



## **INTERMEDIATE SMALL BANK**

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

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### **PUBLIC DISCLOSURE**

**October 11, 2006**

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**The National Republic Bank of Chicago  
Charter Number 14399**

**1201 West Harrison Street  
Chicago, IL 60607**

**Comptroller of the Currency  
Chicago North  
85 West Algonquin Road Arlington Pl. II, 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.**

## **INSTITUTION'S Community Reinvestment Act (CRA) RATING: This institution is rated Satisfactory.**

The Lending Test is rated: Satisfactory.

The Community Development Test is rated: Satisfactory.

The major factors supporting the institution's rating are as follows:

- The bank's loan to deposit ratio is more than reasonable, given the bank's size, financial condition, and assessment area credit needs.
- A majority of loans are within the bank's delineated assessment areas.
- The distribution of borrowers reflects, given the demographics of the assessment areas, reasonable penetration among individuals of different income levels and businesses of different sizes.
- The geographic distribution of loans reflects reasonable dispersion throughout the assessment areas.
- The bank's community development performance demonstrates adequate responsiveness to the community development needs of its assessment areas.
- There were no complaints related to the bank's CRA performance during the evaluation period.

### **DESCRIPTION OF INSTITUTION**

National Republic Bank is a \$642 million minority-owned bank located in Chicago, Illinois. The bank's main office is located about one mile west of the Chicago Loop and across from the University of Illinois at Chicago. It has one cash-dispensing Automated Teller Machine (ATM) in its lobby. The bank has one branch on the far north side of Chicago.

The bank has been Indian owned since 1984 and has directed its efforts to serving the financial needs of the Indian-American community nationwide. In particular, the bank has focused on providing small balance commercial loans, Small Business Administration (SBA) loans under the 504 program, and loans secured by real estate to owner-operated businesses in the franchised and independent limited-service hospitality, convenience store, gas station and restaurant industries. Crain's Chicago Business ranked the bank the twelfth largest SBA lender.

The bank's primary business focus is real estate lending, particularly for hotel and motel loans which represent seventy percent of the portfolio. The bank has been recognized as one of the top lending providers of hotel/motel financing by the Asian-American Hotel Owners Association. Ninety-five percent of the bank's loans are real estate secured. Eighty percent of real estate loans are commercial real estate and five percent are one-to-four family residential loans.

There were no financial or legal impediments that affect the bank's ability to meet the credit needs of the community within its Assessment Areas (AA). National Republic Bank's previous CRA rating, as of July 19, 1999 was "Satisfactory" using the small bank CRA evaluation procedures.

## **DESCRIPTION OF ASSESSMENT AREAS**

The bank recently reviewed its designated AA and expanded it from one AA to three AAs. The bank had designated one AA at the prior CRA examination in 1999. Since that time the boundaries of Metropolitan Statistical Areas (MSAs) were realigned and Metropolitan Divisions (MDs) were created based on 2000 census data. These changes, plus the bank's growth, resulted in the current designation of three AAs. The Chicago AA is in the state of Illinois and includes all of Cook, DuPage and Will counties in MD 16974 Chicago-Naperville-Joliet, Illinois. The Lake County, Illinois AA includes all of Lake County, Illinois in MD 29404 Lake County, Illinois - Kenosha County, Wisconsin. The Lake County, Indiana AA is in the state of Indiana and includes all of Lake County, Indiana in MD 23844 Gary, Indiana. These five counties (Lake, Cook, Will and DuPage in Illinois and Lake in Indiana) are contiguous. Because Lake County, Indiana crosses a state line, and Lake County, Illinois is part of a multi-state Metropolitan Division, they require separate designations. Both the bank's main office and its one branch are located in Cook County, Illinois, in the Chicago AA. The bank does not have any branches in Indiana or Wisconsin.

### Chicago AA

There are 1,572 census tracts in the Chicago AA. Nearly fifteen percent are designated as low-income and twenty-six percent are moderate-income. Approximately four percent of businesses are located in low-income census tracts and nearly fifteen percent are located in moderate-income geographies. Sixty-three percent of the businesses have less than \$1 million in annual gross revenue and fifty-six percent have 1-4 employees. The primary types of businesses are services and retail trade. Twenty-two percent of the families are low-income and eighteen percent are moderate-income. Eleven percent of the households are below the poverty level. The unemployment rate is more than three percent. The 2000 census data shows that the median family income was \$60,166 and the median housing value was \$176,094.

### Lake County, Illinois AA

There are 151 census tracts in the Lake County, Illinois AA. Three percent are designated as low-income and twenty-two percent are moderate-income. One percent of businesses are located in low-income census tracts and nearly fifteen percent are located in moderate-income geographies. Sixty-six percent of businesses have less than \$1 million in gross annual revenues and sixty percent have 1-4 employees. The primary types of businesses are services and retail trade. Seventeen percent of the families are low-income and seventeen percent are moderate-income. Five percent of the households are below the poverty level. The unemployment rate is two percent. The 2000 census data shows that the median family income was \$71,293 and the median housing value was \$219,777.

