



Comptroller of the Currency
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Public Disclosure

February 18, 1998

Community Reinvestment Act Performance Evaluation

**Park National Bank and Trust
Charter Number: 14649**

**2958 Milwaukee Avenue
Chicago, Illinois 60618**

**Office of the Comptroller of the Currency
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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 the 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 Park National Bank and Trust (PNBT) prepared by The Office of the Comptroller of the Currency, the institution's supervisory agency, as of February 18, 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 CFR Part 25.

The last evaluation of this institution was on January 31, 1995. However, this evaluation focuses primarily on the bank's performance during 1996 and 1997 due to changed data collection requirements for the CRA.

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:

- o Park National Bank and Trust has made a significant amount of community development loans.
- o PNBT is an active small business lender in their assessment area.
- o The bank's loans are adequately distributed among individuals in all different income categories.
- o The geographic distribution of loans shows reasonable penetration throughout the assessment area.
- o The bank's branches provide reasonable accessibility throughout the assessment area.
- o The bank makes limited investments in local community development projects and participates in few community development services.

The following table shows the performance level of Park National Bank and Trust (PNBT) with respect to the lending, investment, and service tests.

Performance Levels	Park National Bank and Trust Performance Tests		
	Lending Test*	Investment Test	Service Test
Outstanding			
High satisfactory	X		
Low satisfactory			X
Needs to improve		X	
Substantial noncompliance			

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

Description of Institution and Community

Bank Profile:

Park National Bank and Trust (PNBT) is a \$333 million bank whose main office is 10 miles northwest of the Chicago loop. The bank is in a well established predominantly polish and Hispanic community. Economic conditions are stable and competition is strong. The bank's primary competition includes LaSalle Bank, N.A., Avondale Savings & Loan, and Northwestern Savings & Loan.

PNB Financial Corporation owns PNBT. The holding company acquired controlling interest in July 1978. The institution has three branches all in the near northwest suburbs (Mt. Prospect, Arlington Heights, and Niles). The Mount Prospect location was opened in January 1990. The branch in Arlington Heights was added in August 1995. A final branch was opened in Niles in February 1996. The bank's assessment area is contiguous around all four locations. General description of the area is all census tracts within five miles of any of the branch locations.

PNBT's primary business focus is commercial lending. The bank is targeting growth through the purchase of leases and increased commercial lending. The bank has been purchasing leases for more than 15 years, mostly from brokers with most leases being from companies outside the assessment area. Additionally, the bank offers limited mortgage banking activities that provide more flexible products that they can sell to the secondary market.

Total loans account for 52% of PNBT's assets as of September 30, 1997. The loan to deposit ratio is 60% showing very little change since year-end 1996. The loan mix reflects the bank's focus as primarily a commercial lender. Commercial and industrial loans account for 42% of average gross loans, with an additional 26% of the portfolio in commercial real estate loans. Residential 1-4 family loans represent only 16% of the portfolio of which 4% are home equity loans. Consumer loans are small at 3% of the portfolio.

PNBT's last CRA evaluation dated January 31, 1995, rated the institution "Satisfactory Record of Meeting Community Credit Needs." The institution can meet the community's credit needs based on its financial condition and size.

Community Profile:

PNBT's assessment area is a contiguous area that includes all census tracts within five miles of its four locations. The area consists of 529 census tracts in the assessment area within three counties. The majority (98%) of the tracts are in Cook County. There are three census tracts in DuPage County and eight in Lake County. According to 1990 census information, the community comprises 91 (17%) low-, 137 (26%) moderate-, 168 (32%) middle- and 131 (25%) upper-income census tracts. Except two moderate-income tracts, the low- and moderate-income tracts are near the main office location in Chicago.

The area near the main office is mainly residential with small retail stores and restaurants along the neighborhood's major corridors. The Arlington Heights, Mount Prospect, and Niles areas have a high concentration of owner occupied households. The local business areas are a mix of residential neighborhoods, retail stores, commercial office complexes, light manufacturing and industrial parks.

The total population of this area is 2,085,102 people in 508,748 families. Of this total, there is 22% low-, 18% moderate-, 22% middle- and 38% upper-income families in the area. The population within this area is distributed 11% in low-, 25% in moderate-, 35% middle- and 29% in upper-income tracts.

Within the assessment area, there are 871,102 housing units in the area. There is an even split between owner occupied units (47%) and rental occupied units (45%). Most of the rental units are near the bank's main office. The owner occupied units (82%) are in middle- and upper-income census tracts. Only 3% of the owner occupied units are in low-income census tracts and 15% are in moderate-income tracts.

Conclusions with Respect to Performance Tests

Park National Bank and Trust's overall CRA performance is satisfactory. The bank does a good job of making small loans to businesses. Although the lending performance is good, and retail services are reasonably accessible, the bank does very little in relation to community development (CD) investments and CD services.

