

## **PUBLIC DISCLOSURE**

August 20, 1998

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

**Harris Bank Wilmette, N. A.  
Charter Number 16176**

**1701 Sheridan Road  
Wilmette, Illinois 60091**

**Office of the Comptroller of the Currency  
Arlington Place II, Suite 340  
85 West Algonquin Road  
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 Wilmette, N.A., prepared by The Office of the Comptroller of the Currency, the institution's supervisory agency, as of August 20, 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 June 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 and small business loans among retail customers of different income levels and businesses of different sizes is adequate. During this evaluation period, Harris Bank Wilmette, N.A. made 9% of its loans to moderate-income borrowers. Additionally, more than 83% of the small business loans were to borrowers with annual revenues less than \$1 million.
- Lending levels reflect an adequate responsiveness to assessment area credit needs. Harris Bank Wilmette, N.A. made 72 HMDA, small business, and community development loans in its assessment area for \$12,610,000. Affiliate lending contributed another 23 loans for \$5,153,000.
- The geographic distribution of loans is adequate. Harris Bank Wilmette, N.A. made 3% of its loans in the moderate-income census tract.
- The banking services offered in the assessment area are reasonably accessible to all portions of the assessment area.

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

Performance Levels	Harris Bank Wilmette 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 Wilmette, N.A. (HB Wilmette) is a \$92 million bank located in Wilmette, Illinois. The bank primarily serves the communities of Wilmette, Kenilworth, Winnetka, eastern Glenview, and the northern part of Evanston. This area, approximately 15 miles north of Chicago's Loop, is predominately residential but contains several local businesses most of which are service oriented. It is a "bedroom community" with a substantial number of residents commuting to the city of Chicago. Economic conditions are considered good and competition is strong. The institution has one office located in east Wilmette on Sheridan Road. At this location is an automatic teller machine (ATM) and a drive-up facility. In addition to this office, customers can access deposit services through three other Harris Bank affiliate offices within the assessment area, and can use four other Harris Bank ATMs.

HB Wilmette 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 rank 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 first quarter of 1998 HB Wilmette 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 Wilmette from the ROC are reflected in the tables as "affiliate loans."

Total loans accounted for 57% of HB Wilmette's average assets, as of June 30, 1998. The loan to deposit ratio was 60%, a decrease from 61% at year-end 1997. An analysis of the loan mix indicates that the bank's major focus is on making real estate loans. More than 88% of the loan portfolio is for real estate purposes. An analysis of the total loan portfolio shows that one-to-four (1-4) family residential

loans account for 81% of average gross loans, of which 30% are home equity loans. Commercial real estate loans account for another 7% of the portfolio. Multi-family loans are less than 1% of average gross loans. Loans to individuals account for 9% of average gross loans, with commercial and industrial loans accounting for 2%.

The bank's loan-to-deposit ratio and overall loan activity have been adversely affected by three significant factors. First, Harris Bankcorp has been aggressively marketing their Prime Money Market Account since mid-1996. This account has been aggressively priced and, in an affluent community such as Wilmette, has attracted significant deposits. Prime Money Market deposits increased from zero at 12/31/95 to \$30.7 million at 6/30/98. This deposit growth has tended to outpace loan demand. Second, for a two-year period from late 1994 to 1996, the bank experienced a run off of loans as a result of a new bank moving into the area. Third, the bank's credit card loan portfolio which was \$6 million in early 1995 was sold because of a shift in business focus by the Harris bank group.

