



Comptroller of the Currency
Administrator of National Banks

SMALL BANK

Chicago - West Field Office
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Arlington Heights, Illinois 60005

PUBLIC DISCLOSURE

April 27, 1998

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First National Bank of LaGrange
Charter Number: 13941**

**620 West Burlington Avenue
LaGrange, Illinois 60525**

**Comptroller of the Currency
Chicago Field Office - West
85 West Algonquin Road, 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.

*The document is an evaluation of the Community Reinvestment Act (CRA) performance of **First National Bank of LaGrange** prepared by the **Comptroller of the Currency**, the institution's supervisory agency, as of April 27, 1998. 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 “Outstanding Record of Meeting Community Credit Needs.”

Based on the major factors listed below, the bank is substantially exceeding the standard for meeting the community’s credit needs considering the size of the institution, significant competition within the bank’s assessment area, and the opportunities for community development lending and investment within the assessment area. Community contacts identified home improvement and small business loans as significant credit needs of the area. See the Description of the Institution and Assessment Area for details.

- The bank’s distribution of borrowers reflects excellent penetration among retail customers of different income levels. Eleven percent (11%) of all home improvement loan originations were to low-income borrowers with an additional 17% to moderate-income borrowers. This performance substantially exceeds the make-up of the assessment area of 9% low- and 12% moderate-income families in the area.
- A substantial majority (71%) of the bank’s small business loans were loans with original amounts less than \$100 thousand.
- A substantial majority (over 73%) of the number of home improvement and small business loans were made inside the assessment area.
- ▶ The bank’s qualified community development investments, grants, donations, and services enhances their performance under the CRA.

DESCRIPTION OF INSTITUTION

First National Bank of LaGrange (FNB LaGrange) is a \$138 million community bank located in LaGrange, Illinois, approximately fifteen miles west of the loop area of the City of Chicago. FNB LaGrange is wholly-owned by FNBC of LaGrange, Inc. which is headquartered in LaGrange, Illinois.

The bank operates one full service office and two branch offices. The main office has a drive-up facility, a walk-up facility, and two automated teller machines (ATM). The Western Springs, IL, office has a drive up and ATM. The other branch located in the Bethlehem Woods Retirement Living Center, LaGrange Park, IL has an ATM. The bank is a retail financial institution which is active in residential real estate lending.

Total loans account for 55% of the bank's average assets, with a loan to deposit ratio of 60%, as of December 31, 1997. The loan mix indicates the bank is largely a real estate lender. Seventy-five percent of the loan portfolio is for real estate purposes. Sixty-six percent of the portfolio is one-to-four family residential loans, of which 11% are home equity loans. Commercial loans account for 19% of average gross loans, and loans to individuals account for 6%.

The bank was last examined under CRA as of January 31, 1995 and received an "Outstanding record of meeting community credit needs". The January 31, 1995 CRA assessment was based on the criteria contained in the old CRA regulation. This April 27, 1998 CRA performance evaluation covers 1995 through April 27, 1998. There are no known legal or financial impediments that would hamper the bank's performance under the Community Reinvestment Act (CRA).

DESCRIPTION OF THE ASSESSMENT AREA

The bank's assessment area consists of 29 contiguous whole census tracts, located in Cook and DuPage counties, within the Chicago 1600 metropolitan statistical area (MSA). Municipalities in the bank's assessment area include the villages, or portions, of LaGrange, LaGrange Park, Lyons, Hinsdale, Hodgkins, Countryside, Western Springs, and Willowbrook. Economic conditions are good, with a variety of employers, including services, retail, manufacturing, and government. Demographic information indicates the assessment area's unemployment rate at 2%, below the national rate of approximately 5%.

Significant competition exists in the bank's immediate market area. The bank identified 23 major competitors within its trade area. Many of these institutions are part of large regional or money center banks that have significant resources to offer a variety of lending products. In addition, there are numerous other financial entities that offer loan products, such as home mortgage corporations, credit unions, and finance companies, that service the bank's assessment area. Market share data indicates that there were 357 lenders competing for home mortgage loans in the bank's assessment area during 1996.

Assessment area demographic information reflects a stable population base. There is only one moderate-income census tract inside the assessment area. Only 2% of the assessment area's total population lives inside the moderate-income tract, and only 2% of owner-occupied units are inside that tract. **Table I** displays demographic information regarding the bank's 1998 assessment area.

Table I - Assessment Area Demographic Information						
Income Level of Census Tracts*	Total Population	% of Total	Number of Census Tracts	% of Total	Number of Owner-Occupied Units	% of Owner-Occupied Units
Low	0	0%	0	0%	0	0%
Moderate	2,722	2%	1	3%	792	2%
Middle	43,865	31%	10	35%	12,212	29%
Upper	94,019	67%	18	62%	29,263	69%
Total	140,606	100%	29	100%	42,267	100%

* Census tract designations are derived from the 1990 Census MSA median family income which is \$42,781 and is updated every 10 years.

