



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

July 7, 2003

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Baytree National Bank & Trust Company
Charter Number 23983**

**9 Market Square Court
Lake Forest, IL 60045**

**Comptroller of the Currency
ADC-Chicago North
85 West Algonquin Road, Suite 340
Arlington Heights, IL 60005**

NOTE: This document is an evaluation of this 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. 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.

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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 **Baytree National Bank & Trust Company (BNBTC)** prepared by **The Office of the Comptroller of the Currency (OCC)**, the institution's supervisory agency, as of July 7, 2003. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.

This evaluation covers the period since October 10, 2000, the date BNBTC opened for business. This is the first CRA examination for BNBTC.

INSTITUTION'S CRA RATING

INSTITUTION'S OVERALL CRA RATING: This institution is rated: Satisfactory Record of Meeting Community Credit Needs.

The major factors that support BNBTC's overall rating include:

- The distribution of loans to borrowers of different income levels is reasonable. Lending to businesses of different sizes is reasonable.
- The loan-to-deposit ratio is reasonable.
- The level of lending within BNBTC's designated assessment area is reasonable.

DESCRIPTION OF INSTITUTION

BNBTC is a \$98 million intrastate financial institution. BNBTC is headquartered in Lake Forest, Illinois, approximately 31 miles north of Chicago.

BNBTC is a wholly owned subsidiary of Baytree Bancorp, Inc. (BBI) which is headquartered in Lake Forest, Illinois. As of December 31, 2002, BBI was a one-bank holding company with no other subsidiaries and approximately \$98 million in consolidated assets.

BNBTC has three locations and one automated teller machine (ATM). Two locations and the ATM are located in Lake Forest, Illinois. The other location is located in Lake Bluff, Illinois.

BNBTC began operations as a “bank-by-mail” institution located in downtown Chicago. This facility was closed in January 2002, approximately 6 months after the first Lake Forest location was opened. Because the downtown Chicago location was not accessible to the public, there was no significant impact on low- or moderate-income geographies or persons from this closure.

As of December 31, 2002, the bank reported approximately \$89 million in outstanding loans and had a net loans and leases to assets ratio of 83 percent. Tier 1 Capital was reported at \$8.5 million. The bank is primarily a commercial lender. Table 1 provides data on the BNBTC’s gross loan portfolio.

Table 1

Loan Portfolio Composition		
Loan Category	\$(000s)	Percent
Commercial Loans	\$ 63,620	71.34%
Residential Loans	\$ 19,343	21.69%
Individual Loans	\$ 5,984	6.71%
Other Loans	\$ 232	0.26%
Total	\$ 89,179	100.00%

There are no financial circumstances, legal constraints or other factors that would hinder BNBTC’s ability to meet the credit needs of the community. This is the first CRA examination for BNBTC.

DESCRIPTION OF BAYTREE NATIONAL BANK & TRUST COMPANY’S ASSESSMENT AREA

BNBTC has one assessment area (AA) that is comprised of Southeast Lake County and Far Northeast Cook County, which are part of the Chicago Metropolitan Statistical Area (MSA 1600). There are 32 geographies included in the AA. Twenty-four geographies are part of Lake County and eight geographies are part of Cook County. Based on the 1990 Census median income of \$42,758, the 32 geographies consist of two moderate-income areas (6.25 percent), four middle-income areas (12.5 percent), and 26 upper-income areas (81.25 percent). The AA meets the requirements of the CRA regulation and does not arbitrarily exclude any low- or

moderate-income geographies.

Major towns in the AA are Lake Forest, Highland Park, Libertyville, and Winnetka. BNBTC's AA is bordered to the north by Naval Station Great Lakes, Lake Michigan to the east, I-94 to the west, and Winnetka to the south. The total population in the AA is 150,864 based on the 1990 Census Data. The 2002 HUD adjusted median family income for the AA is \$75,400. There are 38,542 families in the AA, of which 7.3 percent are considered low-income, 9.2 percent are considered moderate-income, 13.8 percent are considered middle-income, and 69.7 percent are considered upper-income.

Based on the 2002 business demographic data, there were a total of 12,172 businesses in the AA. Of these, 8,814 (72.41 percent) had revenues less than \$1 million, 1,032 (8.48 percent) had revenues greater than \$1 million, and 2,326 (19.11 percent) did not report revenue information. Two percent of the businesses are located in the moderate-income geographies, 6 percent are located in the middle-income geographies, and 92 percent are located in the upper-income geographies.