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 Wilmette operates in one assessment area. The main communities included in this area are Wilmette, Kenilworth, Winnetka, Eastern Glenview, and the north portion of Evanston. The combined area consists of 25 census tracts. According to 1990 census information, the community comprises one (4%) moderate-, one (4%) middle- and 23 (92%) upper-income census tracts. There are no low-income census tracts. HB Wilmette'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 the assessment area is 97,262 people in 25,407 families. Of the total families, there are 1,475 (6%) low-, 2,104 (8%) moderate-, 3,366 (13%) middle-, and 18,462 (73%) upper-income families in the area. The median family income of the assessment area is \$86,746, while the median family income for the Chicago MSA is only \$59,500. The 1990 census ranked the Wilmette and Kenilworth area as one of the wealthiest in the United States. The distribution of the population living within this area among the census tracts is as follows: 4,765 (5%) living in moderate-, 4,493 (5%) in middle-, and 88,004 (90%) living in upper-income tracts. With only 14% of area families low- or moderate-income and 86% of the families middle- and upper-income, community development lending and community development investment opportunities are very limited. However, bank management is aware of the needs of the community and displays a willingness to offer products and services that would fulfill community credit needs.

There are 35,162 housing units in the assessment area. The large majority of housing is owner-occupied units (77%). Only 19% of the housing units are occupied rental units. A large percentage of the owner-

occupied units (97%) are in middle- and upper-income census tracts. Only 3% (781) of the owner occupied units are located in the moderate-income tract. The median housing cost is \$284,647 with the average age of housing approximately 50 years old. In the overall Chicago MSA, the median housing cost is much lower at \$89,700.

According to the business demographic data for the assessment area, the distribution of businesses shows that 3% of the local businesses are located in the moderate-income census tract. Middle- and upper-income tracts have 3% and 94% of the businesses, respectively. The distribution of small businesses (those with gross annual revenue less than \$1 million) is exactly the same as the total business distribution. Seventy-eight percent (78%) of the businesses in the assessment areas have gross income less than \$1 million, 7% greater than \$1 million, with the remaining businesses income unknown.

The 1990 census data showed that there were 44 farms in the assessment area. However, since that time the area has grown substantially with new housing developments replacing the farms. There are currently very few farms in the assessment area.

The majority of local businesses are specialty stores. According to the Wilmette Chamber of Commerce, the major employers in the area (businesses with 50 or more employees) include several financial institutions, the Wilmette Park District, and the local school systems. According to Illinois Department of Employment Security, as of March 1998 the unemployment rate in the assessment area was 2%.

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. Additionally, North Shore Community Bank & Trust Company (\$290 million in total assets), Edens Bank (\$73 million in total assets), First National Bank of Chicago (\$80 billion in total assets), and Bank One Illinois, (\$3 billion in total assets), have a strong presence in the area. HB Wilmette's ability to originate HMDA loans is also largely impacted by the large number (283) of mortgage lenders serving the assessment area. North Shore Community Bank & Trust Company and Eden Bank are considered to be similarly situated lenders to HB Wilmette.

We utilized six (6) community contacts performed by other examiners and us during this review. The types of organizations include social organizations, realty companies, credit counseling services, and city governments. A review of the information provided by these contacts, shows that there is an ongoing need in the community for small business loans and mortgage loans.

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 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), and community development loans. There was no small farm lending by HB Wilmette during this evaluation period. Affiliate lending included in this review consisted of mortgage loans made by Harris Trust & Savings Bank during the first two quarters of 1998 which were allocated to HB Wilmette. 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 Wilmette chose not to have us analyze consumer loans.

### ***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). 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 100% of the loans 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 Wilmette's lending levels reflect adequate responsiveness to assessment area credit needs.
- The bank's distribution of loans to different borrowers reflects adequate penetration among customers of different income levels and business customers of different sizes, given the product lines offered by the bank.
- HB Wilmette's geographic distribution of loans reflects adequate penetration throughout the assessment area.
- Community development lending is adequate with more than \$205,000 in total dollars contributed to the community. This represents one project which provides housing for low- and moderate-income people.

### *Lending Activity*

The bank's lending patterns and performance are reasonable based on the demographics of the area. HB Wilmette extended a small amount of credit in the assessment area. As reflected in Table I, "Volume of Loan Originations Inside the Assessment Area," the bank made only 72 loans totaling \$12,610,000 in their assessment area during the evaluation period. The bank's largest loan product, by number and dollar volume of loan originations during this evaluation period, is HMDA loans with 47 loans for \$8,075,000. Small business lending is second at 24 loans for \$4,330,000. HB Wilmette also extended one loan for \$205,000 for community development projects in their assessment area between January 1996 and June 1998. It is reasonable that HB Wilmette 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. HMDA loans from affiliates added 23 loans for \$5,153,000.

