

# **Public Disclosure**

April 9, 1997

## **Community Reinvestment Act Performance Evaluation**

**HARRIS BANK WINNETKA, N.A.  
Charter Number: 14365**

**520 Green Bay Road  
Winnetka, Illinois 60093**

**Office of the Comptroller of the Currency  
Central District Office  
One Financial Place, Suite 2700  
440 S. LaSalle Street  
Chicago, Illinois 60605**

**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 CRA performance of **Harris Bank Winnetka, N.A.** prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **April 9, 1997**. 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 CFR Part 25.

**Institution's CRA Rating:** This institution is rated Satisfactory.

- The lending levels indicate good responsiveness to assessment area credit needs.
- The geographic distribution of loans reflects good penetration throughout the assessment area.
- The distribution of loans to borrowers shows good penetration among retail customers of different income levels.
- The bank explores ways to offer innovative lending products to serve assessment area credit needs.
- Management is responsive to credit and community economic development opportunities.
- The retail banking services and delivery systems are reasonably accessible to all portions of the bank's assessment area.

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

Performance Levels	Name of Financial Institution Performance Tests		
	Lending Test*	Investment Test	Service Test
Outstanding			
High satisfactory	X		
Low satisfactory		X	X
Needs to improve			
Substantial noncompliance			

\* Note: The lending test is weighted more heavily than the investment and service tests when arriving at an overall rating.

## Description of Institution

Harris Bank Winnetka, N.A. (HBW) is wholly owned by Harris Bankcorp, Inc. which is located in downtown Chicago. Harris Bankcorp, Inc. in turn is wholly owned by the Bank of Montreal with headquarters in Toronto, Canada. Harris Bankcorp, Inc. has one of the largest community bank networks in the Midwest region. There are over 140 Harris community bank locations throughout the Chicagoland area. Total asset size of the bank group is approximately \$21 billion and the Bank of Montreal's asset size is approximately \$170 billion.

HBW is located approximately 16 miles north of downtown Chicago in one of the city's wealthiest suburban areas. The bank's assessment area is part of the Chicago MSA (#1600) and includes the villages of Winnetka, Wilmette, Kenilworth, Glencoe, Northfield, Northbrook, and Glenview. The villages of Northbrook and Glenview were added to the bank's assessment area in February 1997.

The demographic profile of the assessment area indicates that median housing values and median incomes are well above the Chicago MSA averages. Median housing value for the bank's assessment area is \$298,549, and the median family income is \$89,379. By comparison, the Chicago MSA median home value is \$110,004 and the median family income is \$42,758. Due to the affluence of the residents who live within the assessment area, the competition among banks is vigorous. HBW faces competition from 17 well established competitor banks in the assessment area, and the 1995 Home Mortgage Disclosure Act (HMDA) market share analysis reflects over 300 institutions made HMDA loans in the bank's assessment area.

Of the 31 census tracts in the assessment area, 1 is moderate-income, 1 is middle-income and

29 are upper-income. The moderate-income tract is the former Glenview Naval Air Station which

closed in May 1996 and has no residents at this time. Plans are in place to redevelop the naval base into a residential area with projected housing values exceeding \$300,000. As there are effectively no low- and moderate-income census tracts, community development lending opportunities and qualified community development investments are not available in the assessment area. However, the bank is attuned to the needs of the community and displays a willingness to offer products that would fulfill any community credit need.

HBW's CRA performance focused on lending activity, borrower characteristics, and the geographic distribution of loans. The types of loan products offered include real estate loans, commercial loans to small and medium sized businesses and consumer loans. The residents within the bank's assessment area are financially sophisticated and their borrowing habits are rather unconventional. Instead of traditional installment loans, customers use home equity loans for consumer purposes to gain the benefits of tax deductibility and lower interest rates. These home equity loans tend to be originated with high amounts due to the high housing values throughout the assessment area. As a result of an ascertained need in the community, HBW developed and introduced a reverse mortgage product to help senior citizens who need supplemental income. Under the Department of Housing and Urban Development (HUD) guidelines, qualified senior citizens can borrow up to \$152,000 of equity in their homes. The expertise gained from developing this product has made HBW a leader among the other Harris community banks with the reverse mortgage. The nature of the bank's small business lending is also unique. More small business loans are originated outside of the assessment area than inside because the business owners/managers live within the assessment area, but the addresses of the businesses are outside the assessment area. Other products offered by the bank include SBA loans and Illinois Guaranteed Student Loans.

There are no known financial impediments which would hamper HBW's ability to help meet the credit needs of its community. Financial information as of 12/31/96 indicates that the bank has approximately \$300 million in assets and a return on average assets (ROAA) of 1.50%. The bank's loan portfolio is comprised of 62% real estate mortgages, 34% commercial loans, and 4% consumer credit. The loan-to-deposit ratio was 79.82%. The bank has one branch located 1 mile north of the main office.

# Conclusions with Respect to Performance Tests

## Lending Test

Overall, HBW's lending demonstrates:

- Good responsiveness to assessment area credit needs,
- An adequate percentage of loans made in the bank's assessment area,
- Good geographic distribution of loans throughout the assessment area,
- Good loan penetration among retail customers of different income levels and business customers of different size, and
- Flexible lending practices in order to serve assessment area credit needs.

