



PUBLIC DISCLOSURE

June 14, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Union National Bank and Trust Company of Elgin
Charter Number 7236**

**101 East Chicago Street
Elgin, Illinois 60120**

**Office of the Comptroller of the Currency
Chicago North Field Office
Arlington Place II, Suite 340
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 to use its authority when examining financial institutions subject to its supervision, 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 Community Reinvestment Act (CRA) performance of **Union National Bank and Trust Company of Elgin (UNB)** prepared by the Office of the Comptroller of the Currency (OCC), the institution's supervisory agency, as of June 14, 1999. 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.*

INSTITUTION'S CRA RATING: This institution is rated **SATISFACTORY.**

UNB originates a significant number of loans to businesses of various sizes and a reasonable number of loans to individuals of various income levels. UNB's geographic distribution of home mortgage loans and small business loans, within the assessment area, is very good. Also, the dispersion of lending within the assessment area is reasonable. The bank's loan-to-deposit ratio is reasonable and a substantial majority of loans are made to borrowers within their assessment area.

The following table indicates the performance level of **Union National Bank and Trust Company of Elgin** with respect to each of the five performance criteria.

| Small Institution Assessment Criteria | Union National Bank and Trust Company of Elgin | | |
|--|---|---|---|
| | Performance Levels | | |
| | Exceeds Standards for Satisfactory Performance | Meets Standards for Satisfactory Performance | Does not meet Standards for Satisfactory Performance |
| Loan to Deposit Ratio | | X | |
| Lending in Assessment Area | X | | |
| Lending to Borrowers of Different Incomes and to businesses of Different sizes | | X | |
| Geographic Distribution of Loans | X | | |
| Response to Complaints | No complaints were received since the prior CRA examination | | |

DESCRIPTION OF INSTITUTION

Union Bank and Trust Company of Elgin (UNB) is a wholly owned subsidiary of Elgin Bancshares, Incorporated. Elgin Bancshares, Inc., is located in downtown Elgin, Illinois, and has one branch on the west side of Elgin.

On March 31, 1999, UNB had total assets of \$73 million, net income of \$267 thousand and a loan-to-deposit ratio of 79%. Loans represent 71% of total assets. Commercial and commercial real estate lending is the bank's primary lending focus and represents 85% of total loans. Residential real estate lending represents 12% and consumer lending represents 3% of total loans.

UNB provides a full range of retail and commercial bank products. However, the bank's business focus is primarily commercial, with an emphasis in Small Business Administration (SBA) lending. UNB is designated as a SBA Preferred lender. Customers are middle market businesses with revenues less than \$5,000,000. Other services are primarily provided as an accommodation to these commercial relationships. UNB does not advertise home mortgage or consumer loans.

There are no financial or legal impediments that would impact UNB's ability to meet the credit needs of its community. This evaluation considered the bank's performance since the last examination, dated November 27, 1996, at which the bank received a Satisfactory rating.

DESCRIPTION OF ASSESSMENT AREA

The assessment area is comprised of a portion of Cook, DuPage, Kane, Lake and McHenry counties. All of the counties are part of the Chicago Metropolitan Statistical Area (MSA 1600). The assessment area represents 219 geographies, 0% of which is low-income, 1% is moderate-income, 42% are middle-income and 56% are upper-income. Two census tracts were not delineated by the United States Bureau of the Census in the 1990 census. The assessment area includes geographies where the bank has a branch.

There are 348,810 families within the bank's assessment area. Nine percent of the families are low-income, 14% are moderate-income, 25% are middle-income, and 52% are upper-income. The median family income for the assessment area is \$59,500.

The overall local economy is stable and prosperous. The employment base is diversified with numerous employment opportunities. Major employers in Elgin are First Card Corporation's Visa credit card facility, the Grand Victoria Casino, and Sherman Hospital. Due to the assessment area's close proximity to Metro Chicago and other parts of Cook County, numerous additional employment opportunities exist.

