

PUBLIC DISCLOSURE

September 14, 1998

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Harris Bank Batavia, N.A.
Charter Number: 4646**

**155 W. Wilson
Batavia, Illinois 60510**

**Office of the Comptroller of the Currency
Arlington Place II, Suite 340
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Arlington Heights, Illinois 60005**

NOTE: 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, when examining financial institutions subject to its supervision, to use its authority 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 the examination's conclusion, 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 Harris Bank Batavia, N.A., prepared by The Office of the Comptroller of the Currency (OCC), the institution's supervisory agency, as of September 14, 1998. The agency evaluates performance in assessment area(s), as they are delineated by the institution, rather than individual branches. This assessment area evaluation may include the visits to some, but not necessarily all, of the institution's branches. The agency rates the CRA performance of an institution consistent with the provisions set forth in "Appendix A" to 12 C.F.R. part 25.

This evaluation covers the period from January 1, 1996 to June 30, 1998. The prior CRA evaluation, dated December 21, 1995, rated this institution "Satisfactory Record of Meeting Community Credit Needs."

DEFINITIONS AND COMMON ABBREVIATIONS

The following terms and abbreviations are used throughout this Performance Evaluation. The definitions are intended to provide the reader with a general understanding of the terms, not a strict legal definition.

Community Reinvestment Act (CRA) - The statute and implementing regulation that require the OCC to evaluate a bank's record of meeting the credit needs of its local community, consistent with safe and sound operation of the bank, and to take this record into account when evaluating certain corporate applications filed by the bank.

Community Development - Affordable housing (including multi-family rental housing) for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs or have gross annual revenues of \$1 million or less; or, activities that revitalize or stabilize low- or moderate-income geographies. Community development loans specifically exclude loans which have been reported under the Home Mortgage Disclosure Act or as small loans to businesses or farms, except for multi-family rental housing loans, which can be reported under both categories.

Metropolitan Statistical Area (MSA) - Area defined by the Director of the United States Office of

Management and Budget. MSA's consist of one or more counties, including large population centers and nearby communities that have a high degree of interaction.

Census Tract (CT) - A small, locally defined statistical area. These areas are determined by the United States Census Bureau in an attempt to group homogenous populations. A CT has defined boundaries per ten-year census and an average population of 4,000.

Home Mortgage Disclosure Act (HMDA) - A statute that requires certain mortgage lenders that do business or have banking offices in an MSA to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applicants, the amount of loan requested, and its disposition (e.g., approved, denied, withdrawn).

Median Family Income (MFI) - The median income determined by the United States Census Bureau every ten years and used to determine the income level category of census tracts. Also, the median income determined by the Department of Housing and Urban Development annually that is used to determine the income level category of individuals. For any given area, the median is the point at which half of the families have income above it and half below it.

Low-Income - Individual income that is less than 50% of the area median income, or a median family income that is less than 50 percent, in the case of a geography.

Moderate-Income - Individual income that is at least 50% and less than 80% of the area median income, or a median family income that is at least 50% and less than 80%, in the case of a geography.

Middle-Income - Individual income that is at least 80% and less than 120% of the area median income, or a median family income that is at least 80% and less than 120%, in the case of a geography.

Upper-Income - Individual income that is 120% or more of the area median income, or a median family income that is 120% or more, in the case of a geography.

Small Business Loans - Loans for business purposes with an original amount of \$1 million or less for which the bank is required to collect and report certain monitoring data under the CRA regulation.

Small Farm Loans - Loans to farms with an original amount of \$500 thousand or less for which the bank is required to collect and report certain monitoring data under the CRA regulation.

INSTITUTION’S CRA RATING: This institution is rated “Satisfactory Record of Meeting Community Credit Needs.”

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

- The distribution of home mortgage, consumer, and small business loans among retail customers of different income levels and businesses of different sizes is adequate. During this evaluation period, Harris Bank Batavia, N.A. made 5% of its loans to low-income borrowers and an additional 14% of its loans to moderate-income borrowers. Additionally, more than 65% of the small business loans were to borrowers with annual revenues less than \$1 million.
- Overall lending levels reflect good responsiveness to assessment area credit needs. Harris Bank Batavia, N.A. made 750 HMDA, small business, consumer, and community development loans in its assessment area for more than \$48 million. Affiliate lending added another 78 loans for \$10,049,000.
- A good percentage of the bank’s loans are made in the assessment area. More than 65% of the number of loans were extended within the assessment area.
- Services, including business hours, are tailored to the convenience and needs of the assessment area, including low- and moderate-income geographies and individuals. Product offerings are standardized and made available in all locations. Harris Bank Batavia, N.A. provides an adequate level of community development services.
- The bank’s investment performance is adequate. Between Harris Bank Batavia, N.A. and its affiliate, \$32,066 was invested in local community development organizations.