The bank's responsiveness to assessment area credit needs is somewhat low as evidenced by their market rank for HMDA lending. During 1997, HB Wilmette's overall market share of 0.38% for HMDA lending resulted in a market rank of 53rd out of 283 institutions, placing the bank in the top 19% of all HMDA reporters in the assessment area. However, this is reasonable based on the number of lenders and the bank's relative size in its assessment area. There are 283 mortgage lenders in the assessment area who originated 3,703 mortgage loans in 1997. This is only 13 loans per lender, on average. HB Wilmette made 15 HMDA reportable loans in 1997. Competition is so great that the number one ranked lender only has a 6.89% market share.

<b>Table I - Volume of Loan Originations Inside the Assessment Area</b>								
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	1	\$150	3	\$566	7	\$959	11	\$1,675
Home Improvement	1	\$100	2	\$75	8	\$845	11	\$1,020
Refinance	5	\$1,061	10	\$1,671	10	\$2,648	25	\$5,380
Total HMDA	7	\$1,311	15	\$2,312	25	\$4,452	47	\$8,075
Small Business*	9	\$2,046	15	\$2,284	NA	NA	24	\$4,330
Community Development	0	\$0	1	\$205	0	\$0	1	\$205
<b>Total Bank Loans</b>	<b>16</b>	<b>\$3,357</b>	<b>31</b>	<b>\$4,801</b>	<b>25</b>	<b>\$4,452</b>	<b>72</b>	<b>\$12,610</b>
Affiliate Loans	23	\$5,153	0	\$0	0	\$0	23	\$5,153
<b>Grand Total Loans</b>	<b>39</b>	<b>\$8,510</b>	<b>31</b>	<b>\$4,801</b>	<b>25</b>	<b>\$4,452</b>	<b>95</b>	<b>\$17,763</b>

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

\* The Small Business loans do not include loans for 1996 because this data was unavailable.

### **Assessment Area Concentration**

A low percentage of loans made by HB Wilmette are concentrated inside the bank's assessment area. As illustrated in Table II, "Loans Inside the Assessment Area vs. Total Loans," HB Wilmette made 34% of the number, and 32% of the dollar volume of mortgage, small business, and community development loans inside its assessment area.

The low concentration of lending inside HB Wilmette's assessment area shows the bank makes the majority of its loans outside of its assessment area. This is reasonable, however, when taking into account the data presented in the Description of Institution section of this evaluation and the overall stability of this area. The community is stable with very little movement into or out of the area. Due to limited land available for new building, there are no housing developments in progress. There is limited loan demand in this assessment area (as indicated by input from community contacts and bank management).

The bank is, however, making some mortgage loans. An analysis of these loans shows that home

improvement loans and loans for refinancing are equal to or greater than home purchase loans. Many individuals are taking advantage of interest rate changes to refinance or to modernize their older homes. From January 1996 through June 1998, the bank originated 162 HMDA reportable loans, representing \$28,951,000. Twenty-nine percent (29%) of the total number of HMDA loans originated, or 47 loans, were within the bank's assessment area. A further analysis of HMDA lending by product type shows that 14% of the number of HB Wilmette's home purchase loans were in the assessment area, while 48% of the number of home improvement and 41% of the number of refinance loan originations were inside its assessment area. However, these percentages are somewhat misleading. During the evaluation period, HB Wilmette purchased 71 loans. Almost all of these loans (65) 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 Wilmette's small business lending within its assessment area is also low, but reasonable. From January 1997 through June 1998, HB Wilmette originated 48 small business loans, amounting to \$9,986,000. Fifty percent (50%) of the number of these loans, or 24 loans, were made inside the bank's assessment area.