The income level of the families inside the assessment area is diverse. Twenty-one percent (21%) of the families are either low- or moderate-income families, while 79% of the families are middle- or upper-income families. The breakdown is as follows: of the total population inside the bank's assessment area, there are 39,325 families, with 3,621 (9%) low-income families, 4,790 (12%) moderate-income families, 8,641 (22%) middle-income families and 22,272 (57%) upper-income families in the area. The median family income for the assessment area is \$59,500 which is based on information calculated by the Department of Housing and Urban Development (HUD) and is updated annually. **Table II** depicts the percentage of families by income level inside the assessment area.

There are 54,823 housing units in the area. Seventy-seven percent of the units are owner occupied, 20% are rental units, and 3% are vacant. The median housing value is \$172,412, with 1959 as the median year built.

Significant credit needs within the assessment area include home improvement financing, due to the aging housing stock, and small business loans. These needs were identified through several community contacts with housing, economic development and government representatives contacted by bank regulatory agencies during the past 24 months.

The bank's assessment area meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income geographies.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Lending To Borrowers of Different Income Levels

- ▶ The distribution of loans to borrowers reflects excellent penetration among retail customers of different income levels, given the size of the institution and the competition inside the assessment area.

The distribution of HMDA lending presented in **Table II**, "Distribution by Borrower's Income Level Inside the Assessment Area - 1995 through YTD 1998" shows excellent penetration of low- and moderate-income borrowers for home improvement loan originations. The bank's distribution materially exceeds the percentage of low- and moderate-income families inside the assessment area.

Eleven percent (11%) of the bank's home improvement loan originations were made to low-income borrowers, and 17% were made to moderate-income borrowers. The make-up of the assessment area shows 9% low-, 12% moderate-, 22% middle- and 57% upper-income families in the area. The bank's performance in meeting low- and moderate-income borrowers home improvement credit needs is substantial, considering that community contacts identified home improvement loans as a significant credit need in the area.

FNB LaGrange's excellent responsiveness to low- and moderate-income borrowers credit needs is also supported by its market rank for HMDA home improvement loan originations to low- and moderate-income borrowers. During 1996, FNB LaGrange's market rank for HMDA home improvement originations to low-income borrowers was 4th out of 39 institutions. Their market rank for HMDA home improvement loan originations to moderate-income borrowers was 17th out of 52 institutions. Their market rank for low-income borrowers is substantial, considering FNB LaGrange is the only community bank in the top ten percent of lenders with home improvement loans to low-income borrowers.

Overall, FNB LaGrange's distribution of HMDA originations is a good indicator of their commitment to providing credit to borrowers of different income levels. **Table II** shows that 6% of HMDA loan originations were made to low-income borrowers, and 10% were made to moderate-income borrowers. Considering that 3% of the households in the assessment area are below the poverty level, the opportunity to extend home mortgage credit may be reduced. Those households may have a limited ability to assume debt obligations.

The bank's excellent responsiveness to low- and moderate-income borrowers credit needs is evident by its market rank for HMDA loan originations to low- and moderate-income borrowers. During 1996, FNB LaGrange's market rank for HMDA originations to low-income borrowers was 6th out of 87 institutions. Their market rank for HMDA originations to moderate-income borrowers was 15th out of 162 institutions. Again, their market rank is substantial, considering FNB LaGrange is one of only two community banks in the top ten percent of lenders with loans to low- or moderate-income borrowers in their assessment area.

The bank was the sole provider of funds in a local village's housing program designed to rehabilitate substandard or vacant residential lots into affordable housing for low-income

individuals. The village acquired ownership of the lots through Community Development Block Grant Funds administered by Cook County, and demolished any structures on the lots. Low- or moderate-income borrowers (as defined by Section 8 housing parameters) were identified as purchasers. The purchase of lots was subsidized by the village, which waived any demolition liens and took back a subordinated note from the purchasers for the price of the lots. That note was to be forgiven over a five-year term so long as the purchaser remained in residence. During this evaluation period, FNB LaGrange provided construction and permanent financing for five homes, at below market rates, under this program totaling approximately \$614 thousand. These loans are reflected in the HMDA data in **Table II** below.

In addition to the above program, the bank exhibits flexible lending for loans requested by low- and moderate-income borrowers whose needs do not fit into any special program or category. Since 1995, the bank has made 10 such loans, approximately \$691 thousand, to low- or moderate-income individuals. An example of their flexible lending practices includes a purchase money mortgage loan to a borrower in active chapter 13 bankruptcy. The bank obtained special permission from the bankruptcy trustee and title company to accommodate this borrower. These loans are also reflected in the HMDA data in **Table II** below.