The following table indicates the performance level of Harris Bank Batavia, N.A. with respect to the lending, investment, and service tests.

Performance Levels	Harris Bank Batavia, N.A. Performance Tests		
	Lending Test*	Investment Test	Service Test
Outstanding			
High satisfactory			
Low satisfactory	X	X	X
Needs to improve			
Substantial noncompliance			

* Note: The lending test is weighted more heavily than the investment and service test in the overall rating.

DESCRIPTION OF INSTITUTION:

Bank Profile:

Harris Bank Batavia, N.A. (HB Batavia) is a \$101 million bank whose main office is located in Batavia, Illinois. The bank primarily serves the communities of Batavia, Geneva, Mooseheart, Blackberry Township, and part of North Aurora. The bank is located in a well-established community whose economic base has historically been industrial. More recently, the economy has tended toward retail, especially in conjunction with the development west of the city on Randall Road. Economic conditions are considered stable, and competition is strong. The institution has a total of two offices and 3 Automatic Teller Machines (ATM's). Both the main office and the branch office are located in Batavia.

HB Batavia is wholly owned by Harris Bankcorp, Inc. located in Chicago, Illinois. Harris Bankcorp, Inc. is a subsidiary of the Bankmont Financial Corporation, which is wholly owned by the Bank of Montreal in Toronto, Canada. Bankmont Financial Corporation also owns Harris Bankmont, Inc. These two (2) holding companies are generally referred to as the Harris bank group. This organization includes the Harris Trust and Savings Bank (HTSB) in downtown Chicago and 25 separately chartered community banks with more than 140 branches throughout the Chicagoland area. It is one of the largest community bank networks in the Midwest. HTSB is ranked the fourth largest bank in Chicago. According to American Banker, the Harris organization is the 38th largest banking organization in the U.S. The assets of all the community banks within the Harris bank group amount to roughly \$6.5 billion with HTSB adding another approximate \$14 billion in total assets. The Bank of Montreal has assets of approximately \$208 billion Canadian and ranks as one of the 10 largest banks in North America. Harris Bank's commitment to community banking is founded on the belief that local, independent banks, allowed to appoint their own management team and board of directors have the insight to best serve their respective communities.

During fourth quarter of 1997 through the first quarter of 1998, the Harris bank group strategically decided to consolidate the permanent financing mortgage business of all 26 banks into one operation housed at HTSB. Consequently, during the fourth quarter of 1997 HB Batavia discontinued originating home mortgage loans. All home mortgage applications taken at the individual Harris bank locations are referred to and processed by one of HTSB's Regional Operations Centers (ROC's). Home mortgage applications that are denied by the ROC may be overridden and reported on the respective bank's books. For the purpose of the CRA evaluations, HTSB's mortgage loans were allocated to the individual banks based on where the application originated and in which bank's assessment area the loan was located. Loans allocated to HB Batavia from the ROC are reflected in the tables as "affiliate loans."

Total loans account for 68% of HB Batavia's average assets, as of June 30, 1998. The loan to deposit ratio was 81%, an increase from 66% at year-end 1997. However, the year-end loan to deposit ratio is misleading. The bank received a very large deposit for a few days over the year-end time frame. Without this \$15 million deposit, the year-end loan to deposit ratio was approximately 77%. The loan mix indicates the bank's major loan type is residential loans. Approximately 88% of the loan portfolio is for real estate purposes. One-to-four family residential loans account for 72% of average gross loans, of

which 23% are home equity loans. Commercial real estate loans account for another 11%. Multi-family loans are less than 1% of average gross loans. Loans to individuals account for 5% of average gross loans, with 6% commercial and industrial loans rounding out the portfolio.

The institution is capable of meeting the community's credit needs, based on its financial condition, size, and product offerings. There are no major constraints or legal impediments which would impact the bank's ability to fulfill the spirit of CRA.

Assessment Area Profile:

HB Batavia operates in one assessment area. The combined area consists of six census tracts. The main communities included in this area are Batavia, Geneva, Mooseheart, Blackberry Township, and part of North Aurora. According to 1990 census information, the community comprises three (50%) middle- and three (50%) upper-income census tracts. There are no low- or moderate-income census tracts. HB Batavia's assessment area meets the requirements of the CRA regulation and does not arbitrarily exclude low- or moderate-income areas.

