



Office of the  
Comptroller of the Currency  
Washington, DC 20219

# INTERMEDIATE SMALL BANK

## PUBLIC DISCLOSURE

June 23, 2014

## COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Union National Bank  
Charter Number: 7236

101 East Chicago Street  
Elgin, IL 60120

Office of the Comptroller of the Currency

Chicago North Field Office  
1700 East Golf Road, Suite 800  
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 CRA RATING:** This institution is rated **Satisfactory**.

**The Lending Test is rated: Satisfactory.**

**The Community Development Test is rated: Satisfactory.**

Union National Bank of Elgin (UNB) has a satisfactory record of meeting the community needs based on the following:

- The quarterly loan-to-deposit ratio is more than reasonable and above the peer group average.
- A substantial majority of UNB's loans were made inside the assessment area (AA).
- The geographic distribution of loans shows excellent dispersion throughout UNB's AA.
- UNB's community development performance demonstrates adequate responsiveness to the needs of the AA through Small Business Administration (SBA) lending programs.

## **Scope of Examination**

We evaluated UNB's Community Reinvestment Act (CRA) performance using the Intermediate Small Bank performance criteria. This included a Lending Test and Community Development Test. The Lending Test evaluates a bank's record of meeting the needs of its AA through lending activities. The Lending Test evaluation period included analyzing lending data from 2012 and 2013. The Community Development Test evaluates a bank's community development services, loans, and investments. This evaluation period covered the time since the date of the previous CRA examination, October 18, 2010 to April 30, 2014.

We assessed UNB's lending performance by determining primary products based on the number and dollar volume of loans originated between January 1, 2012 and December 31, 2013. Based on this analysis, we determined commercial loans were the bank's primary lending product. The volume of residential real estate mortgages and general consumer loans is very low. Our lending test analysis focused on the bank's commercial lending, including commercial and small business loans. The commercial loan data used in the analysis was generated by a compilation of geographic and revenue facts from the bank's commercial loan files. We found the data accurate and reliable.

For the Community Development Test, we reviewed and evaluated the bank's community development loans. UNB did not have any community development investments or services during the evaluation period.

## Description of Institution

UNB is a wholly owned subsidiary of Elgin Bancshares, Incorporated, a one-bank holding company formed in 1904. The bank has one office located in downtown Elgin, Illinois. In addition, UNB has a limited service messenger office, also located in Elgin. UNB provides various retail and commercial bank products while offering traditional banking services including drive-up hours to meet customer needs. The bank's business focus is primarily commercial, with an emphasis in SBA lending. The bank's primary lending is to commercial businesses. Specializing in small business lending, the bank is designated an SBA "preferred lender." The bank is not primarily a large residential lender, but offers consumer products as a courtesy to existing business customers.

As of March 31, 2014, UNB reported assets of \$319.6 million with total loans and leases comprising 79.7 percent of this total. Commercial real estate is the primary loan type, representing 79.07 percent of the bank's gross loans. The loan portfolio also consists of 12.69 percent in other commercial and industrial loans.

UNB has been under a Consent Order with the Office of the Comptroller of the Currency since April 22, 2010. The Consent Order placed a temporary restriction on the origination of new commercial real estate loans, but the restrictions were lifted as of October 16, 2013. There are no other restraints to hinder UNB from meeting the credit needs of its community. The last CRA examination, as of October 18, 2010, rated the Bank's CRA performance as "*Satisfactory*."

## Description of Assessment Area

UNB's AA contains portions of Cook, DuPage, Kane, and McHenry counties. These counties are located within one contiguous section of the Chicago Metropolitan Statistical Area. Since the previous CRA examination in October 2010, the AA has been adjusted. This is mainly due to the new 2010 Census data, which increased the number of tracts in the AA. The AA increased from 277 to 315 census tracts.