Since the bank operates in only one MSA, the conclusions for performance in the MSA are the same as for the entire bank.

Lending Test

Major Conclusions:

- PNBT made a significant level of community development loans that enhances their overall lending performance.
- The bank's lending shows good responsiveness to the credit needs of their assessment area.
- Lending to borrowers of different income levels and businesses of different sizes is good.

Scope:

Our analysis focused heavily on business lending performance given the bank's strategy noted in the performance context. We also reviewed all loans covered under the Home Mortgage Disclosure Act (HMDA). As the bank's assessment area is urban, there are few if any opportunities for small farm lending. Since consumer loans are only a small percentage of the bank's loan portfolios and PNBT did not collect information for these loans, we did not include consumer loans in this evaluation.

Data Integrity:

To figure out the accuracy of data presented by the bank, we verified a sample of the HMDA and small business loan data. We reviewed 13 HMDA reportable transactions and 19 small business files to ensure the accuracy of the information included on the Loan Application Register (LAR) and CRA Data Listing Report. We identified many multi-family projects that they did not include on the HMDA-LAR and several leases included in the loan information. The lease information may be considered as "other loan information." However, PNBT failed to accurately collect and report revenue information for their small business loans. The remaining information was substantially correct. We did not adjust the numbers in this evaluation to reflect the unreported multi-family loans or incorrectly listed leases.

Lending Activity

PNBT's lending levels reflect good responsiveness to assessment area credit needs. The bank made 452 small loans for \$64,129,000 to businesses during 1996 & 1997. We evaluated the level of lending using 1990 U.S. Census demographic data and aggregate small business data reported for CRA purposes. There are 75,624 businesses in the assessment area. There are 305 lenders reporting small loans to businesses in the three counties that bank includes in their assessment area. PNBT's small business market rank for 1996 within this area is 40th with market share 0.54%. However, since the vast majority of the bank's area is in Cook County, the market share information for Cook County shows the bank's small business lending performance. PNBT's small business market rank for Cook County is 35th with market share of .67% with 273 institutions reporting. Market rank and share in the small dollar loan categories is 38th with .50%.

The bank also extended 125 loans for \$19,677,000 for home mortgage purposes (purchase, improvement, refinancing, and multi-family) in 1997 and 1996. This level of lending is considered good based on the bank's profile, number of lenders in the bank's assessment area, and level of home ownership in Cook County. PNBT's HMDA market rank for 1996 was 235th with a market share of .05%. There are 414,335 total owner occupied-units and 702 HMDA lenders in the assessment area.

Assessment Area Concentration

An adequate percentage of loans are made in the institution's assessment area. The location of loans show the bank focuses on meeting the credit needs within their assessment area. PNBT made 77% of their small business loans inside their assessment area. As illustrated in the table below, more than 50% of the number of loans for each product are within the assessment area. Besides the small business loans, both home improvement and multi-family loans show a significant majority of the loans in the assessment area in both number and amount of loans.

Loans Inside the Assessment Area vs Total Loans - 1996 & 1997						
Type of Loan	Total Loans		Loans Inside Assessment Area			
	#	\$ (in 000's)	#	% of #	\$ (in 000's)	% of \$
Home Purchase	50	8,920	27	54%	4,457	50%
Home Improvement	23	862	19	83%	634	74%
Refinance	45	6,535	26	58%	3,962	61%
Multi-Family	7	3,360	6	86%	3,155	94%
Total HMDA Loans	125	19,677	78	62%	12,208	62%
Small Business	452	64,129	346	77%	50,563	79%
Community Development	22	10,777	22	100%	10,777	100%
Total Loans	724	114,260	524	72%	85,756	75%

Source: Bank reports, HMDA-LAR, and CRA Disclosure reports for 1997 and 1996.

Geographic Distribution of Loans Within the Assessment Area

The geographic distribution of loans reflects good penetration throughout the assessment area. Lending to businesses shows a good distribution of loans in the different income level tracts. PNBT made 5% of its small loans to businesses in low-income tracts and 17% of these loans in moderate-income tracts. This compares favorably to the distribution of businesses throughout the assessment area. Of the total 75,624 businesses in the assessment area, 5,390 (7%) of the businesses are in low-, 14,951 (20%) are in moderate-, 30,606 (40%) are in middle-, and 24,428 (32%) are in upper-income tracts.

PNBT's business market share in low-income tracts is good. Of the total 88 lenders in these tracts, PNBT's market rank is 24th with a 0.86% market share. The top two lenders account for 34% of the market with all other lenders having a much lower share of the market. PNBT's market rank for moderate-income tracts are 28th out of 133 with a market share of 0.74% market share. PNBT's market share in the low- and moderate-income tracts is better than their market share in middle- and upper-income tracts (0.67% and 0.61%, respectively).