The 1998 HUD adjusted median family income for the area is \$59,500. The total population of this area is 40,054 people in 10,915 families. Of this total, there are 808 (8%) low-, 1,297 (12%) moderate-, 2,755 (25%) middle-, and 5,958 (55%) upper-income families in the area. The population within this area is distributed among the census tracts as follows: 39% middle-, and 61% upper-income tracts.

There are 14,470 housing units in the area. The large majority of housing is owner-occupied units (74%). Only 22% of the housing units are occupied rental units. The median housing cost is \$141,476, with the average age of housing approximately 30 years old.

According to the business demographic data for the entire area, the distribution of businesses shows 48% of the businesses are located in middle-income census tracts. The remaining 52% of the businesses are located in upper-income tracts. The distribution of small businesses (those with gross annual revenue less than \$1 million) generally mirrors the total business distribution, with 47% of the small businesses in middle-income census tracts and 53% in moderate-income census tracts. Seventy-three percent (73%) of the businesses in the assessment area have gross income less than \$1 million, 11% greater than \$1 million, with the remaining businesses income unknown.

Based on the 1990 census data, there are only 46 farms in this area. Twenty-two (22) or 48% of these farms are in middle-income census tracts. The other 52% are in upper-income tracts. Forty (40) of the 46 farms (87%) have revenue less than \$1 million. Due to a plan to retain farms in the western portion of the bank's assessment area, many of these farms still exist and have not been replaced by housing or retail developments.

Major employers in the assessment area include the Fermi National Accelerator Lab (a physics research lab which employs approximately 2,150 people), Siemens-Furnas Controls (a manufacturer of electric

motor controls which employs approximately 500 people), Suncoast Corp. (a plastic lawn and garden products company which employs approximately 450 people), Argo Corp. (a wholesaler of tractors which employs approximately 425 people), and Unit School District #101 (which employees approximately 400 people). Several large employers in neighboring Naperville, Wheaton, and Aurora also provide jobs in the assessment area. Unemployment in the area is low with Kane county reporting approximately 4% unemployment.

Competition in the assessment area is strong. There are several mortgage companies and large banks, including branches of multi billion dollar financial institutions located in the area. First National Bank of Chicago (\$62 billion in total assets) has a significant presence in the assessment area, as well as affiliated Harris Bank St. Charles (\$355 million in total assets) and First American Savings (\$ million in total assets). Two very well established banks in neighboring Aurora, Illinois, Merchants Bank, N.A. (\$712 million in total assets) and Old Second National Bank, N.A. (\$532 million in total assets), maintain a strong market presence in the assessment area.

We utilized five (5) community contacts performed by other examiners and us during this review. The types of organizations included housing, small business development, and social service organizations. The contacts indicated the main credit needs in the area were affordable housing (low down payments, no closing costs, etc.) and small business loans (start-up loans, inventory financing, working capital, etc.).

During the examination, we received two letters from the Woodstock Institute regarding the performance of the Harris banks under the Community Reinvestment Act. These comments were considered during our evaluation.

CONCLUSIONS ABOUT PERFORMANCE TESTS

Overall lending performance is adequate. Community development involvement with respect to the lending, investment and service tests is reasonable in relationship to existing opportunities. Therefore, the bank's overall performance with CRA is supported as Satisfactory.

Scope:

Our analysis included full exam procedures in the assessment area. We reviewed small business, HMDA (home purchase, home improvement, home refinance, and multi-family), consumer, and community development loans. There was no small farm lending during the evaluation period. Affiliate lending included in this review consisted of mortgage loans made by Harris Trust & Savings Bank during the fourth quarter of 1997 and the first two quarters of 1998 that were allocated to HB Batavia. The review of investments included a review of the investment portfolio and an analysis of the grants and donations provided to community service organizations. Our evaluation of services included analyzing the availability and effectiveness of the bank's branch/ATM network for delivering retail banking services. We analyzed the effect of the changes in branch locations since the previous CRA examination. We also considered the extent and innovativeness of its community development services in meeting the credit

needs of the assessment area.

Under the CRA regulation, data collection is optional for consumer loans, and there are no reporting requirements. HB Batavia provided data on its consumer loans during 1997 and through June 30, 1998. Loan data was not available for 1996; however, discussions with management indicate that their level of lending in 1996 would be similar to activity in 1997 and year-to-date 1998.