### Lake County, Indiana AA

There are 112 census tracts in the Lake County, Indiana AA. Thirteen percent are designated as low-income and thirty-three percent are moderate-income. Nearly six percent of businesses are located in low-income census tracts and twenty-two percent are located in moderate-income geographies. Sixty-two percent of businesses have less than \$1 million in gross annual revenues and fifty-four percent have 1-4 employees. The primary types of businesses are services and retail trade. Approximately twenty-three percent of the families are low-income and nineteen percent are moderate-income. Twelve percent of the households are below the poverty level. The unemployment rate is nearly four percent. The 2000 census data shows that the median family income was \$52,518 and the median housing value was \$95,020.

To determine the community credit needs, we reviewed two recent community contacts from the Comptroller of the Currency's data base and conducted one community contact interview. The identified credit needs were affordable housing and financing for small businesses to promote economic development.

## **CONCLUSIONS ABOUT PERFORMANCE CRITERIA**

The bank has experienced growth since its last CRA exam in 1999. It now qualifies as an intermediate small bank, which means it is evaluated on both its lending performance and its community development performance within its AAs.

The CRA evaluation period is from the last examination (July 19, 1999) to the current examination (January 22, 2007). The lending test evaluates performance from January 1, 2004 to December 31, 2006. The Loan to Deposit Ratio, Complaints and Community Development activities cover the entire evaluation period of July 19, 1999 to January 22, 2007.

A full scope review was performed for the Chicago AA, where the bank's branches are located and a majority of deposits are taken and loans were made. Within the bank's AA, ninety-one percent of the small loans to businesses and ninety-five percent of the home mortgage loans were made in the Chicago AA. Limited scope reviews were performed for the Lake County, Illinois AA and the Lake County, Indiana AA.

The bank made a total of forty-one home mortgage loans (18%) and one hundred eighty-one small loans to businesses (82%) in its AAs during the evaluation period. Among the home mortgage loans, approximately fifty-one percent were for home purchase, twenty-seven percent for refinance, twenty percent for home improvement, and two percent for multi-family. In view of these statistics, we gave the most weight in our analysis to small loans to businesses.

### **Loan-to-Deposit Ratio**

The bank's loan to deposit ratio is more than reasonable given the bank's size, financial

condition, and AA credit needs. We determined the average loan-to-deposit ratio by calculating the quarterly loan-to-deposit ratios since the last examination. The bank's average loan to deposit ratio was 105%, compared to the peer group loan-to-deposit ratio of 81%. This places the bank in the ninetieth percentile of its nationwide peer group. We also compared the bank's loan-to-deposit ratio to similar sized banks located in the Chicago AA. The bank's loan-to-deposit ratio was well above its local peer banks.

### **Lending in Assessment Area**

A majority of the bank's small loans to businesses and home mortgage loans were made within its AA. Fifty-five percent of the bank's total small loans to businesses and ninety-one percent of the total home mortgage loans were made within its AAs.

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

#### Chicago AA

The borrower distribution of small loans to businesses was excellent in the Chicago AA. The bank's business focus on small business lending helps meet the credit needs of small businesses in the Chicago AA. In addition to its own loan programs, the bank uses the SBA's 504 loan program extensively to help meet the credit needs of small businesses. The bank's percentage of small loans made to businesses with less than \$1 million in gross revenues (84.2%) significantly exceeded the percentage of businesses with less than \$1 million in gross revenues (63.5%). Forty-three percent of these loans were less than \$100,000, twenty-eight percent were between \$100,000 and \$250,000, and twenty-nine percent were greater than \$250,000 but less than \$1 million.

Home mortgage loans were a very small percentage of the bank's total loans. However, the borrower distribution of home mortgage loans in the Chicago AA was good. The bank's percentage of home purchase loans (26.3%), home improvement loans (37.5%) and refinance loans (18.2%) made to moderate-income borrowers exceeded the percentage of moderate-income families residing in the bank's AA (17.8%). The bank's percentage of home improvement loans made to low-income borrowers (37.5%) significantly exceeded the percentage of families designated as low-income (21.9%). The bank did not make any home purchase or refinance loans to low-income borrowers. Approximately twenty-two percent of families living in the Chicago AA are designated as low-income, with incomes of \$30,083 or lower. The median housing value was \$176,094, making it difficult for low-income families to purchase a home.

#### Limited Scope AAs

The bank's lending performance in the Lake County, Illinois AA and the Lake County, Indiana AA in regards to small loans to businesses is consistent with the bank's excellent performance in the Chicago AA. However, the home mortgage lending performance in these limited scope AAs was weaker than in the Chicago AA. There were no home mortgage loans made in the Lake County, Illinois AA and only two home purchase loans originated in the Lake County, Indiana AA. Both of these loans were to low-income borrowers.