Table II - Distribution of Loans Originated by Borrower's Income Level Inside the Assessment Area - 1995 through YTD 1998									
Income Level of Borrower	Home Purchase		Home Improvement		Refinance		Total HMDA* Loans		% of Families by Income Level
	#	%	#	%	#	%	#	%	
Low-Income	4	5%	10	11%	3	3%	17	6%	9%
Moderate-Income	4	5%	15	17%	7	7%	26	10%	12%
Middle-Income	10	12%	12	14%	20	19%	42	15%	22%
Upper-Income	61	75%	51	58%	76	72%	188	69%	57%

Source: HMDA-LARs for 1995 through YTD 1998.

Note: Percentages may not equal 100% since the income level of the borrower was unavailable for some loans.

- ▶ FNB LaGrange's origination of small business loans reflects an excellent distribution.

As reflected in **Table III**, “Distribution of Small Business Originations Inside the Assessment Area - 1995 through YTD 1998,” a substantial majority of the number of loans originated (71%) were loans with original amounts less than \$100 thousand. All the small business loans summarized in **Table III** were made to small businesses (annual revenues of less than \$1 million). Given that community contacts identified small business lending as a community credit need, the bank’s performance is indicative of its focus on meeting the credit needs of the local community.

Table III - Distribution of Small Business Originations Inside the Assessment Area - 1995 through YTD 1998				
Loan Size	#	% of #	\$	% of \$
less than \$100,000	15	71%	\$419,804	30%
\$100,000 to \$250,000	5	24%	\$706,154	51%
\$250,000 to \$1,000,000	1	5%	\$272,000	19%
Total Loans	21	100%	\$1,397,958	100%

Source: Verified bank reports for 1995 through YTD 1998.

Assessment Area Concentration

- ▶ FNB LaGrange originates a substantial majority of home improvement and small business loans inside its assessment area. The bank’s home improvement and small business lending performance is substantial considering that community contacts identified home improvement and small business loans as significant credit needs of the community.

As illustrated in **Table IV**, “Loans Inside the Assessment Area vs Total Loans - 1995 through YTD 1998,” 73% of the bank’s home improvement loan originations were inside the assessment area. When evaluating the bank’s dollar volume of home improvement originations, FNB LaGrange’s assessment area concentration is even higher. Eighty-five percent (85%) of the dollar volume of home improvement originations were inside the assessment area.

In addition, a substantial majority of FNB LaGrange’s small business lending is also inside its assessment area. During the evaluation period, FNB LaGrange originated 28 small business loans, representing \$2 million. Seventy-five percent (75%) of those loans, representing 21 loans or \$1.4 million, were inside the bank’s assessment area.

The bank also participates in community development lending opportunities as they become available in the community. FNB LaGrange is a member of a local community development corporation and provides a \$25 thousand line of credit for their micro loan program. In addition, they also provided financing to an agency of the Illinois Department of Mental Health for the purchase of two single family homes to house physically disabled adults. These loans are reflected in the community development data in **Table IV** below.

FNB LaGrange originates a majority of its loans inside its assessment area. This is a good indicator of the bank’s focus on meeting the credit needs of the local community. The bank originated 298 loans, representing approximately \$31 million, inside its assessment area. This represents 63% of the total number and the dollar volume of mortgage, small business, and community development loan originations.

FNB LaGrange’s excellent responsiveness to assessment area credit needs is also supported by its market rank for HMDA originations. During 1996, FNB LaGrange’s overall market rank for HMDA originations was 14th out of 357 institutions. Their overall market rank for HMDA home improvement loan originations during 1996 was 13th out of 116 institutions. Their market rank is substantial considering FNB LaGrange is the only community bank among the top fifteen HMDA lenders, and the top twenty HMDA home improvement lenders.

Table IV - Loan Originations Inside the Assessment Area vs Total Loan Originations - 1995 through YTD 1998						
Type of Loan	Total Loans		Loans Inside Assessment Area			
	#	\$ (000's)	#	% of #	\$ (000's)	% of \$
Home Purchase	165	\$23,173	81	49%	\$12,036	52%
Home Improvement	120	\$4,671	88	73%	\$3,976	85%
Refinance	157	\$19,224	106	68%	\$13,400	70%
Total HMDA Loans	442	\$47,068	275	62%	\$29,412	62%
Small Business	28	\$2,010	21	75%	\$1,398	70%
Community Development	2	\$280	2	100%	\$280	100%
Total Loans	472	\$49,358	298	63%	\$31,090	63%

Source: Verified bank reports and HMDA-LARs for 1995 through YTD 1998.

Loan-to-Deposit Ratio

- ▶ The bank’s loan-to-deposit ratio meets the satisfactory standard.