Of the 315 census tracts, three (one percent) are considered low-income, 39 (12 percent) are moderate-income, 133 (42 percent) are middle-income, and 140 (44 percent) are upper-income tracts. UNB's AA meets the requirements of the CRA and does not arbitrarily exclude low- or moderate-income geographies.

The March 2014 unemployment rates for Cook, DuPage, Kane, and McHenry Counties were 8.3 percent, 6.6 percent, 8.6 percent, and 7.8 percent, respectively. These unemployment rates are in line with the Illinois statewide average of 8.3 percent. All but DuPage County are above the nationwide average of 6.7 percent.

According to the Elgin Area Chamber of Commerce website, the largest employers in the Elgin IL, area are the Elgin School District, J.P. Morgan Chase, Advocate Sherman

Hospital, and Provena Saint Joseph Hospital.

Competition for financial services from other financial institutions within the AA is strong. Currently 185 financial institutions serve Cook, DuPage, Kane, and McHenry counties. UNB ranks 69 and has approximately one tenth of one percent of the deposit market share. The leaders in market share are JPMorgan Chase Bank, BMO Harris Bank, and Bank of America.

During this evaluation of the bank's CRA performance, a local community organization was contacted to assess the AA's credit and community development needs. The contact indicated that the biggest needs in the community are affordable housing, small business loans, and investment in land development. Lending and community development needs and opportunities exist in the UNB's AA; however, due to restrictions from the Consent Order, UNB's ability to participate was limited.

## **Conclusions with Respect to Performance Criteria**

### **LENDING TEST**

The bank's performance under the lending test is Satisfactory.

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

UNB's loan-to-deposit ratio is more than reasonable given the bank's size, financial condition, and lending capacity. The bank's quarterly loan-to-deposit ratio averaged 83.74 over the evaluation period. While this represents a decrease from the 103 percent average at the previous CRA examination, the loan-to-deposit ratio remains above the peer average. Through the evaluation period, UNB's quarterly loan-to-deposit ratio ranged from a low of 78.74 percent (March 2012) to a high of 88.40 percent (September 2010). At March 31, 2014, UNB's loan-to-deposit ratio was 85.05 percent.

We compared UNB's loan-to-deposit ratio to nine peer banks in Kane County, whose average ratio was 74.37 percent. The quarterly average loan-to-deposit ratios for these banks ranged from 45.83 percent to 91.58 percent.

We also compared UNB's ratio to banks of similar size within the entire AA. The quarterly average loan-to-deposit ratio for the peer banks ranged from 25.33 percent to 100.81 percent, with an average of 73.10 percent.

## Lending in Assessment Area

A substantial majority of UNB's lending is within their AA.

The analysis included a sample of 27 small business loans the bank originated in 2012 and 2013. Of the 27 loans, 23 were to businesses inside the AA (85.19 percent). See Table 1 below for a summary of the results from the lending in the AA analysis.

Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	% of #	#	% of #		\$ (000s)	% of \$	\$ (000s)	% of \$	
Commercial	23	85.19%	4	14.81%	27	\$6,142	84.29%	\$1,145	15.71%	\$7,287
<b>Totals</b>	23	85.19%	4	14.81%	27	\$6,142	84.29%	\$1,145	15.71%	\$7,287

Source: OCC Sample of 27 business loans originated in years 2012 and 2013 (verified through sample testing).

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

UNB's lending to businesses of different sizes demonstrates poor penetration.

### Lending to Businesses of Different Sizes

UNB has poor penetration for lending within the AA to businesses with revenues less than or equal to \$1 million. The sample included 23 commercial loans the bank originated within its AA in 2012 and 2013. Nine of the loans in the sample (roughly 39 percent) were to businesses with revenues less than or equal to \$1 million. In the assessment area, approximately 71 percent of the businesses have annual revenues less than or equal to \$1 million. During the majority of the evaluation period, the bank was only able to renew existing commercial real estate loans due to the growth restrictions of the Consent Order. In general, the commercial borrowers that qualified for renewals or refinancing were larger, more seasoned business clients. The growth restrictions of the bank's Consent Order limited other commercial lending opportunities, which contributed to the poor penetration. See Table 2 (below) for details.