The local housing demand is strong. The 1990 Census data shows that there are 50,193 housing units within the AA. Of these, 73.67 percent are owner-occupied units, 22.02 percent are rental-occupied units, and 4.31 percent are vacant housing units. The weighted average median housing value in the AA is \$280,866.

The local economy is considered good with a 2002 unadjusted seasonal unemployment rate of approximately 5.7 percent for Lake County and 7.3 percent for Cook County versus the State of Illinois unemployment rate of 6.5 percent. The major employers in the AA are Naval Station Great Lakes, Abbott Laboratories, and Lake Forest Hospital. The majority of businesses in the AA are small businesses. Approximately 77.78 percent of the businesses have less than 50 employees and 55.05 percent of the businesses have one to four employees.

Competition among financial institutions within the AA is strong. BNBTC's major competitors within its AA include Bank One representing 16.97 percent of the deposit market share, Northern Trust with 16.19 percent, Lake Forest Bank & Trust with 12.20 percent, and First Bank of Highland Park with 9.68 percent. BNBTC has 0.71 percent of the deposit market share.

During our examination, we conducted one community contact interview relating to this AA. We contacted a local businessperson. The contact indicated there are no unmet credit needs in the community. The contact indicated the performance of local financial institutions has been strong with banks proactively involved in the community and generous with time and money.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The bank's quarterly average loan-to-deposit ratio is reasonable given the bank's size, financial condition, and AA credit needs. BNBTC's quarterly average loan-to-deposit ratio for the time period of December 31, 2000 to December 31, 2002 was 55.01 percent. The most recent loan-to-deposit ratio (December 2002) was 98.74 percent. The quarterly average loan-to-deposit ratio for other similarly situated financial institutions located within the AA ranges from 55.01 percent to 104.78 percent. BNBTC's loan-to-deposit ratio ranked sixth of six institutions with assets in the range of \$98-447 million in the AA. BNBTC is a new bank that opened in a highly competitive environment in October 2000. BNBTC's net loan-to-deposit ratio has continued to rise since it opened in October of 2000.

The bank sells mortgage loans to the secondary market, which is not reflected in the bank's quarterly average loan-to-deposit ratio. The bank sold 68 loans totaling \$19.770 million during the evaluation period from October 2000 through December 2002. Mortgage sales to the secondary market in 2001 represented 32.64 percent of gross loans at December 31, 2001, and mortgage sales to the secondary market in 2002 represented 17.31 percent of gross loans at December 31, 2002.

Lending in Assessment Area

BNBTC's record of lending within its AA is considered reasonable. The majority of the bank's loans are made within its AA. We sampled 158 loans originated between October 2000 and December 2002. Sixty commercial loans and 98 residential loans were randomly sampled. The 98 residential loans included 38 mortgage loans that were sold to the secondary market. Table 2 details the bank's lending within its AA by number of loans sampled and dollar volume of loans sampled. Commercial lending ratios are low because BNBTC is a new bank, the communities the bank serves are more residential, and the bank has three full time lenders concentrating on the communities the bank serves. The bank has done much of its commercial lending outside its AA to customers who are a part of the residential communities the bank serves.

Table 2

Loans Originated in Assessment Area					
Loan Type	# In AA	\$ (000) in AA	Total #	Percent # in AA	Percent \$ in AA
Commercial*	24	\$ 4,212	60	40.00%	24.78%
Residential*	59	\$13,215	98	60.20%	65.52%
Total*	83	\$17,427	158	52.53%	46.89%

*Represents sample of loans selected that were originated from October 2000 through December 2002.

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

The overall rating for BNBTC's lending to borrowers of different incomes and businesses of

different sizes is reasonable. The bank's record of extending credit to individuals of different income levels reflects reasonable lending to low- and moderate-income borrowers within the AA.

The bank's record of lending to small businesses reflects a reasonable level of lending to businesses of different sizes.

BNBTC's primary loan types are commercial and residential. Both of these loan types constitute a significant volume of BNBTC's lending mix. Commercial loans comprise 71.34 percent of BNBTC's gross loan portfolio. The residential loan portfolio comprises 21.69 percent of gross loans.