Data Integrity:

In order to determine the accuracy of data presented by the bank, we verified a sample of the HMDA, consumer, and small business loans. We reviewed HMDA reportable transactions to ensure the purpose, actions taken, race, gender, applicant income, and loan size were accurately included on the Loan Application Register (LAR). Our assessment of consumer loans included verification of the loan amount, income of the borrower, and location. A similar review was performed on small business loan files to ensure the loan amount, revenue category, and location were reported accurately. We also reviewed the loan the bank was reporting as community development. This loan met the definition of community development and was correctly included in the data. We reviewed all the grants and donations the bank made from January 1, 1996 through June 30, 1998. With assistance from bank personnel, we determined which organizations met the definition of community development and only included those under the investment test. Our review of these files noted only minor clerical errors with the HMDA-LAR and CRA Data Listing Report both substantially correct.

LENDING TEST

Major Conclusions:

- HB Batavia’s lending levels reflect adequate responsiveness to assessment area credit needs.
- The bank’s distribution of lending to borrowers reflects good penetration among retail customers of different income levels. Lending to business customers of different sizes, given the product lines offered by the bank, is considered adequate.
- The level of community development lending is reasonable based on the opportunities that exist in the bank’s assessment area, as well as HB Batavia’s size and resources.

Lending Activity

HB Batavia extended a significant amount of credit in the assessment area. As reflected in Table I, “Volume of Loan Originations Inside the Assessment Area,” the bank and its affiliate made 828 loans totaling \$58,598,000 in their assessment area during the evaluation period. HB Batavia’s largest volume

product by number of loans made in the evaluation period is consumer lending at 357 loans for \$11,731,000. HMDA lending is next in line at 289 loans for \$23,615,000. By dollar amount, HMDA lending is the largest volume. HB Batavia also extended one loan for \$521,000 for a community development project in their assessment area between January 1996 and June 1998. It is reasonable that HB Batavia did not make any small farm loans during the evaluation period since there are a small number of farms in the assessment area. The significant reduction in the number of HMDA loans for 1998 is due to the centralization of mortgage financing by the Harris bank group, as explained in the "Bank Profile" section of this evaluation. Also, HB Batavia chose to discontinue including home equity lines with a home improvement purpose in its HMDA data for 1997 and 1998. HMDA loans from affiliates added 78 loans for an additional \$10,049,000.

HB Batavia's reasonable responsiveness to assessment area credit needs is further supported by their market rank for HMDA lending. During 1997, HB Batavia's overall market share of 4.50% for HMDA lending resulted in a market rank of 4th out of 240 institutions, placing the bank in the top 2% of all HMDA reporters in the assessment area.

Table I - Volume of Loan Originations Inside the Assessment Area								
Type of Loan	YTD 6/98		1997		1996		Total YTD 6/98, 1997 & 1996 Combined	
	#	\$ (in 000's)	#	\$ (in 000's)	#	\$ (in 000's)	#	\$ (in 000's)
Home Purchase	0	\$0	34	\$5,230	59	\$7,450	93	\$12,580
Home Improvement	9	\$164	58	\$1,468	41	\$904	108	\$2,636
Refinance	2	\$243	28	\$3,484	58	\$4,672	88	\$8,399
Total HMDA	11	\$507	120	\$10,082	158	\$13,026	289	\$23,615
Small Business	20	\$1,662	33	\$5,120	50	\$5,900	103	\$12,682
Consumer	109	\$3,658	248	\$8,073	N/P	N/P	357	\$11,731
Community Development	1	\$521	0	\$0	0	\$0	1	\$521
Total Bank Loans	141	\$6,348	401	\$23,275	208	\$18,926	750	\$48,549
Affiliate Loans	68	\$8,989	10	\$1,060	0	\$0	78	\$10,049
Grand Total Loans	209	\$15,337	411	\$24,335	208	\$18,926	828	\$58,598

Source: HMDA-LAR, CRA Data Listing Report, and Internal Bank Reports.

*N/P = Data Not Provided

Assessment Area Concentration

A majority of loans made by HB Batavia are concentrated inside the bank's assessment area. As illustrated in Table II, "Loans Inside the Assessment Area vs. Total Loans," HB Batavia made 65% of the number, and 55% of the dollar volume of mortgage, small business, and community development loans inside its assessment area.

