

## **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 operations 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 **Royal American Bank, Inverness, Illinois** prepared by the **Federal Reserve Bank of Chicago**, the institution's supervisory agency, as of **May 11, 1998**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 228.

**INSTITUTION'S RATING:** This institution is rated Satisfactory.

The bank generally promotes economic revitalization and growth, consistent with its size, financial capacity, location and assessment area's current economic conditions. The bank's efforts are accomplished primarily through the origination of small business loans and real estate loans. The bank's loan-to-deposit ratio continues to exceed that of its peer group and reflects the bank's efforts to meet the needs of the community. The bank's lending within its assessment area has improved since the previous examination and represents a more than reasonable distribution among census tracts, borrowers of different income levels and businesses of different sizes. There is no evidence of prohibited discriminatory lending practices, or policies intended to discourage individuals from applying for loans offered by the bank. In addition, no complaints were received by the bank regarding its CRA performance since the previous examination.

## **DESCRIPTION OF INSTITUTION**

Royal American Bank, with total assets of \$139 million as of March 31, 1998 is a subsidiary of Royal American Corporation, a one-bank holding company. In addition to the main office located in Inverness, Illinois, the bank operates two full-service branches in Bensenville and Bloomingdale, Illinois.

According to the March 31, 1998 Uniform Bank Performance Report, the bank's largest portfolio holdings are nonfarm nonresidential real estate, and commercial and industrial loans, which comprise 41.78% and 35.42%, respectively of the bank's loan mix. The bank also

offers consumer credit products to small business clients and their employees. The credit products offered by the bank are consistent with its mission statement and the credit needs in the assessment area. There are no apparent factors relating to the bank's financial condition and size, or local economic conditions that would prevent the bank from meeting community credit needs.

The bank's primary competitors include: American National Bank, Bensenville; First Chicago, Mount Prospect; Harris Bank, Barrington; Northern Trust Bank, Schaumburg; and First Chicago Bank, Elk Grove.

### **DESCRIPTION OF THE BANK'S ASSESSMENT AREA**

The bank is located in Inverness, Illinois, a suburban residential community located in the northwestern corner of Cook County, approximately 30 miles northwest of Chicago, Illinois. The bank's assessment area is bounded by Illinois Route 60, Sylvan Drive and Roberts Road to the north; county lines separating Lake/McHenry, Cook/Kane, and DuPage/Kane Counties to the west; Illinois Route 64 to the south; and the Des Plaines River to the east. The assessment area encompasses portions of Cook, Lake and DuPage Counties, also includes all or portions of the following municipalities: Arlington Heights, Barrington, South Barrington, Elk Grove Village, Hoffman Estates, Inverness, Palatine, Rolling Meadows, Schaumburg, Streamwood, Elmhurst, Glendale Heights, Carol Stream, Bloomingdale, Roselle, Hanover Park, Bartlett, Elgin, Barrington Hills, North Barrington, Lake Barrington, Tower Lakes, Williams Park, Hawthorne Woods, Lake Zurich, Kildeer, Long Grove, Indian Creek, Vernon Hills, Lincolnshire, Riverwoods, Wheeling, Prospect Heights, and Mount Prospect.

The assessment area is located within the Chicago Metropolitan Statistical Area (MSA), and includes 88 upper-income, 72 middle-income, 2 moderate-income and 1 low-income census tracts. The population of the bank's assessment area (according to the 1990 U.S., census data) is 946,881. Of the bank's total population, 15 are in low-income areas and 7,736 or 0.82% are in moderate-income areas, with the remaining 939,130 or 99.18% in middle or upper income areas.

There are a total of 356,156 housing units in the market, with 252,838 or 70.99% owner-occupied units and 88,570 or 24.87% rental-units. There are no housing units located in low-income areas, and 1,776 or 0.50% of owner-occupied units are in moderate-income areas. The median age of the housing stock in the assessment area is 19 years, while the median age of the housing stock in the moderate-income areas is 35 years.

Community representatives stated that the community has no space to expand geographically; therefore, emphasis has been placed on rehabbing housing stock. The contact also stated that the major credit need in Inverness is large construction loans because of the high cost of building/rebuilding the average home. The bank does actively participate in construction lending, and the assessment area has experienced some growth through the redevelopment of existing housing and businesses. Since there are very few low-and moderate-income areas within the community, government subsidized loan programs are limited and offered only on a small scale.

According to the Illinois Department of Employment Securities, the Chicago MSA's employment and economic growth/development is primarily reliant on manufacturing, retail trades and the service industry. According to the same source, as of March 1998, the unemployment rate for the State of Illinois was 4.8%, and Cook, Lake and DuPage Counties were 4.7%, 4.5% and 2.9%, respectively. Some of the most significant employers in the bank's community include: Motorola, Inc.- Schaumburg (consumer electronics), Ameritech - Hoffman Estates (telephone services), Sears Merchandise Group - Hoffman Estates (retail sales) and Siemens Electronics - Hoffman Estates (electromedical equipment).

#### **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:**

Management has developed adequate policies, procedures, and training programs to help prevent illegal discrimination in lending activities. The examination revealed that the institution is in compliance with the substantive provisions of anti-discrimination laws and regulations, including the Equal Credit Opportunity Act, Fair Housing Act and the Home Mortgage Disclosure Act. No illegal discriminatory lending patterns, or practices intended to discourage loan applications were detected during the examination.