Residential lending to borrowers of different income levels is reasonable. Table 3 reflects our sample of 98 residential mortgage loans originated between October 2000 and December 2002, of which 52 residential mortgage loans were located in the AA and had information available about the borrower's income level. The table illustrates that no loans (0) were made to low-income borrowers. This is significantly below the percent of low-income families in the AA (7.3 percent). However, we gave consideration to the poverty level (3.38 percent) and the high housing value (\$280,866) within the AA and the impact this has on the ability to afford a home. Lending to moderate-income borrowers (9.62 percent) exceeded the percentage of moderate-income families (9.20 percent) within the AA.

Table 3

Residential Mortgage Loans by Borrower Income					
Borrower Characteristics by Income	Number of Loans	Percent of # Total	\$ (000) of Loans	Percent of \$ Total	Percent of Families by Income
Low-Income	0	0.00%	\$ 0	0.00%	7.30%
Moderate-Income	5	9.62%	\$ 815	6.37%	9.20%
Middle-Income	6	11.54%	\$ 1,241	9.70%	13.80%
Upper-Income	41	78.85%	\$10,733	83.92%	69.70%
TOTAL*	52	100.00%	\$12,789	100.00%	100.00%

* Represents sample of loans selected that were originated from October 2000 through December 2002.

Commercial lending to business of different sizes is reasonable. Loans made to businesses with annual revenues of less than \$1 million (70.00 percent) was near to the percentage of businesses with annual revenues of less than \$1 million (72.41 percent) within the AA. Of the 20 loans in our sample, 14 loans totaling \$1.664 million were made to businesses with annual revenues of less than \$1 million. Table 4 details the commercial lending sampled within the bank's AA.

Table 4

Commercial Loan Originations by Business Size						
Revenue Ranges	Lending to Businesses of Different Sizes*				Businesses within AA	
	#	# Percent	\$ (000s)	\$ Percent	#	Percent
\$1 Million or Less	14	70.00	\$1,664	50.98%	8,814	72.41%
Greater than \$1 Million	6	30.00	\$1,600	49.02%	1,032	8.48%
Revenue not Reported	0	0.00	0	0.00%	2,326	19.11%

* Represents sample of loans selected that were originated from October 2000 through December 2002.

Geographic Distribution of Loans

The geographic distribution of the bank’s residential and commercial loans reflects a reasonable dispersion throughout the AA geographies. BNBTC’s AA is comprised of 32 geographies with no low-income geographies, two (6.25 percent) moderate-income geographies, four (12.5 percent) middle-income geographies, and 26 (81.25 percent) upper-income geographies.

Table 5 details the residential geographic distribution sampled within the bank’s AA. The lending performance in the two moderate-income geographies is below the percentage of owner-occupied housing units in these geographies. Competition is strong and opportunities are limited in these geographies. Only 16.18 percent of the housing units are owner-occupied. Naval Station Great Lakes and Abbott Laboratories comprise the majority of these two moderate-income geographies.

Table 5

Geographic Distribution of Residential Loans			
Census Tract Income Level	Percentage of Loans*		Percentage of Owner-Occupied Units Within Each Census Tract
	# of Loans	\$ of Loans	
Low	0.00	0.00	0.00%
Moderate	0.00	0.00	16.18%
Middle	3.39	2.46	55.67%
Upper	96.61	97.54	80.91%

* Represents sample of loans selected that were originated from October 2000 through December 2002.

Table 6 details the commercial geographic distribution sampled within the bank’s AA. The lending performance in the two moderate-income geographies is below the percentage of small businesses in these geographies. There are limited opportunities in these geographies. These geographies contain only 186 small businesses. Competition is strong with 325 lenders present in the bank’s AA. Six of these lenders are nationwide credit card banks and have 57.81 percent of the market share.

Table 6

Geographic Distribution of Commercial Loans			
Census Tract Income Level	Percentage of Loans*		Percentage of Small Businesses Within Each Census Tract
	# of Loans	\$ of Loans	
Low	0.00	0.00	0.00%
Moderate	0.00	0.00	68.63%
Middle	0.00	0.00	78.59%
Upper	100.00	100.00	72.14%

* Represents sample of loans selected that were originated from October 2000 through December 2002.

Responses to Complaints

BNBTC has not received any complaints about its performance in helping to meet the credit needs within its AA during this evaluation period.

Fair Lending Review

An analysis of commercial and residential loan files, recent public comments, and consumer

complaint information was performed according to the OCC's risk based fair lending approach. Based on the analysis of the information, the OCC decided that a comprehensive fair lending examination would not need to be conducted in connection with the CRA evaluation this year.