### Performance Criteria:

#### *Lending Activity*

Overall, HBW's lending level reflects good responsiveness to credit needs within the assessment area. The home equity loan portfolio is most indicative of the bank's lending activity. Residents tend to use home equity loans for many purposes because of the lower interest rate and tax deductibility feature. Due to the high housing values and homes with considerable equity, home equity loans fulfill a multitude of community credit needs. As shown in Table #1, the bank originates a majority of the number and dollar amount of home equity loans within their assessment area.

(Table # 1)  
1996 Home Equity Loans

Assessment Area	# of Loans	% of Total	\$ Amount of Loans (in 000's)	% of Total
Inside A.A.	104	66.24%	\$11,573	73.77%
Outside A.A.	53	33.76%	\$4,115	26.23%
Totals	157	100.00%	\$15,688	100.00%

The lending level of home mortgages reflects adequate responsiveness to assessment area credit needs. A majority of the dollar amount of home mortgage loans is originated within the assessment area. As previously noted, home mortgages have higher balances because of the higher home values, and as such, the number of mortgage loans originated in the assessment area is reasonable. See Table #2 on the next page.

The level of small business lending reflects the bank's adequate responsiveness to assessment

area credit needs. Out of \$38.7 million in commercial loans originated in 1996, the bank originated \$19.5 million or 50% as small loans to businesses. Although the percentage of loans originated within the bank's assessment area is low, this level is considered reasonable because many owners or managers of small businesses live in the assessment area while their companies are located elsewhere. See Table #2 and Table #3.

(Table #2)

Home Mortgage Loans and Small Loans to Businesses  
 (Home Mortgage: HMDA-LAR - 1996 and YTD 1997 loan data  
 Small Business: 1996 Originations)

<b>Lending Analysis</b>	<b>Home Mortgage</b>	<b>Small Loans to Businesses</b>
<i>Number</i>		
# of Loans Inside the Assessment Area	140	45
Total # of Loans	302	126
% of Loans Inside/Total # of Loans	46.36%	35.71%
<i>Dollars (in \$000's)</i>		
\$ of Loans Inside the Assessment Area	26,390	5,774
Total \$ of Loans	47,387	19,520
% of Loans Inside/Total \$ of Loans	55.69%	29.58%

(Table #3)

1996 Small Loans to Businesses Within Assessment Area

<b>Small Loans to Businesses Amount</b>	<b>Number of Loans</b>	<b>% of Total Number of Loans</b>	<b>Amount of Loans (000's)</b>	<b>% of Dollar Amount</b>
\$0-99,999	27	60.0%	\$1,036	17.9%
\$100,000-250,000	10	22.2%	\$1,409	24.4%
Over \$250,000	8	17.8%	\$3,329	57.7%
Totals	45	100%	\$5,774	100%

## ***Geographic Distribution of Loans***

The geographic distribution of loans reflects good penetration throughout the assessment area. As noted below in Table #4, home mortgage loans, home equity loans, and small loans to businesses indicate that a majority of geographies were penetrated within the assessment area. Table #4 below indicates the number and percentage of census tracts in which loans were originated within the assessment area.

(Table #4)  
Census Tracts Penetrated by Loan Type

<b>Loan Type</b>	<b># of Census Tracts Penetrated In Assessment Area</b>	<b>% of Census Tracts Penetrated</b>
<i>Mortgage Loans</i>	26 out of 31	83.87%
<i>Home Equity Loans</i>	21 out of 31	67.74%
<i>Small Loans to Businesses</i>	18 out of 31	58.06%

Only three census tracts were lacking any loan penetration during 1996. All of these census tracts are new tracts within the bank's expanded assessment area (effective February, 1997). Two of the census tracts are upper income census tracts located in Glenview. The other census tract consists of the closed Glenview Naval Air Station.

## ***Borrower Characteristics***

For home loans, the distribution of loans to borrowers of different income levels is good as Table #5 indicates on the next page. Lending opportunities for housing to low- and moderate-income borrowers are limited based on the demographic data for housing in the bank's assessment area. However, as Table #5 demonstrates, the bank originates a proportionate number of loans to borrowers of all income levels. The bank's market share ranking for originations for low- and moderate-income borrowers in 1995 (latest available market share data) reflects the bank to be 13th (6 loans) with a market share of 1.8%. The highest market share institution for low- and moderate-income borrowers in the bank's assessment area had a market share of 4.8% (16 loans). The bank's market share ranking for originations to middle and upper income borrowers in 1995 is 11th (87 loans) with a market share of 2.4%. The highest market share institution for originations in the bank's assessment area in 1995 to middle and upper income borrowers is 6.5% (235 loans).