Home mortgage lending in low- or moderate-income tracts is good compared with the level of owner occupied housing units in these areas of only 3% and 15% of total owner occupied housing in the assessment area, respectively. Both home improvement and home refinancing percentages exceed the relative opportunity (percentage of owner occupied units) in these areas. Although there is very little home mortgage lending in low- and moderate-income tracts, this is reasonable considering that 42% of all households in low-income tracts and 18% of households in moderate-

income tracts have income below the poverty level. The following table illustrates the distribution of lending in the different income level tracts by product type.

Geographic Distribution of Loans Inside the Assessment Area - 1996 & 1997								
Type of Loan	Income Level of Census Tract							
	Low Income		Moderate Income		Middle Income		Upper Income	
	#	%	#	%	#	%	#	%
Home Purchase	0	0%	0	0%	10	37%	17	63%
Home Improvement	1	5%	4	21%	7	37%	7	37%
Refinance	1	4%	7	27%	4	15%	14	54%
Multi-Family	1	17%	3	50%	2	33%	0	0%
Total HMDA Loans	3	4%	14	18%	23	29%	38	49%
Small Business	17	5%	60	17%	159	46%	107	31%
Community Development	5	23%	14	64%	2	9%	1	4%
Total Loans	25	6%	88	20%	184	41%	146	33%

Source: Bank reports, HMDA-LAR, and CRA Disclosure reports for 1997 and 1996.

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

Distribution by Borrowers' Income Within the Assessment Area

The distribution of borrowers reflects, given the product lines offered by the institution, adequate penetration among retail customers of different income levels and business customers of different size. Since the bank had not accurately recorded the revenue size of the business for its small loans, we considered the distribution of small loans based on a sample of these loans reviewed. Of the 19 loans in our sample, eight or 42% of the small loans to businesses were to businesses with revenue less than \$1 million.

We also looked at loan size as an indication of lending to businesses of different sizes. PNBT made 60% of its loans for \$100,000 or less with an additional 21% for amounts between \$100,000 and \$250,000. The table below illustrates the distribution of loans by original loan amount for both number of loans and total dollar amount of these loans.

Distribution of Small Loans to Businesses Originations in 1996 and 1997 Within Assessment Area By Loan Size				
Loan Size	#	%	\$ (000)	%
less than \$100,000	209	60%	\$7,995	16%
\$100,000 to \$250,000	71	21%	\$12,315	24%
\$250,000 to \$1,000,000	66	19%	\$30,253	60%
Totals	346	100%	\$50,563	100%

Source: PNB T's CRA Disclosure reports for 1997 and 1996.

PNBT's market rank for loans less than \$100,000 is 38th of 266 lenders with a 0.50% market share. This is only lower than their overall market share (0.67%). Market rank for loans of amounts from \$100,000 to \$250,000 is 19th of 266 with a share of 1.52%. For loans for amounts greater than \$250,000, the market rank is 20th of 266 with 1.23% market share.

PNBT's loans show that they made 5% of the HMDA loans to low-income individuals, 14% to moderate-, 19% to middle-, and 51% to upper-income individuals. The makeup of the assessment area shows 22% low-, 18% moderate-, 22% middle- and 38% upper-income families in the area. Although the 5% of loans compared with 22% of families for low-income individuals is less than expected, the level is reasonable considering that 11% of all households in the assessment area are living below the poverty level. The comparison for other income level individuals shows a reasonable level of lending to individuals of different income levels. The following table illustrates the distribution of loans to borrowers of different income levels by product type.

Distribution of Loans by Borrower's Income Inside the Assessment Area - 1996 & 1997								
Type of Loan	Income Level of Borrower							
	Low Income		Moderate Income		Middle Income		Upper Income	
	#	%	#	%	\$	%	\$	%
Home Purchase	1	4%	3	11%	5	19%	17	63%
Home Improvement	3	16%	5	26%	3	16%	8	42%
Refinance	0	0%	3	12%	7	27%	15	58%
Total HMDA Loans *	4	5%	11	14%	15	19%	40	51%

Source: PNB T's HMDA-LAR for 1997 and 1996.

*Excludes Multi-family loans

Community Development Lending

The institution has made a high level of community development loans. The significance of the bank's community development lending enhances the overall lending performance. The bank made 19 multi-family loans for \$9,720,540 in low- or moderate-income census tracts. This is 3% of the number (600) and 5% of the total dollars (\$176 million) for multi-family loans in this area during 1996. They made an additional three loans for \$1,056,500 to finance affordable multi-family housing in middle- and upper-income tracts.

PNBT supports the Evanston Business Investment Center's small business loan pool. The bank committed \$5,000 to this organization in late 1995. PNBT lends the funds to this organization which collateralizes the funds with the loans to small businesses. They have lent almost the entire amount to small businesses (approximately \$4,300).