<b>Table II - Loans Inside the Assessment Area vs. Total Loans From January 1996 through June 1998</b>						
Type of Loan	Total Loans		Loans Inside Assessment Area			
	#	\$ (in 000's)	#	% of #	\$ (in 000's)	% of \$
Home Purchase	78	\$12,937	11	14%	\$1,675	13%
Home Improvement	23	\$1,678	11	48%	\$1,020	61%
Refinance	61	\$14,336	25	41%	\$5,380	38%
Multi-Family	0	\$0	0	0%	\$0	0%
Total HMDA Loans	162	\$28,951	47	29%	\$8,075	28%
Small Business*	48	\$9,986	24	50%	\$4,330	43%
Community Development	1	\$205	1	100%	\$205	100%
<b>Total Loans</b>	<b>211</b>	<b>\$39,142</b>	<b>72</b>	<b>34%</b>	<b>\$12,610</b>	<b>32%</b>

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

\* The Small Business loans do not include loans for 1996 because this data was unavailable.

### *Geographic Distribution of Loans Within the Assessment Area*

The distribution of HMDA, small business, and community development loans made by HB Wilmette during the evaluation period is adequate. The bank made 1% of its loans in the moderate-income tract, while 4% of the census tracts are moderate-income, and 5% of the population lives in this tract. In addition, a significant number of the households (19%) in this tract are living below the poverty level and only 3% of the businesses in the assessment area are located in the moderate-income tract. Considering the disparity in these demographic facts, this level of lending in this tract is considered adequate.

The bank's lack of home mortgage lending in the moderate-income census tract is reasonable. Since only 3% of the owner-occupied units in the assessment area are located in the moderate-income census tract, the fact that HB Wilmette has no HMDA loans in this area is understandable. We compared the bank's level of lending to the distribution of owner-occupied housing units, because of the relationship between the opportunity to make HMDA reportable loans and the distribution of owner-occupied housing in the assessment area. Based on aggregate HMDA data for 1997, only 481 HMDA reportable loans were made in this census tract. Considering there is 283 lenders in this assessment area, the opportunity to make HMDA reportable loans in this census tract is very limited.

HB Wilmette's small business lending distribution is also reasonable. The bank has no small business loans in the moderate-income census tract, but only 3% (100) of the small businesses are located in this tract. HB Wilmette's lack of loans to businesses located in the moderate-income census tract is reasonable based on the relative lack of opportunity due to the small number of businesses located in this tract.

HB Wilmette made its only community development loan in the moderate-income census tract. Due to the low level of opportunity to make community development loans in the assessment area, this distribution is considered reasonable.

**Table III - Geographic Distribution of Loans by Census Tract Income Level  
Inside the Assessment Area  
From January 1996 through June 1998**

Type of Loan	Income Level of Census Tract							
	Low income		Moderate income		Middle income		Upper income	
	#	%	#	%	#	%	#	%
Home Purchase	NA	NA	0	0%	1	9%	10	91%
Home Improvement	NA	NA	0	0%	0	0%	11	100%
Refinance	NA	NA	0	0%	1	4%	24	96%
Total HMDA Loans	NA	NA	0	0%	2	4%	45	96%
Small Business*	NA	NA	0	0%	0	0%	24	100%
Community Development	NA	NA	1	100%	0	0%	0	0%
Total Bank Loans	NA	NA	1	1%	2	3%	69	96%
Affiliate Loans	NA	NA	2	9%	0	0%	21	91%
Grand Total Loans	NA	NA	3	3%	2	2%	90	95%

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

Note: Percentages may not equal 100% since the income level of the census tract is unavailable for some loans.

\* The Small Business loans do not include loans for 1996 because this data was unavailable.