Many financial institutions serve the assessment area. According to 1998 Home Mortgage Disclosure Act (HMDA) information, 687 financial institutions originated home mortgages in the bank's assessment area. Many of the banks located in the assessment area are branches of larger regional and money center banks. In addition, numerous other financial institutions are in the area, including credit unions, brokerage companies, home mortgage and insurance companies.

The bank considers Royal American Bank, Inverness, Illinois as its similarly situated banks within the assessment area due to bank's commercial lending focus. However, management considers The Elgin State Bank, Elgin, Illinois and First Community Bank, Elgin, Illinois as their main competitors.

Based on the size and location of the bank's assessment area, credit needs are numerous and varied. Significant credit needs include affordable housing, consumer, and small business loans. These needs were identified through several community contacts with college, housing, economic and government representatives contacted by banking regulatory agencies in the past 24 months.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

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

We evaluated loans by borrower characteristics to determine the extent that UNB provides loans to small businesses and low-and moderate-income borrowers. This analysis revealed that a significant level of small loans are provided to businesses with revenues less than \$1 million. The bank also makes a considerable number of loans to businesses of varying sizes within the assessment area. The analyses also revealed that the distribution of UNB's home mortgages to low-and moderate-income borrowers is reasonable when compared to the income distribution of the assessment area's families.

Small Business Lending

A review of demographic data revealed that 66% of the 53,926 small businesses in the assessment area have revenues less than \$1 million. A sample of UNB's lending to small businesses revealed a significant level of lending to businesses having revenues less than one million dollars. Fifty-five percent of the small business loans within the assessment area were made to businesses having less than \$1 million in annual revenues.

Based on our sample of the bank's small business lending, UNB's originates a large portion of small business loans to borrowers of varying sizes. As presented in **Table 1**, within the assessment area, 41% of the small business loans were less than \$100,000.

| Table 1 Distribution of Small Business Loan Originations Within the Assessment Area By Loan Size and Business Revenues | | | | | | | | |
|---|----|------|-------------|------|--|-----|------------|-----|
| Loan Size | | | | | Annual Revenues < \$1 Million | | | |
| 1998 | # | % | \$ (000's) | % | # | % * | \$ (000's) | % * |
| less than \$100,000 | 9 | 41% | \$290 | 5% | 5 | 56% | \$143 | 49% |
| \$100,000 to \$250,000 | 1 | 4% | \$145 | 2% | 0 | 0% | \$0 | 0% |
| \$250,000 to \$1,000,000 | 12 | 55% | \$5,522 | 93% | 7 | 58% | \$3,000 | 54% |
| Totals | 22 | 100% | \$5,957 | 100% | 12 | 55% | \$3,143 | 53% |
| Distribution of Businesses and Farms in the Assessment Area by Annual Revenues of the Business or Farm: | | | < 1 Million | 66% | *As a percentage of loans of the size category | | | |
| | | | > 1 Million | 13% | | | | |
| | | | Unknown | 21% | | | | |

Source: Sample of bank's 1997 and 1998 Small Business loans.

Home Mortgages

Although the volume of home mortgage lending is very low, the distribution of home loans among borrowers of various income levels is good when compared to the income distribution of the assessment areas families.

Table 2 below reflects that within the assessment area, the bank originated 10% to low- and moderate-income borrowers, in 1997. The percentage of originations to low- and moderate-income borrowers improved to 27% in 1998. Twenty-three percent of the areas families are low-and moderate-income.

| Borrower Income Distribution | 1997 | | | | 1998 | | | | Assessment Area Characteristics |
|------------------------------------|------|------|-----------|------|------|------|-----------|------|------------------------------------|
| | # | % | \$(000's) | % | # | % | \$(000's) | % | % of Families |
| Low | 1 | 10% | 10 | 1% | 3 | 27% | 16 | 3% | 9% |
| Moderate | 0 | 0% | 0 | 0% | 0 | 0% | 0 | 0% | 14% |
| Middle | 2 | 20% | 41 | 4% | 3 | 27% | 276 | 46% | 25% |
| Upper | 7 | 70% | 975 | 95% | 5 | 46% | 305 | 51% | 52% |
| Total | 10 | 100% | 1,026 | 100% | 11 | 100% | 597 | 100% | 100% |

Source: 1997 and 1998 HMDA - LAR .

