

PUBLIC DISCLOSURE

June 18, 2007

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Illinois-Service FS & LA
4619 S King Dr
Chicago, IL 60653-4107
Docket #: 03395**

**Office of Thrift Supervision
Central Region
1 South Wacker Drive, Suite 2000
Chicago, IL 60606**

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.



Office of Thrift Supervision
Department of the Treasury

Central Region

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August 14, 2007

Board of Directors
Illinois-Service Federal Savings & Loan Association
4619 South King Drive
Chicago, Illinois 60653-4107

Members of the Board:

Enclosed is your institution's written Community Reinvestment Act (CRA) Performance Evaluation. The Office of Thrift Supervision (OTS) prepared the evaluation as of June 18, 2007. Pursuant to the provisions of the CRA and OTS regulations (12 C.F.R. 563e), your institution must make this evaluation and your institution's CRA rating available to the public.

In accordance with 12 C.F.R. 563e, your institution must make this written CRA Performance Evaluation available to the public within 30 business days of receiving it. You must place the evaluation in your CRA public file at your home office and at each branch within this time frame. You may not alter or abridge the evaluation in any manner. At your discretion, you may retain previous written CRA Performance Evaluation(s) with the most recent evaluation in your CRA public file.

Your institution may prepare a response to the evaluation. You may place the response in each CRA public file along with the evaluation. In the event your institution elects to prepare such a response, please forward a copy of it to this office.

All appropriate personnel, particularly customer contact personnel, need to be aware of the responsibilities that the institution has to make this evaluation available to the public. Consequently, we suggest that your institution review internal procedures for handling CRA inquiries, including those pertaining to the evaluation and other contents of the CRA public file.

We strongly encourage the Board of Directors, senior management, and other appropriate personnel to review this document and to take an active interest and role in the CRA activities of your institution.

Sincerely,

Valorie Owen
Compliance Specialist

Enclosure

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General Information

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions, 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 CRA performance of Illinois-Service FS & LA. The Office of Thrift Supervision (OTS) prepared the evaluation as of June 18, 2007. OTS evaluates performance in assessment area(s) delineated by the institution rather than individual branches. This assessment area evaluation may include visits to some, but not necessarily all, of the institution's branches. OTS rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 C.F.R. Part 563e.

Institution

Overall Rating

INSTITUTION'S CRA RATING: SATISFACTORY

Illinois-Service Federal Savings and Loan Association, Chicago, Illinois (Illinois-Service) has a satisfactory record of meeting the credit needs of its community.

During the review period, the institution's average loan-to-deposit (LTD) ratio was low compared to its peer group and did not meet the criteria for satisfactory performance. The comparatively low LTD ratio has been a long-term trend, partly the result of competitive hurdles, and investments in mortgage backed-securities (MBS) and other financial instruments.

A majority of loans originated during the review period were inside the assessment area, indicative of satisfactory performance. Illinois-Service's lending to persons of different income categories, especially low- and moderate-income persons, was superior. The institution's geographic distribution of lending products met the standard for satisfactory performance. There were no written complaints regarding the institution's CRA performance and no violations of the antidiscrimination laws and regulations.

Scope of Examination

The Illinois-Service CRA performance evaluation used the small institution test to assess its efforts to meet the credit needs of its community. The evaluation used the residential lending data contained in the Home Mortgage Disclosure Act (HMDA) reports. Illinois-Service does not originate small business or small farm loans, which may also be considered in the small institution test.

The review timeframe was the period since the last CRA performance evaluation as of December 9, 2002. However, residential lending was evaluated for only the most recent three-year period of 2004 through 2006, inclusive, as it was a reliable indicator of the institution's recent trends.

Institution (continued)

Description of Institution

Illinois-Service is a \$117 million federally chartered mutual institution serving the Southside of the City of Chicago. The institution's main office is located in the Grand Boulevard community and the one branch office is located in the Chatham community. Both offices are open six days a week, with extended hours for drive-up customers. In addition, the branch office has automated teller machine facilities. Illinois-Service also offers certain on-line banking and bill-paying capabilities.