***Distribution by Borrowers' Income Inside the Assessment Area***

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

HB Wilmette's market share of HMDA loans is good at 0.90% for moderate-income borrowers. The bank is ranked 27th of all lenders in loans to moderate-income borrowers in their assessment area. HB Wilmette's market share to moderate-income borrowers is higher 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." Although HB Wilmette did not make any HMDA loans to low-income borrowers, this is reasonable. During 1997, only 175 HMDA loans were made to low-income borrowers by all HMDA reporters combined. HB Wilmette's lack of lending to low-

income borrowers is acceptable due to the low level of opportunity to lend to low-income borrowers, combined with the large volume of lenders (283) competing for these loans in the assessment area.

<b>Table IV - Market Share (MS) and Market Rank (MR) - HMDA Loans Distribution by Borrower's Income Level</b>										
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	0.00%	0	1.08%	18	0.42%	41	0.16%	68	0.25%	60
Home Improvement	0.00%	0	0.00%	0	0.00%	0	0.38%	30	0.28%	35
Refinance	0.00%	0	1.08%	18	0.49%	43	0.52%	41	0.53%	42
<b>Total HMDA Loans*</b>	<b>0.00%</b>	<b>0</b>	<b>0.90%</b>	<b>27</b>	<b>0.40%</b>	<b>53</b>	<b>0.35%</b>	<b>49</b>	<b>0.38%</b>	<b>53</b>

Source: Aggregate HMDA Data for 1996

\*Excludes Multi-family loans

The distribution of loans originated by HB Wilmette, based on borrower characteristics during the evaluation period, is adequate. HB Wilmette's loan distribution shows that there were no HMDA loans made to low-income individuals, while 11% of the HMDA loans were made to moderate-income borrowers. The make up of the assessment area shows that 6% of the families are low-income, 8% are moderate-income, 13% are middle-income and 73% are upper-income. Taking the low number of low- and moderate-income families into consideration and the fact that 5% of the households in the overall assessment area are living below the poverty level, the opportunity to extend home mortgage credit to low- and moderate-income borrowers is low. These households would have a limited ability to assume debt obligations. Based on these facts and the overall demographics of the assessment area, the lower level of home mortgage lending to low- and moderate- income borrowers is considered adequate. See Table V, "Distribution by Borrower's Income Level Inside the Assessment Area From January 1996 through June 1998" for more details.

**Table V - 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	0	0%	2	18%	2	18%	5	46%
Home Improvement	0	0%	0	0%	2	18%	9	82%
Refinance	0	0%	3	12%	4	16%	15	60%
Total HMDA Loans*	0	0%	5	11%	8	17%	29	62%
Affiliate HMDA Loans*	0	0%	1	4%	3	13%	19	83%
Grand Total HMDA Loans*	0	0%	6	9%	11	17%	48	74%

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

\*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 VI, "Distribution of Small Business Originations From January 1997 through June 1998 Inside the Assessment Area By Loan Size and Business Revenues," HB Wilmette's origination of small business loans reflects an adequate distribution. Forty-two percent (42%) of the number of loans originated were for original amounts of less than \$100 thousand. In addition, 83% of HB Wilmette's number of small business loans were extended 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 VI - Distribution of Small Business Originations From January 1997 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	10	7	7	24	20	3	1
% of #	42%	29%	29%	100%	83%	13%	4%
Dollars (in 000's)	\$395	\$1,393	\$2,542	\$4,330	\$3,752	\$78	\$500
% of \$	9%	32%	59%	100%	87%	2%	11%
Distribution of Businesses in the Assessment Area by Annual Revenues of the Business:					Revenues < \$1 Million		78%
					Revenues > \$1 Million		7%
					Revenues Unknown		15%

Source: CRA Data Listing Reports.

**Community Development Lending**

HB Wilmette made an adequate contribution to community development in their assessment area. The bank made one community development loan for \$205,000 to provide affordable, temporary housing for clients of Wilpower. This agency provides housing and supportive services to adults who have a severe and/or chronic mental illness. The bank also made one loan for \$150,000 which met the definition of community development, but was reported in the small business loan totals. It also provides housing for low- and moderate-income individuals and is located in the moderate-income tract.