During the past thirteen quarters, the bank’s loan-to-deposit ratio ranged from 56% to 66%, averaging 60%. The bank’s ratio is above their local peer group average. During the past thirteen quarters, the local peer group’s loan-to-deposit ratio ranged from 52% to 63%, averaging 57%. The local peer group, identified by FNB LaGrange management, consists of nine area banks which are not publicly traded institutions.

The bank’s loan-to-deposit ratio does not include a substantial amount (\$37 million) of loans sold

to the secondary market and their affiliate. The bank has chosen to originate, sell to the secondary market, and retain servicing an additional \$34 million in residential real estate mortgages. In addition to the secondary market sales, the bank sold another \$3 million of residential real estate loans to an affiliate bank, but also services that portfolio. FNB LaGrange's portfolio of mortgages serviced represents 27% of their total assets, substantially above their local peer group's portfolio of mortgages serviced of only 3%. The bank's practice of selling loans frees up capital for additional lending and increases credit available to their assessment area.

Geographic Distribution of Loans Inside the Assessment Area

An analysis of the geographic distribution of loans is not meaningful as there are no low- and only one moderate-income census tract in the bank's assessment area. The bank expanded its assessment area in April 1998 by adding thirteen whole census tracts. The moderate-income census tract was among those added in April 1998, and represents only 3% of the total census tracts inside the assessment area.

Compliance with Anti-discrimination Laws

FNB LaGrange has a satisfactory record of complying with the anti-discrimination laws (Equal Credit Opportunity Act, Fair Housing Act, and Home Mortgage Disclosure Act). No violations of the substantive provisions of the anti-discrimination laws and regulations were identified during the course of this evaluation.

Community Reinvestment Act Complaints

No CRA related complaints have been received during the evaluation period.

Community Development Investments

- ▶ FNB LaGrange's qualified community development investments, grants, and donations enhances their performance under the CRA.

The bank made 24 investments, grants, and donations for approximately \$25 thousand to eleven community development organizations inside its assessment area during the evaluation period. These investments were to a variety of organizations that promote or provide community development, housing development, health care, shelter and food for low- or moderate-income individuals inside the bank's assessment area.

Community Development Services

- ▶ FNB LaGrange's qualified community development services enhances their performance

under the CRA.

Bank employees and senior management participate in activities and were representatives on several boards of directors of community development organizations. Through board memberships, technical assistance, financing and participation in organizations' events, the bank is providing community development services to low- and moderate-income individuals. The community development groups are benefiting from the bank's association with them as detailed in the paragraphs below.

One of these organizations is a community development corporation serving west Cook County. A major focus of this group is to enhance the quality of life for residents and business owners through economic development. Programs currently in place include micro loans to small businesses, and home rehabilitation loans for senior citizens or disabled persons to make accessibility modifications to their homes. The group is planning to begin making funds available for facade improvement loans in the near future. The bank executive who served on this board of directors also served on the executive committee and the Executive Director's search committee until 1996. The bank was the first bank to commit to the micro loan program, extending a \$25 thousand line of credit for this purpose (reflected in community development lending). The bank also provides annual operating funds in the form of membership dues (reflected in community development investments).

FNB LaGrange sponsors two programs for disabled young adults through two different community groups. Mentally and physically disabled students open accounts at the bank and come into the bank weekly for training in banking transactions in their account. The bank accommodates these special needs with no fee accounts and special handling. In addition, one of the bank's officers teaches students at a local school banking fundamentals using real bank documents. The bank also donated computer equipment to a local after school tutoring and educational program targeted to low- and moderate-income individuals.

The bank provides assistance in the fund raising campaigns for a number of community development organizations. FNB LaGrange handles coin, currency, and donations without charge to these organizations. In addition, the bank has donated the use of the bank's meeting room for local community groups.

The bank also underwrote two loans and serviced these loans on behalf of a local village's Facade Renovation Fund at no cost to the village. This program provided funds to promote economic development in the assessment area.

The bank offers flexible checking plans to accommodate senior citizen, student, charitable organizations, and not-for-profit accounts. The senior citizen accounts require no minimum balance, no fee, and unlimited checks. Student accounts also require no minimum balance, no fee, and ten free checks monthly. The bank provides free checking accounts to charitable organizations, and interest bearing checking accounts with no service charge to not-for-profit organizations.

- ▶ FNB LaGrange's retail services are reasonably accessible to all portions of the assessment

area, given the bank's size.

The bank has three office locations, one walk-up facility, two drive-up facilities, and four ATM's inside the assessment area. In addition, the bank offers 24 hour telephone banking. Loan services are generally limited to the main office, but loan officers will, by appointment, meet with customers at the branch locations. No branch offices were opened or closed during this evaluation period.