At March 31, 2007, the institution's mortgage loan portfolio totaled 31.9 percent of total assets. One- to four-unit dwellings secured approximately 73.6 percent of the mortgage loan portfolio; 12.4 percent was secured by residential property with five or more units; another 12.4 percent was secured by non-residential properties; and, the remainder was primarily secured by various construction loans. In addition, Illinois-Service had a \$1.1 million portfolio of non-mortgage and consumer loans constituting one percent of total assets. The institution has more of its financial assets in MBS and government obligations than the typical thrift.

Illinois-Service participates in an array of programs designed to meet the credit needs of its community, including low- and moderate-income borrowers. The institution has a long-standing designation as a Community Development Financial Institution (CDFI) with the goal of providing financial services to distressed communities on Chicago's Southside.

Illinois-Service participates in an affordable housing program administered by the Illinois League of Financial Institutions and funded by the Federal Home Loan Bank of Chicago. The program provides grants to low-income homebuyers who need assistance in meeting the down payment and closing costs associated with buying a home. Institution personnel have been active in community organizations intended to educate the public and to promote the credit needs of the greater Chicago Southside community.

Illinois-Service operates in a very competitive market for all of its financial products and services. The institution ranks as the tenth largest among 76 FDIC or NCUA insured depository institutions with an office or branch within its Southside Chicago assessment area.

In the larger market area, Illinois-Service ranks near the middle of the approximately 119 FDIC insured banks and thrifts that have an office or branch inside the Chicago city limits. Many of these competing financial institutions have considerable financial and staffing resources. In addition, Illinois-Service competes with over 500 lenders that originated at least one HMDA reportable loan inside its assessment area during 2005. As a result, Illinois-Service has very significant market and

Institution (continued)

resource impediments that affect its ability to help meet the credit needs of its local community, including those of low- and moderate-income families.

Description of Illinois-Service Assessment Area

The institution has designated 206 census tracts located on the Southside of the City of Chicago, as its CRA assessment area. Because two of the census tracts have virtually no population, they have been excluded from this analysis. As of the 2000 census, the assessment area had a population of slightly more than 571,000 persons and just over 205,700 households. The following table notes the distribution of Owner Occupied Housing Units (OOHUs) in the assessment area.

Census Tract Demographics in Assessment Area (2000 Census)				
Type of Census Tract¹	Number of Census Tracts	Percentage of Census Tracts	Number OOHUs	Percentage of OOHUs
Low-Income	92	45.1%	16,483	20.5%
Moderate-Income	74	36.3%	41,491	51.7%
Middle-Income	33	16.2%	20,973	26.1%
Upper-Income	5	2.4	1,342	1.7%
Total*	204	100.0%	80,289	100.0%

The number of OOHUs is representative of lending opportunities and potential loan demand. The table illustrates that about 72 percent of all OOHUs are located within low- and moderate-income census tracts.

The following table provides information regarding the number and percentage of families by income level in the assessment area as of the 2000 census.

Family Demographics in Assessment Area		
Income Level of Family	Number of Families	Percentage of Families
Low-Income	59,554	45.0%
Moderate-Income	26,937	20.4%
Middle-Income	22,023	16.6%
Upper-Income	23,880	18.0%
Total	132,394	100.0%

The MFI of the Chicago-Naperville-Joliet, Illinois Metropolitan District, of which Illinois-Service's assessment area is a part, was \$67,800 for 2004, \$68,550 for 2005 and \$72,100 for 2006. As noted in this report, and as defined in the CRA regulations, borrower income levels are classified based on their relation to MFI.

¹ Low-income is defined as income of less than 50 percent of the Department of Housing and Urban Development (HUD) annually adjusted median family income (MFI) of the metropolitan district; moderate-income as between 50 and 80 percent of MFI; middle income as between 80 and 120 percent of MFI; and, upper-income as greater than 120 percent of MFI.