Business Revenues	≤ \$1,000,000	> \$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	71.27%	6.80%	21.93%	100.00%
% of Bank Loans in AA by #	39.13%	60.87%	0.00%	100.00%
% of Bank Loans in AA by \$	39.65%	60.35%	0.00%	100.00%

Source: OCC sample of business loans originated in years 2012 and 2013 (verified through sample testing); 2010 U.S. Census data.

## Geographic Distribution of Loans

The amount of business lending within low- and moderate-income census tracts exhibits reasonable dispersion.

The analysis used data from a sample of 23 commercial loans the bank originated in 2012 and 2013 within the AA. While UNB did not originate any commercial loans within the low-income census tracts during this time period, less than one percent of the AA's businesses are located in low-income census tracts limiting the opportunity for business lending. The distribution of commercial loans to moderate-income census tracts demonstrates excellent dispersion. The bank originated four of 23 loans (17.4 percent) to businesses in moderate-income census tracts, which significantly exceeded the demographic of 12.29 percent. See Table 3 (below) for additional details.

Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Businesses	% of # of Loans	% of AA Businesses	% of # of Loans	% of AA Businesses	% of # of Loans	% of AA Businesses	% of # of Loans
Commercial	0.78%	0.00%	12.29%	17.39%	39.52%	34.78%	47.41%	47.83%

Source: OCC sample of business loans originated in years 2012 and 2013 (verified through sample testing); 2010 U.S. Census data.

## Responses to Complaints

During the evaluation period, UNB did not receive any written comments or complaints regarding CRA performance or its willingness to meet the credit needs within its AA. In addition, the OCC did not receive any CRA-related comments or complaints concerning UNB during the evaluation period.

## COMMUNITY DEVELOPMENT TEST

The bank's performance under the Community Development Test is rated Satisfactory.

## Number and Amount of Community Development Loans

The volume of qualified community development lending is adequate. UNB has a history of successfully providing small business loans through SBA programs. During this evaluation period, UNB was limited in the number of loans it could make due to the restrictions of the Consent Order. The bank was able to originate or renew 14 qualified SBA loans totaling \$4.37 million from October 18, 2010 through December 31, 2011. The SBA loans support the need for economic development in the bank's community, primarily through qualified job creation. This volume of qualified lending represented approximately 13 percent of the bank's capital as of December 31, 2011. UNB had a considerable volume of qualified SBA loans in 2012 and 2013, but they received credit for these loans in the Lending Test portion of this examination.

### **Number and Amount of Qualified Investments**

The bank did not make any qualified community development investments during the evaluation period. This performance element is poor.

### **Extent to Which the Bank Provides Community Development Services**

UNB's participation in community development services is poor. Due to changes resulting from the 2010 U.S. Census, UNB is now located in a low-income census tract. Under the Community Development Test this is viewed positively as it better enables UNB to provide credit and banking services to individuals of various income levels. The bank's full service branch offers full deposit services, automated teller machine (ATM) services, online banking, bank by phone services and a variety of loan products. UNB did not provide any specific community development services during the evaluation period. This performance element is poor.

### **Responsiveness to Community Development Needs**

UNB's responsiveness to the community development needs in their AA is adequate. The bank's main office is located in a low-income census tract, allowing them to serve individuals of various income levels. They are a successful commercial lender and work with the SBA to provide loans to small business owners. During this evaluation period, they were limited in the number of community development loans they could originate.

### **Fair Lending or Other Illegal Credit Practices Review**

Pursuant to 12 C.F.R. 25.28(c) in determining a national bank's CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or in any assessment area by an affiliate whose loans have been considered as part of the bank's lending performance.

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.