The concentration of HMDA lending inside HB Batavia's assessment area is a good indicator of their strong focus on meeting the housing needs of the local community. From January 1996 through June 1998, the bank originated 503 HMDA reportable loans, representing \$50,193,000. Fifty-seven percent (57%) of the number of HMDA loans originated, representing 289 loans, were within the bank's assessment area. HB Batavia's HMDA lending by product type also indicates a high percentage of lending inside the assessment area. By product line, more than 50% of HB Batavia's home purchase, home improvement and refinance loan originations were inside its assessment area. However, these percentages are somewhat misleading. During the evaluation period, HB Batavia purchased 65 loans. Almost all of these loans (64) were outside the bank's assessment area. The bank purchased loans to improve its loan to deposit ratio in 1997. See Table II, "Loans Inside the Assessment Area vs. Total Loans," for more details.

HB Batavia's commitment to meeting its assessment area's credit needs is further demonstrated by the volume of small business loans in their assessment area. A substantial majority of HB Batavia's small business loans are inside its assessment area. From January 1996 through June 1998, HB Batavia originated 153 small business loans, amounting to \$20,744,000. Sixty-seven percent (67%), or 103 of those loans, were inside the bank's assessment area.

HB Batavia originates a substantial majority of its consumer loans within the assessment area. Seventy-three percent (73%) or 357 of the 489 consumer loans were inside the assessment area. Consumer loan dollars indicate that 70% of the funds remained within the assessment area. These percentages indicate a good commitment by the bank to its local community's credit needs.

**Table II - Loans Inside the Assessment Area vs. Total Loans
From January 1996 through June 1998**

Type of Loan	Total Loans		Loans Inside Assessment Area			
	#	\$ (in 000's)	#	% of #	\$ (in 000's)	% of \$
Home Purchase	181	\$25,414	93	51%	\$12,580	50%
Home Improvement	147	\$3,564	108	73%	\$2,636	74%
Refinance	175	\$21,215	88	50%	\$8,399	40%
Total HMDA Loans	503	\$50,193	289	57%	\$23,615	47%
Small Business	153	\$20,744	103	67%	\$12,682	61%
Consumer	489	\$16,784	357	73%	\$11,731	70%
Community Development	1	\$521	1	100%	\$521	100%
Total Loans	1,146	\$88,242	750	65%	\$48,549	55%

Source: Bank reports, HMDA-LAR, and CRA Data Listing reports for 1998, 1997 and 1996.

Geographic Distribution of Loans Within the Assessment Area

Since the assessment area does not include any low- or moderate-income census tracts, a geographic distribution of loans would not be meaningful. Therefore, we gave more weight to the distribution of loans to borrowers of different incomes and businesses of different sizes.

Distribution by Borrowers' Income Inside the Assessment Area

The distribution of loans to borrowers of different income levels reflects good penetration among retail customers of different income levels, given the product lines offered by the institution. Lending to businesses of different sizes is considered adequate.

HB Batavia's market share of HMDA loans is good at 5.26% for low-income borrowers and adequate at 3.51% for moderate-income borrowers. The bank is ranked 2nd of all lenders in loans to low-income borrowers in the assessment area. HB Batavia's market share is higher for low-income borrowers than their market share for middle-income, upper-income, and all borrowers as illustrated in Table V, "Market Share and Market Rank - HMDA Loans - Distribution by Borrower's Income Level."

**Table III - Market Share (MS) and Market Rank (MR) - HMDA Loans
Distribution by Borrower's Income Level**

Type of Loan	Income Level of Borrower									
	Low income		Moderate income		Middle income		Upper income		All Borrowers	
	MS	MR	MS	MR	MS	MR	MS	MR	MS	MR
Home Purchase	N	N	1.82%	10	3.86%	6	2.73%	7	2.92%	7
Home Improvement	N	N	N	N	16.46%	1	20.63%	1	18.53%	1
Refinance	N	N	2.80%	6	1.63%	14	3.13%	6	2.72%	7
Total HMDA Loans*	5.26%	2	3.51%	7	4.21%	5	5.02%	3	4.50%	4

Source: Aggregate HMDA Data for 1997

*Excludes Multi-family loans

The distribution of loans made by HB Batavia based on borrower characteristics, during the evaluation period, is good. The bank and its affiliate made 5% of their total home mortgage and consumer loans to low-income individuals. In addition, 14% of HB Batavia's loans were made to moderate-income individuals. Considering the borrower characteristics and population living in the assessment area, this level of lending is good. Again, the make up of the assessment area shows 8% low-, 12% moderate-, 25% middle-, and 55% upper-income families in the area.