Institution (continued)

Almost 24 percent of all families inside the Illinois-Service assessment area had an income below the poverty level, based on HUD guidelines. Individuals and families with incomes below the poverty level typically do not have adequate financial resources to pursue home ownership. This limits the pool of low-income borrowers who may be potential mortgage customers. In addition, a comparatively high 65.4 percent of all families in the assessment area were in either the low-income or moderate-income group, providing additional challenges to home financing in a metropolitan area with relatively high housing prices.

A 2005 CRA-related community contact with the director of a Chicago affordable housing organization was culled from the OTS database to help determine the types of credit needs that exist in the assessment area. The community contact suggested that individual financial institutions could do more to benefit low- and moderate-income families in Cook County.

Conclusions with Respect to Performance Tests

LOAN-TO-DEPOSIT RATIO

The LTD ratio is one of the factors considered in the small institution CRA test. The LTD ratio, with comparisons to other similarly sized thrifts, helps indicate if lending levels are reasonable relative to deposit funding sources.

Loan-to-Deposit Ratios		
Timeframe	Illinois-Service	Peer Group ²
2004 LTD Average	33.30%	94.32%
2005 LTD Average	33.75%	100.08%
2006 LTD Average	36.44%	98.10%

The Illinois-Service assessment area has a significant presence of 76 other financial institutions, which impacts its competitive environment and affects its ability to originate a large volume of loans. A number of these competitors are multi-billion dollar financial institutions, with substantial resources available for staff, marketing and mortgage lending. Illinois-Service operates with only two offices and comparatively more limited lending personnel. These factors impact the institution's ability to promote its LTD ratio.

² The LTD ratio peer group is comprised of OTS Central Region financial institutions with assets of between \$100 million and \$300 million.

Institution (continued)

Of additional note, the OTS Uniform Thrift Performance Report indicates that Illinois-Service’s volume of residential loans (as a percentage of assets) was quite low compared to other OTS-regulated institutions in its asset range.

Consideration was given to the competitive environment in which the institution operates, its office locations and number of loan officers relative to competitors. Even so, it was concluded that the institution’s LTD ratio represents less than reasonable performance for the CRA small institution test.

LENDING IN THE ASSESSMENT AREA

Lending within the assessment area is another of the factors considered in the small institution CRA test. Illinois-Service originated 166 mortgage loans during the review period. The vast majority of these loans were conventional purchase money mortgages and residential mortgage refinances.

The following table shows the number and dollar amount of mortgage loans originated inside and outside of the institution’s assessment area. The data was obtained through the institution’s HMDA reports.

2004 – 2006 HMDA Lending in the Assessment Area		
Location	Number of Loans	Dollar Amount of Loans (\$000 Omitted)
Inside	114	\$12,344
Outside	52	\$6,907
Total	166	\$19,251

The table demonstrates that 68.7 percent of all HMDA mortgage loans and 64.1 percent of the respective dollar amounts for the review period were inside the assessment area.

The analysis concludes that an adequate majority of residential mortgage loans were originated within the assessment area.

This performance meets the standard for satisfactory performance.

LENDING TO BORROWERS OF DIFFERENT INCOMES

The reasonableness of the distribution of loans made to borrowers of different incomes within the assessment area is another of the factors considered in the small institution CRA test.

Institution (continued)

Borrower Income Distribution of 2004 – 2006 HMDA Loans in Assessment Area³				
Borrower Income Level	Illinois-Service Number of Loans	Illinois-Service Percentage of Loans	Percentage of Families	2004 – 2005 HMDA Number of Loans Peer Average Percentage
Low-Income	17	16.7%	45.0%	14.1
Moderate-Income	42	41.2%	20.4%	29.4
Middle-Income	23	22.5%	16.6%	31.0
Upper-Income	20	19.6%	18.0%	25.6
Total	102	100.0%	100.0%	100.0%

As evidenced in the above Borrower Income Distribution Table, Illinois-Service performed very well in the origination of loans within the low-income category, as its performance is above the comparable peer group average. As many low-income persons have incomes below the poverty level and may be financially impeded from home ownership, Illinois-Service’s level of performance for lending to low-income borrowers is considered to be excellent.