Additionally, bank management made loan proposals to two area borrowers to finance multi-family housing in the moderate-income tract in the bank's assessment area. However, a final decision on the loans has not been made yet, and competition for the projects will be strong from the other lenders in the area.

**Product Innovation and Flexibility**

HB Wilmette 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 below:

- 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 Wilmette 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 Wilmette 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 T-Bill index.
  - ▶ CHP 97 Fixed Rate Loan - This product requires a minimum of 3% down payment from applicants' own funds.

HB Wilmette has not originated any 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 more than 80% loan-to-value. HB Wilmette 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, 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; thus, HB Wilmette has not originated any loans under this program.

- 100% Home Equity Loan - This product allows individuals with little equity in their residence to borrow against their investment. Information was unavailable as to whether HB Wilmette originated any loans 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 Wilmette 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, as of June 30, 1998, HB Wilmette had 18 loans outstanding, totaling \$840,000, 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 Wilmette's affiliate, Harris Bank Winnetka, N.A..

### **Compliance with Anti-Discrimination Laws**

HB Wilmette 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

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 Wilmette received a \$15,900 share of this investment.

From January 1996 through June 1998, HB Wilmette made several grants and donations to organizations which provide community development services within the assessment area. A total of 15 community development organizations received grants and donations for \$3,303 during the evaluation period. These grants went to a variety of types of organizations including community development corporations, housing development organizations, and providers of health care, shelter and food. Opportunities are limited because of the demographics of the assessment area. Ninety-six percent (96%) of the census tracts are middle- and upper-income tracts, 86% of the families are middle- and upper-income families, and the median family income is more than twice that of the surrounding area.

## **SERVICE TEST**

### ***Major Conclusions:***

- HB Wilmette's delivery systems are reasonably accessible to all portions of the 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, particularly low- and moderate-income geographies and individuals.
- HB Wilmette provides an adequate level of community development services when considering the opportunities that exist within the assessment area.

### **Retail Services**

HB Wilmette makes its retail services accessible to all individuals in the assessment area. The bank has only office located in east Wilmette, which includes an ATM and a drive-up facility. Although this office is located in an upper-income census tract, it is not more than five miles from the moderate-income census tract. In addition to this office, customers can access deposit services through three other Harris Bank affiliate offices within the assessment area, and can use four other Harris Bank ATMs. The bank has not opened or closed any branches during the evaluation period.

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 Wilmette 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 Wilmette’s customers also have access to 139 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, the bank’s ATM and the Client Contact Center are multi lingual.

The bank’s service hours are tailored for the needs of the community. The lobby is open from 8:30 a.m. to 5:00 p.m. Monday through Thursday, 8:30 a.m. to 5:30 p.m. on Friday, and 8:30 a.m. to 1:00 p.m. on Saturday. The hours of the walk-up facility are 7:30 a.m. to 8:30 a.m. and 5:00 p.m. to 6:00 p.m. Monday through Thursday, 7:30 a.m. to 8:30 a.m. and 5:30 p.m. to 6:00 p.m. on Friday, and 7:30 a.m. to 8:30 a.m. on Saturday. The drive-up hours are 7:30 a.m. to 6:00 p.m. Monday through Friday, and 7:30 a.m. to 1:00 p.m. on Saturday. The ATM is available 24-hours a day.

### *Community Development Services*

Employees of HB Wilmette are active with organizations which provide community development related loans and services to the assessment area. These organizations address the housing needs of the low-income residents of this area, as well as small business needs and financial counseling. We received generally positive comments about the involvement of HB Wilmette during our community contacts. Some examples of activities and the types of organizations with which the bank and its employees are affiliated follow:

- HB Wilmette employees work with a local agency which provides housing, financial counseling and other supportive services to low- and moderate-income individuals who are mentally ill. Bank employees use their financial expertise and knowledge of banking services and products to further the goals of this organization.
- Bank employees also work with an organization whose goals include stimulating community growth and prosperity.