HB Batavia's loan distribution shows that 3% of HMDA loans were made to low-income individuals, and 12% were made to moderate-income borrowers. Considering that 2% of the households in the assessment area are living below the poverty level, the opportunity to extend home mortgage credit to low-income borrowers is slightly reduced. Those households would have a limited ability to assume debt obligations. Therefore, the lower level of HB Batavia's home mortgage lending to low-income borrowers is considered adequate. See Table VI, "Distribution by Borrower's Income Level Inside the Assessment Area From January 1996 through June 1998" for more details.

HB Batavia's consumer lending to low- and moderate-income families is good. As the table reflects, 6% and 13% of the number of consumer loans were originated to low- and moderate-income families, respectively. This level of performance is comparable to the relative opportunity based on the demographics of the assessment area. There are 7% low-income and 12% moderate-income families living within the assessment area.

**Table IV - Distribution by Borrower's Income Level
Inside the Assessment Area
From January 1996 through June 1998**

Type of Loan	Income Level of Borrower							
	Low income		Moderate income		Middle income		Upper income	
	#	%	#	%	#	%	#	%
Home Purchase	1	1%	10	11%	22	24%	60	65%
Home Improvement	4	4%	12	11%	25	23%	67	62%
Refinance	4	5%	14	16%	12	14%	57	65%
Total HMDA Loans*	9	3%	36	12%	59	20%	184	64%
Home Equity	5	2%	24	11%	58	27%	128	59%
Motor Vehicle	3	6%	9	18%	12	24%	26	51%
Credit Card	0	0%	0	0%	0	0%	0	0%
Other Secured	3	16%	1	5%	4	21%	11	58%
Other Unsecured	10	14%	14	20%	15	21%	31	44%
Other	0	0%	0	0%	0	0%	0	0%
Total Consumer Loans	21	6%	48	13%	89	25%	196	55%
Total Bank Loans	30	5%	84	13%	148	23%	380	59%
Affiliate Loans	7	9%	17	22%	17	22%	37	47%
Grand Total Loans	37	5%	101	14%	165	23%	417	58%

Source: HB Batavia's HMDA-LAR for 1998, 1997 and 1996.

*Excludes Multi-family loans

Percentages may not add to 100 due to loans for which the borrower's income was not available.

As reflected in Table V, "Distribution of Small Business Originations From January 1996 through June 1998 Inside the Assessment Area By Loan Size and Business Revenues," HB Batavia's origination of small business loans reflects an adequate distribution. A substantial majority of the loans (69%) were for original amounts of less than \$100 thousand. In addition, 65% of HB Batavia's small business loans were made to businesses with revenues less than \$1 million. This level of performance is considered adequate given the distribution in the size of businesses in the assessment area.

**Table V - Distribution of Small Business Originations From January 1996 through June 1998
Inside the Assessment Area By Loan Size and Business Revenues**

Loan Size					Annual Revenues		
	less than \$100,000	\$100,000 to \$250,000	\$250,000 to \$1,000,000	Total Loans	< \$1 Million	> \$1 Million	Unknown
Number	71	16	16	103	67	24	12
% of #	69%	16%	15%	100%	65%	23%	12%
Dollars (in 000's)	\$1,961	\$2,733	\$7,988	\$12,682	\$3,573	\$7,643	\$1,466
% of \$	15%	22%	63%	100%	28%	60%	12%
Distribution of Businesses in the Assessment Area by Annual Revenues of the Business:				Revenues < \$1 Million		73%	
				Revenues > \$1 Million		11%	
				Revenues Unknown		16%	

Source: HB Batavia's CRA Data Listing reports for 1998, 1997 and 1996.

Community Development Lending

HB Batavia made an adequate contribution to community development in their assessment area. HB Batavia made one community development loan for \$521,000. This loan provided affordable housing for low- and moderate-income individuals. HB Batavia also made two loans for \$820,000 which met the definition of community development but were reported in the small business loan totals. The bank's contribution is considered adequate in relation to the aggregate HMDA information for 1997 (most recent data available). In the bank's assessment area, only three multi-family projects were reported by all HMDA reporters combined.