### **Geographic Distribution of Loans**

Due to the bank's niche hotel and motel financing, loans are extended beyond the Chicagoland area. Although the majority of bank loans are made in the bank's AA, there are several gaps inside of the bank's AA without any lending penetration. There are 1,572 census tracts in the Chicago AA. The bank made small loans to businesses and home mortgage loans in only 143 of them, or nine percent. Loans were made in all four census tract income categories. The relatively small size of the bank coupled with the niche lending make it very difficult for the financial institution to penetrate most of the census tracts in all three AAs.

#### Chicago AA

The bank's geographic distribution of small loans to businesses in its Chicago AA was good. Ninety-one percent of the small loans to businesses that were originated in the bank's AAs were made in the Chicago AA. The bank originated 164 small loans to businesses in the Chicago AA. The percentage of loans to small businesses originated in low- and moderate-income census tracts significantly exceeded the percentage of businesses located there. The bank made eight percent of its small loans to businesses in low-income geographies and twenty-one percent in moderate-income geographies. Less than four percent of businesses were located in low-income geographies and less than fifteen percent of businesses were located in moderate-income geographies.

The bank's geographic distribution of home mortgage loans in the Chicago AA was good. The bank made nineteen home purchase loans in the Chicago AA. While the volume of loans is not high, the percentage of home purchase loans (21.1%) made in low-income geographies significantly exceeded the percentage of owner occupied housing units located in low-income geographies (2.9%). However, the percentage of home purchase loans made in moderate-income geographies (5.3%) was significantly less than the percentage of owner-occupied units located in moderate-income geographies (16.4%). The bank made eight home improvement loans in the Chicago AA. While there were no home improvement loans made in low-income geographies, 87.5% of the home improvement loans were made in moderate-income geographies, which significantly exceeded the 16.4% of owner-occupied units located in moderate-income geographies. The bank made eleven home refinance loans in the Chicago AA. The percentage of refinance loans made in low- and moderate-income geographies (9.1% and 18.2%, respectively) exceeded the percentage of owner-occupied units located in those geographies (2.9% and 16.4%, respectively).

#### Limited Scope AAs

The bank's lending performance in the Lake County, Illinois AA and the Lake County, Indiana AA in regards to the geographic distribution of small loans to businesses is consistent with the bank's good performance in the Chicago AA. However, the home mortgage lending performance in these limited scope AAs was weaker than in the Chicago AA. There were no

home mortgage loans made in the Lake County, Illinois AA and only two home purchase loans originated in the Lake County, Indiana AA. Both of these loans were in moderate-income geographies.

The bank's loan penetration in the Lake County, Illinois AA and Lake County, Indiana AA is consistent with its low penetration in the Chicago AA. The bank made loans in less than five percent of the geographies in Lake County, Illinois and in seven percent of the geographies in Lake County, Indiana. The bank does not have a branch in either AA.

### **Community Development Test**

The bank's community development performance demonstrates adequate responsiveness to the community development needs of its AA through community development loans, qualified investments, and community development services.

The bank has \$2,200,000 in qualified investments. They are all recent investments through a Qualified CRA Fund. The fund is composed of Ginnie Mae Pools of mortgage loans. The properties are all located in low- or moderate-income geographies, are in the bank's AA, and provide affordable housing for low- and moderate-income individuals. Qualified investments were three percent of Tier 1 capital. In addition, the bank made \$64,680 in qualified community development donations during the evaluation period.

The bank made twelve qualified community development loans totaling \$25,342,113 within its AAs during the evaluation period. All of the loans are SBA 504 loans that create jobs for low- and moderate-income individuals. Some also are for economic development and revitalization. Half of the loans are also located in low- or moderate-income geographies. The majority of the loans are for minority-owned hotel or gas station businesses. Qualified community development loans were 35.8% of Tier 1 capital.

The bank operates a branch in a moderate-income geography. Almost fifteen percent of the population in the geography is below the poverty level and over sixty percent of the housing units are rental units. There are many small retail shops in the area. To serve retail and commercial customers, the branch is open six days a week (every day except Wednesday) from 10:00 a.m. to 6:30 p.m., except Sunday when the hours are 11:00 a.m. to 4:00 p.m.

The bank offers 24-hour a day internet banking to view account balances and transaction history; direct deposit of social security and other government payments; telephone banking to review checking, savings and loan accounts; and ATM cards that access the nationwide STAR ATM network. These services are available to all customers and not specifically directed to low- and moderate-income customers.

The President is a director and member of the loan committee at SomerCor 504, Inc. SomerCor 504, Inc. is a non-profit development company certified by the U.S. SBA to originate SBA 504 loans within the state of Illinois. During the evaluation period, a number of SBA 504 loans have been granted with assistance from SomerCor 504.

The bank also works with a third party to help small business owners with the application

process for SBA loans.

The bank has been a participant with two schools in the Bank at School program sponsored by the Illinois State Treasurer's office. The program pairs financial institutions with local schools to teach 5th and 6th graders about finance and banking.

### **Responses to Complaints**

National Republic Bank received no complaints regarding the bank's CRA performance during the 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.