Geographic Distribution of Loans

Overall, UNB's geographic distribution of home mortgage loans and small business loans, within the assessment area, is very good. Also, the dispersion of lending within the assessment area is reasonable considering the bank's size and resources. The analyses is weighted more towards the distribution of the bank's small business loans rather than home mortgage lending since commercial lending is the bank's business focus.

Small Business Loans

UNB originates a significant portion of small business loans in the moderate-income census tract areas, considering its size, resources and the level of competition within its assessment area. **Table 3** reflects that the percentage of loans originated in the moderate-income tract compares very favorably to the small business assessment area characteristics for these census tracts. Our sample revealed that the bank originated 9% of the number and 6% of the dollar amount to businesses located in moderate-income census tracts. Within the bank's assessment area, 1% of the small businesses are located in moderate-income census tracts.

| Table 3 Small Loans to Businesses By Income Level of Geography | | | | | |
|---|------|------|------------|------|--|
| Income Level of Geography | 1998 | | | | Small Business Assessment Area Characteristics |
| | # | % | \$ (000's) | % | % of Geographies |
| Low | 0 | 0% | 0 | 0% | 0% |
| Moderate | 2 | 9% | 373 | 6% | 1% |
| Middle | 10 | 45% | 2,163 | 36% | 44% |
| Upper | 10 | 46% | 3,421 | 58% | 55% |
| Total | 22 | 100% | 5,957 | 100% | 100% |

Source: Sample of banks 1998 Small Business loans.

Home Mortgage Loans

The distribution of credit to moderate-income tracts is very good when compared to the assessment area characteristics. **Table 4** shows that UNB originated 40% in 1997 and 18% in 1998, to moderate-income tracts. This level of lending is also very good considering that only 1% of the owner-occupied units are within in the moderate-income census tracts.

| Table 4 Home Mortgage Loans By Income Level of Geography | | | | | | | | | | |
|---|------|------|-------------|------|------|------|-------------|------|---------------------------------|----------------|
| Income Level of Geography | 1997 | | | | 1998 | | | | Assessment Area Characteristics | |
| | # | % | \$ (000's) | % | # | % | \$ (000's) | % | % of Owner-Occupied Units | % of Geography |
| Low | 0 | 0% | 0 | 0% | 0 | 0% | 0 | 0% | 0% | 0% |
| Moderate | 4 | 40% | 390 | 38% | 2 | 18% | 265 | 44% | 1% | 1% |
| Middle | 5 | 50% | 606 | 59% | 4 | 36% | 27 | 5% | 39% | 42% |
| Upper | 1 | 10% | 30 | 3% | 5 | 46% | 305 | 51% | 60% | 56% |
| Total | 10 | 100% | 1,026 | 100% | 11 | 100% | 597 | 100% | 100% | 100% |

Source: 1997 and 1998 HMDA-LAR.

Loan to Deposit Ratio

The bank's loan-to-deposit ratio is reasonable when compared to its two competitor banks and its similarly situated bank. The loan-to-deposit ratio averaged 78% since the last CRA examination. The average loan-to-deposit ratio for the competitor banks and the similarly situated bank, for the same period, is 73%, and ranged from a low of 67% to a high of 81%.

Lending in Assessment Area

The substantial majority of UNB's lending is within their assessment area. For 1997 and 1998, 84% of the number and 85% of the dollar amount of home mortgage loans were originated within the bank's assessment area. A random sample of 30 small business loans originated in 1998 revealed that 73% of the number and 77% of the dollar amount were within UNB's assessment area.

Compliance with Antidiscrimination Laws and Regulations

No violations of the substantive provisions of the antidiscrimination laws and regulations were identified. Fair lending policies and procedures are considered adequate to help ensure compliance with these laws and regulations.

Response to Complaints

UNB has not received any complaints since the prior examination.