Product Innovation and Flexibility

HB Batavia is generally responsive to credit needs by offering several flexible loan products. Through the standard product offerings, the Harris bank group offers flexible residential mortgage loan products, as well as small business loan products which serve assessment area credit needs. Each of these flexible loan products help low- and moderate-income individuals obtain credit which they might not have access to under the bank's normal underwriting standards. Examples of these products/programs are given on the next page:

- Illinois Housing Development Authority (IHDA) - This program is designed to assist low- and moderate-income persons with affordable housing financing. The program also targets first-time home buyers and provides reduced interest rates. The funds from this program can be used for a variety of single and multi-family initiatives. HB Batavia has not originated any loans under this program during our evaluation period.
- Community Home buyer Products (CHP) - There are three CHP programs offered at HB Batavia and its affiliates. These programs offer assistance to low- and moderate-income persons with home ownership. Designed by Fannie Mae's underwriting guidelines, these programs are targeted toward borrowers whose income is not greater than 100% of the median family income. Private mortgage insurance and home ownership counseling are required. More lenient underwriting criteria are applied, including higher debt ratios. Specifics of the programs are outlined below:
 - ▶ Standard 3/2 CHP Fixed Rate Loan - This product requires a minimum of 3% down payment from applicants' own funds, with an additional 2% gift, grant, or unsecured loan from a qualifying entity.
 - ▶ Adjustable Rate CHP Loan - This product provides a 1% yearly cap, a 5% lifetime cap, and is priced at 2% above the 1-year Treasury Bill index.
 - ▶ CHP 97 Fixed Rate Loan - This product requires a minimum of 3% down payment from applicants' own funds.

HB Batavia originated two CHP loans during this evaluation period.

- Freddie Mac Fixed Rate Residential Mortgage Program - This loan program requires a 5% down payment with a total debt ratio of no more than 36%. There are no income limitations and private mortgage insurance is required for all loans that have greater than an 80% loan-to-value. HB Batavia has not made any loans under this program.
- 80/10/10 Mortgage Product - The product allows applicants to purchase or refinance a single family home, condominium, townhouse, or two-unit primary residence or single family second home with only 10% down or equity and no private mortgage insurance coverage. The transaction includes an 80% first mortgage and 10% home equity loan. This is a new product within the Harris bank group. However, HB Batavia already originated one loan under this program.
- 100% Home Equity Loan - This product allows individuals with little equity in their residence to borrow against their investment. Between January 1997 and June 1998, HB Batavia originated 17 loans totaling \$336,000 under this program.
- Harris Bank ALT 97 Program - This program was just implemented in August 1998. Although this program is not specifically targeted toward low- and moderate-income persons, it is a

desirable product because it requires as little as a 3% down payment, with a total debt ratio of no more than 36%. No home buyer education is required. Private mortgage insurance is only required up to 18% of the property value. However, the borrowers must not have flawed credit. Due to the recent implementation of this product, HB Batavia has not made any loans under this program.

- Small Business Lending Rate (SBLR) - This program is designed to help small businesses grow and expand, and is available to businesses borrowing less than \$500,000. Qualified borrowers receive a rate index of one-half percent (½%) below the Wall Street Journal prime rate. Information on the amount of loans originated during the evaluation period was unavailable. However, on June 30, 1998, HB Batavia had 25 loans outstanding, totaling \$870,000, under this program.
- City of Batavia Facade Improvement Program - This program was designed to assist small business owners in the renovation of the appearance of their business. HB Batavia made one loan for \$5,000 under this program.
- Community Contacts First-Time Home buyers - This program targets low- and moderate-income individuals buying their first home. It allows for reduced interest rates and higher loan-to-value ratios. Private Mortgage Insurance is required for loans which exceed 80% of the property's value. HB Batavia has recently made the first loan under this program.

The Harris bank group's central processing facility for guaranteed student loans is Harris Bank Aurora, N.A.. FHA and VA loan requests are referred to HTSB. In addition, requests for Reverse Mortgage loans are referred to HB Batavia's affiliate, Harris Bank Winnetka, N.A..

Compliance with Anti-Discrimination Laws

HB Batavia has a satisfactory record of complying with the antidiscrimination laws (ECOA, FHA, and HMDA). No violations of the substantive provisions of the antidiscrimination laws and regulations were discovered during this examination.

INVESTMENT TEST

Major Conclusions:

- The institution has an adequate level of qualified community development investments. Its responsiveness to credit and community economic development needs is reasonable, given the amount of opportunity for community development in the bank's assessment area, as well as its size and resources. Due to the lack of low- or moderate-income census tracts in this assessment area, there are not many opportunities for qualified investments by the bank.