(Table #5)

### Percentage of Borrowers by Income Level

<b>Income Category of Borrowers</b>	<b>1996</b>	<b>1997</b>	<b>Families in Assessment Area</b>
Low-Income	2.9%	3.3%	4.9%
Moderate-Income	3.6%	4.1%	7.7%
Middle-Income	10.2%	11.4%	13.2%
Upper-Income	83.3%	81.2%	74.2%
Totals	100.0%	100.0%	100.0%

As the table demonstrates, the majority of families are considered middle- and upper-income borrowers. Within the assessment area, only 12.6% of families are low- and moderate-income borrowers.

1996 HMDA data shows that small loans to businesses originated by HBW in 1996 included 53 loans (42%) made to small businesses.

#### ***Product Innovation***

The bank uses innovative and flexible lending practices in order to serve assessment area credit needs. HBW is a leader among the Harris community banks in offering reverse mortgages. The reverse mortgage product was developed due to the growing senior citizen population within the bank's assessment area. The reverse mortgage addresses a community credit need as elderly customers may need supplemental income for medical bills, tax payments, home improvement purposes, etc. Currently, HBW has originated 7 reverse mortgages with total outstanding balances of over \$1 million.

#### **Investment Test**

HBW does not readily have opportunities to obtain qualified community development investments serving the bank's assessment area. As such, HBW has no qualified community development investments. This is because of the lack of low income areas, and the one moderate-income census tract is currently unoccupied. The bank stays abreast of local investment alternatives and contributes to many local support organizations.

#### ***Responsiveness To Credit and Community Development Needs***



While no qualified investment opportunities exist within the bank's assessment area, the bank remains adequately responsive to credit and community economic development needs through commercial and consumer lending products and programs.

## **Service Test**

The level of retail banking services provided by HBW is good. The bank's delivery systems provide access to essentially all parts of the assessment area. Business hours and services are reasonable in meeting the needs of the assessment area.

### ***Accessibility of Delivery Systems***

The delivery systems are accessible to essentially all portions of the institution's assessment area. The main office, branch and ATM machines are located on Winnetka's main thoroughfare, Green Bay Road. Customers can access banking services by car or mass transit. ATMs and a bank-by-phone system are available to meet customers' needs. Finally, customers can use any of the more than 140 Harris community bank facilities located throughout the Chicagoland area for banking services.

### ***Reasonableness of Business Hours and Services in Meeting Assessment Area Needs***

Services do not vary in a way that inconveniences any portion of the bank's assessment area. The main office and branch maintain lobby hours from 8:30am to 5:00pm during the week, and are open from 8:30am to 1:00pm on Saturdays. Drive-up/Walk-up hours are slightly longer than lobby hours.

### ***Changes in Branch Locations***

There has been no change in the location of the bank's branch.

## **Fair Lending Review**

No violations of the substantive provisions of the antidiscrimination laws and regulations (ECOA, FHA, or HMDA) were identified. HBW's policies, procedures, training programs, and internal assessments have been effective in promoting the spirit and intent of fair lending.

## **Metropolitan Statistical Area/Assessment Area**

### **Conclusions with Respect to Performance Tests in Chicago, IL (MSA #1600)**

HBW's assessment area is in the Chicago MSA (#1600) and comprises the villages of Winnetka, Wilmette, Kenilworth, Glencoe, Northfield, Northbrook and Glenview. The assessment area does not arbitrarily exclude low- and moderate-income census tracts. The population within the assessment area is 130,946 with 38,213 families. Minorities constitute 8.11% of the population. Nearly 28% of the assessment area residents are over the age of 65. The income level is well above the MSA median family income. At \$89,379, the family income is 209.03% higher than the Chicago MSA's average of \$42,758. Within the assessment area, there are 49,312 housing units of which 83.81% are owner occupied. The median housing value is \$298,549 which is 271.4% above the Chicago 6 county average of \$110,004. The median housing age is 42 years.

The local economy is good. The unemployment rate in the fourth quarter 1995 for the greater Chicago Metropolitan area was approximately 5%. Based upon U.S. Census data, 93% of the area's business establishments are considered small businesses as they employ less than 50 people. Firms with 50-499 employees represents 6.5% of the total businesses with the remaining 1/2% of the businesses employing more than 500 people. Information from the Regional Employment and Income Series indicates that the services industry employs the greatest proportion of people with approximately 36% of wage and salaried workers. Together, retail trade, manufacturing, government, and finance/insurance/real estate occupations employ 57% of the workers.

HBW is able to meet community credit needs through a variety of loan products including home equity loans, home mortgage loans, small loans to businesses and the recent introduction of the reverse mortgage product offered to qualified senior citizens.

The information used in evaluating the bank's CRA performance includes data on home mortgage loans originated in 1996 and YTD 1997, and home equity and small business loans originated in 1996. The demographics of the assessment area indicates that the opportunity and need for qualified community development investments and services are limited.

### **Appendix: Scope of Examination**

The scope of the examination included a review of home mortgage, home equity and small business loans originated from 1/1/96 to the date of the examination. Since the last evaluation, the assessment area was expanded in February 1997 by adding Northbrook and Glenview. By expanding the assessment area, the number of census tracts doubled (from 15 to 31) and the physical area also doubled in size. The lending test was the primary performance test used in assessing the overall rating because the bank's assessment area does not contain any low-income geographies and one moderate-income geography which is currently unoccupied.