans in AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer	11.68	7.69	11.95	5.13	14.37	9.86	62.00	77.32

*Source: Loan listings provided by bank, U.S. Census data.
6.67% of the Consumer AA loans did not have income reported.*

Geographic Distribution of Loans

Overall the bank's geographic distribution of loans in their AA is adequate taking into consideration the geographic barrier created by the Great Lakes Naval Training Center and BNBTC being a relatively new financial institution in the area. The tables below show that all lending in the moderate-income census tracts is below AA demographics.

Table 3 - Geographic Distribution of Loans to Businesses in 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
Small Business	NA	NA	6.09	3.70	6.23	0.00	87.68	96.30

Source: Loan listings provided by the bank, U.S. Census data.

Table 3A - Geographic Distribution HMDA Loans in 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
HMDA	NA	NA	6.00	0.00	6.66	0.00	87.34	100.00

Source: Data reported under HMDA, U.S. Census data.

Table 3B - Geographic Distribution of Consumer Loans in AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	NA	NA	13.02	6.45	7.34	3.23	79.64	90.32

Source: Loan listings provided by the bank, U.S. Census data.

Responses to Complaints

BNBTC has not received any written comments or complaints regarding its performance in helping to meet the credit needs in its AA during the evaluation period.

Fair Lending or Other Illegal Credit Practices Review

BNBTC has a good history compliance with applicable fair lending laws and regulations. We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.