As part of corporate centralization, the majority of the Harris bank group's community development lending and investing activities are conducted by HTSB. The community development department of HTSB made several investments in the Chicago Equity Fund. This organization is a limited partnership which purchases Low-Income Housing Tax Credits (LIHTC's) to assist in funding housing projects in the Chicagoland area. Since the minimum amount of investment is one share which cost's \$500,000, HTSB allocated its investment in this organization to each of the community banks in the organization based on their relative asset size. HB Batavia received a \$17,650 share of this investment.

From January 1996 through June 1998, HB Batavia made several grants and donations to organizations which provide community development services within their assessment area. A total of 12 community development organizations received grants and donations amounting to \$14,416 during the evaluation period. These grants went to a variety of types of organizations including community development corporations, housing development, and providers of health care, shelter and food.

SERVICE TEST

Major Conclusions:

- HB Batavia's delivery systems are reasonably accessible to essentially all portions of the institution's assessment area, and provide the services and products needed by the community.
- Services, including business hours, are tailored to the convenience and needs of the assessment area. Product offerings are standardized and made available in all locations.
- The institution is adequately involved in providing community development services. Some of our community contacts mentioned the involvement of HB Batavia in the community.

Retail Services

HB Batavia makes its retail services easily accessible to all individuals in their assessment area through its branch distribution. HB Batavia operates two full service offices throughout this assessment area. The main office is located in downtown Batavia, Illinois. The branch is located west of Batavia in an area on Randall Road that is experiencing significant growth. The bank has extended banking hours through its walk-up and drive-through facilities. HB Batavia has not opened or closed any branches during this evaluation period.

The bank maintains three full service automated teller machines (ATM's). One (1) of the ATM's is at an off-site location with the other two machines at the branch locations. The distribution of the ATM's allows access by individuals throughout the assessment area including low- and moderate-individuals.

In conjunction with the Illinois Department of Public Aid, the Harris bank group participates in the “Illinois Link” Electronic Benefit Transfers (EBT) program. This system allows individuals to access their public aid benefits through Cash Station ATM’s. The program provides aid recipients with a low cost alternative to currency exchange transactions. The Harris group joined this program in March 1997. It is estimated that more than 150,000 households in the Chicago area have the “Illinois Link” EBT cards. The Harris bank group is doing at least 4,000 “Illinois Link” transactions each month.

HB Batavia offers other alternative delivery services such as 24-hour telephone banking including a bill payment feature, loan-by-phone, personal computer banking, and bank-by-mail services. HB Batavia’s customers also have access to 138 other ATM’s and a customer service Client Contact Center through its affiliation with the Harris bank group. The Client Contact Center provides a centralized customer service facility in addition to a centralized sales function which refers customers to a local Harris Bank for loans and other services. In addition, both of the bank’s ATMs and the Client Contact Center are multilingual.

The bank’s service hours, including lobby hours, walk-up and drive-up hours are 7:00 a.m. to 7:00 p.m. Monday through Friday, and 7:00 a.m. to 3:00 p.m. on Saturday. The Windmill Place branch on Randall Road is also open from 10:00 a.m. to 3:00 p.m. on Sundays. ATM’s are available 24 hours daily. There are no differences in the types of services available at the different locations.

Community Development Services

Employees of HB Batavia are very active with organizations which provide community development related loans and services to the assessment area. Many of these organizations address the housing needs of the low-income residents of this area. We received very positive comments about the involvement of HB Batavia during our community contacts. HB Batavia is active, in some capacity, with almost all the community development organizations in its assessment area. Some examples of activities and the organizations with which the bank and its employees are affiliated follow:

- HB Batavia employees are assisting in the organization of an association which provides renovation funding for low- and moderate-income families.
- An employee provided financial advice to a local community development organization on the implementation of a low down payment program. This program will assist low- and moderate-income families with acquisition funding for home purchase.
- A bank officer is involved with a local development organization to redevelop the downtown Batavia area. Although this is not a low- or moderate-income census tract, based on 1990 census data, the development on the west side of the city has caused significant movement out of the downtown Batavia area.

- HB Batavia has provided several educational seminars. The “First time home buyer” seminar targets low- and moderate-income individuals and provides educational information on obtaining mortgage financing. Another seminar focuses on teaching low- and moderate-income individuals about “Becoming Financially Self-Reliant.”
- The bank has been involved in local business trade fairs. During these events, bank employees provided information on how to obtain business financing and the specific loan products offered by HB Batavia.