The institution’s lending to moderate-income borrowers was twice that of the percentage of applicable families in its assessment area and also was well above the comparable peer group performance. Illinois-Service performed very well in its origination of loans to persons within the moderate-income category.

The data demonstrate an exceptional level of lending based on distribution by borrower income; therefore, the examiner concludes that Illinois-Service meets the standard for superior performance for this category.

GEOGRAPHIC DISTRIBUTION OF LOANS

The reasonableness of the distribution of loans made among census tracts of different income categories within the assessment area is another of the factors considered in the small institution CRA test. The analysis primarily considers whether the institution is making a reasonable share of its loans in low- and moderate-income census tracts.

³ Excludes loans without borrower income data.

Institution (continued)

Geographic Distribution of 2004 – 2006 HMDA Loans in Assessment Area				
Census Tract Category	Illinois-Service Number of Loans	Illinois-Service Percentage of Loans	Percentage of OOHUs	2004 – 2006 HMDA Number of Loans Peer Average Percentage⁴
Low-income	31	27.2%	20.5%	30.1%
Moderate-Income	50	43.9%	51.7%	48.0%
Middle-Income	33	28.9%	26.1%	20.7%
Upper-Income		0.0%	1.7%	1.2%
Total	114	100.0%	100.0%	100.0%

As indicated in the above table, Illinois-Service originated a very reasonable percentage of loans within low-income census tracts, exceeding the percentage of OOHUs, but slightly below the peer group comparison. The percentage of loans Illinois-Service granted within moderate-income census tracts is reasonable in comparison to both the percentage of OOHUs and the peer group comparison.

Based on the foregoing, Illinois-Service’s geographic distribution of its lending products meets the standard for satisfactory performance.

RESPONSE TO CONSUMER COMPLAINTS

There were no known consumer complaints regarding Illinois-Service’s CRA performance during the review period.

Fair Lending or Other Illegal Credit Practices Review

No violations of the substantive provisions of the antidiscrimination laws and regulations were identified during Illinois-Service’s concurrent regular merged examination.

⁴ Peer group comparison excludes loans for which census tract information was not available.

CRA Rating Definitions

There are four separate and distinct CRA assessment methods set forth in the CRA: the lending, investment, and service tests for large, retail institutions; the streamlined examination method for small institutions; the community development test for wholesale and limited purpose institutions; and the strategic plan option for all institutions. OTS will assign an institution one of the four assigned ratings required by Section 807 of the CRA:

1. "Outstanding record of meeting community credit needs."
2. "Satisfactory record of meeting community credit needs."
3. "Needs to improve record of meeting community credit needs."
4. "Substantial noncompliance in meeting community credit needs."

OTS judges an institution's performance under the test and standards in the rule in the context of information about the institution, its community, its competitors, and its peers. Among the factors to evaluate in an examination are the economic and demographic characteristics of the assessment area(s); the lending, investment, and service opportunities in the assessment area(s); the institution's product offerings and business strategy; the institution's capacity and constraints; the prior performance of the institution; in appropriate circumstances, the performance of a similarly situated institution; and other relevant information. An institution's performance need not fit each aspect of a particular rating profile in order to receive that rating, and exceptionally strong performance with respect to some aspects may compensate for weak performance in others. The institution's overall performance, however, must be consistent with safe and sound banking practices and generally with the appropriate rating profile. In addition, OTS adjusts the evaluation of an institution's performance under the applicable assessment method in accordance with §563e.21 and §563e.28, which provide for adjustments on the basis of evidence of discriminatory or other illegal credit practices.