Product Innovation and Flexibility

PNBT offers flexible small business and home mortgage loan products. PNBT makes SBA 7a, 504, and low doc loans. They made most of the loans under the low-doc program that allows the business to qualify with minimal documentation requirements. During 1997 and 1996, the bank made seven loans for \$435,000.

The bank is active in funding start-up businesses. Loan officers are flexible in considering these requests without having any past earnings performance on which to rely for loan repayment capabilities. During the evaluation period, the bank made 12 loans to eight start-up businesses for a total of \$2,926,067.

PNBT offers the Community Home Buyers (CHB) products that are prevalent in the industry. The bank participates in the CHB 95 (95% of purchase price can be financed), and FHLMC Affordable Gold Program with 3/2 down payment option (requires only 3% down payment with the other 2% coming from a gift or grant).

PNBT participates in the Illinois Housing Development Authority First Time Home Buyers program. These loans offer lower interest rates to individuals who are buying their first home. Applicants must meet income eligibility standards that are set by the State of Illinois. However, during the past two years, the bank only took a couple applications and they made no loans.

The bank offers the NIV-80 (No Income Verification), NINAV (No Income No Asset Verification), and no ratio programs. These loan programs are in conjunction with three local banks who purchase the loans from PNBT. PNBT uses the NIV-80 and NINAV programs mostly for self-employed individuals. The NIV-80 program allows for asset verification instead of income verification. The NINAV program takes the information as presented on the application by the customer without verifying its accuracy. Under the no ratio program, credit quality is based on employment stability, collateral and the credit profile of the borrower. Income information is not to be included in the file nor is a debt-to-income ratio calculated. PNBT has

made a few loans under these programs.

The bank also participates in the “B - C - D Programs.” Basically, these programs help borrowers with poor credit history to qualify for a loan. PNBT sells these loans to investors. The bank has only made a few loans under this program.

Fair Lending Review

PNBT 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 a poor level of qualified community development investments and grants, particularly those that a private investor has not routinely provided.
- The institution exhibits poor responsiveness community economic development needs.
- The institution rarely uses innovative and/or complex investments to support community development initiatives.

Scope:

The review of investments included an analysis of the grants and donations and any other qualified investments made by PNBT.

Investment Activity:

PNBT made a total of \$14,365 in donations to community development organizations. The largest donations were to two local housing organizations for a total of \$10,000. The bank also provided \$2,000 to a financial assistance program that provides child care and food to the low- and moderate-income residents of the area. The bank provided \$1,000 to support a small business micro-loan program. They made a few smaller donations for a total of \$1,365 to four other social service organizations.

Service Test

Major Conclusions:

- PNBТ's delivery systems are reasonably accessible to essentially all portions of the institution's assessment area.
- The institution's opening and closing of branches has generally not adversely affected the accessibility of its delivery systems, particularly in low- and moderate-income geographies and/or to low- and moderate-income individuals.
- Services, including business hours, do not vary in a way that inconveniences portions of the assessment area, particularly low- and moderate-income geography's and/or individuals.
- The institution provides few community development services.

Scope:

The evaluation of services included reviewing both the location of the bank's branches and involvement in community service organizations and activities by bank employees.

Retail Services:

PNBT operates four offices. The main office in Chicago is in a moderate-income census tract. All other locations are in middle- and upper-income census tracts. PNBT opened two new branches during this evaluation period. ATM's are at each of the bank's offices.

Office hours are reasonable and provide customers good access to bank services. The bank is open late hours Friday evening besides Saturday morning, and Sunday hours at the main office. The hours provide an advantage to the customers in the low- and moderate-income areas that are near the main office of the bank.

There are no differences in the services available at the different locations. Bilingual employees are available at the Chicago (Spanish and Polish), Mt. Prospect (Spanish and Polish), and Niles (Polish) locations. Alternative delivery systems are limited to bank-by-phone services. Customers can access account information and make transfers between accounts.

Community Development Services:

One of the bank's loan officers provides technical advice to the Evanston Business Investment Corporation (EBIC). The EBIC administers a loan fund established to fill the void between conventional bank financing and personal financing. Various banks (including PNBT - see comments under lending test section) commit funds to the program and EBIC lends the money to

small businesses in the north Chicago metro area.

One of the bank's loan officers made a presentation regarding PNB's micro loan program. The Mount Prospect Chamber Women's Association sponsored the event. Approximately 25 women attended the session.

The bank presented a seminar for accountants titled "Preparing Loan Applications for Small Businesses." The seminar was in response to a request from the accountants for assistance in this area. Twenty-six (26) local accountants attended the seminar.

A loan officer of the bank participated in a home purchase seminar. Logan Square Neighborhood Association sponsored the seminar and targeted the Spanish speaking individuals in the area.