#### **LOAN-TO-DEPOSIT RATIO**

A review of the bank's March 31, 1998 Consolidated Report of Condition revealed a loan-to-deposit ratio of 78.69%. This compares favorably with the bank's peer group loan-to-deposit ratio of 70.64%, as reported in the March 31, 1998 Uniform Bank Performance Report. The bank's ratio has increased slightly during the first three quarters subsequent to the previous examination due to increased lending activity, but has been decreasing since the first quarter of 1997. The bank's deposits also increased since the previous examination; however, lending increased at a slightly higher rate. Review of the bank's Consolidated Reports of Condition for the eight quarters since the previous examination revealed an average loan-to-deposit ratio of 84.83%, while peer group ratios remained fairly consistent at approximately 70%. The following chart shows the bank's quarterly loan-to-deposit ratios since the previous examination.

|        |        |        |        |        |        |        |        |
|--------|--------|--------|--------|--------|--------|--------|--------|
| 6/96   | 9/96   | 12/96  | 3/97   | 6/97   | 9/97   | 12/97  | 3/98   |
| 83.32% | 88.31% | 92.66% | 87.67% | 86.38% | 82.44% | 79.15% | 78.69% |

As shown in the preceding chart, the bank’s loan-to-deposit ratio has been declining since the first quarter of 1997. Although the ratio is currently on the decline, the bank’s Consolidated Reports of Condition revealed that gross loans increased by 71% since December 31, 1995. At that time, the bank had approximately \$57 million in loans, with the majority or \$32 million in real estate secured loans. As of March 31, 1998, the bank had approximately \$98 million in loans, with the majority or \$58 million in real estate secured loans and \$35 million in commercial loans.

The bank’s loan-to-deposit ratio compares favorably to its peer group, or all insured commercial banks having assets between \$100 million and \$300 million with two or less banking offices and located in a MSA. The bank also compares favorably with its local competitors. As of June 1997, the following local competitors, with similar asset sizes, had loan to deposit ratios as follows:

| Name of Bank               | Total Assets (000's) | Loan to Deposit Ratio |
|----------------------------|----------------------|-----------------------|
| <b>Royal American Bank</b> | <b>\$114,017</b>     | <b>86.38%</b>         |
| Bloomingtondale Bk & T     | \$137,397            | 80.16%                |
| Austin Bank of Chicago     | \$102,524            | 77.78%                |
| Oak Brook Bank             | \$799,621            | 59.10%                |

As illustrated in the preceding chart, competitors’ ratios are less than the bank’s. It should be noted that these competitors have greater lending potential, as they have more branch offices. Competitors previously identified in the description of the institution that are branches of banks with much greater asset sizes were not deemed comparable to the bank.

The bank’s loan-to-deposit ratio is more than reasonable, given the bank’s size, financial condition and credit needs of the assessment area. In addition, the bank compares favorably with its peers and local financial institutions.

**LENDING IN ASSESSMENT AREA**

The bank reviews its lending activity within its assessment area periodically, using several loan categories. Those loans include small business, home equity, automobile, other secured consumer (primarily real estate), other unsecured and other miscellaneous. For the 1996 calendar year, the bank determined that 70% of total loan volume and 66% of loan dollars originated within the assessment area. The bank's analysis revealed that of 441 loans, 308 originated within the assessment area. Additionally, \$52 million of \$79 million were granted to applicants within the assessment area. For the 1997 calendar year, the bank calculated its origination activity at about 70% in total volume and 72% in dollars, with 221 of the total 316 loans originated within the assessment area and \$53 million of \$73 million granted to applicants from within the assessment area.

The bank also prepared a loan summary for the first four months in 1998. The summary report revealed 70% of the bank's loans and 74% of the lending dollars were originated within the assessment area. The loan sample was analyzed relative to its distribution within the assessment area. The following chart shows the results of the loan sample analysis.

| <b>LOAN TYPE</b>           | <b>TOTAL SAMPLE</b> | <b>WITHIN THE LOCAL ASSESSMENT AREA</b> | <b>PERCENT OF TOTAL %</b> |
|----------------------------|---------------------|---|---------------------------|
| Commercial                 | 18                  | 12                                      | 66.67                     |
| Consumer Installment       | 10                  | 8                                       | 80.00                     |
| Single Payment             | 9                   | 5                                       | 55.56                     |
| Real Estate Mortgage (1-4) | 10                  | 5                                       | 50.00                     |
| Overdraft Protection       | 6                   | 4                                       | 66.67                     |
| Home Equity Lines          | 10                  | 8                                       | 80.00                     |
| <b>Total</b>               | <b>63</b>           | <b>42</b>                               | <b>66.67</b>              |

The chart reveals that a substantial majority of the sampled loan originations are within the assessment area. While the real estate mortgage originations within the assessment area are low, it should be noted that a large portion of the bank's real estate lending activity is handled by mortgage brokers who accept applications from within the community for mortgage loans that are not offered by the bank. These applications are packaged and sent to other lenders. However, overall lending activity within the assessment area improved since the previous examination with approximately 67% of lending activity within the assessment area, compared to 50% at the previous examination.

## **LENDING TO BORROWERS OF DIFFERENT INCOMES AND TO BUSINESSES OF DIFFERENT SIZES**

The bank reviewed its consumer lending activity within its assessment area during 1997, based on the income level of borrowers. The bank's analysis included 150 consumer loan originations; however, only 74 of the 150 were funded by the bank. The remaining 76 were referred to other lenders. Of the 74 originations by the bank, 2 were to low-income and 10 were to moderate-income borrowers.

Income information was available for 28 sampled loans that originated within the assessment area. None of these loans were made to low- or moderate-income borrowers. These findings are consistent with the bank's analysis of its lending activity, which indicate that the majority of loans are made to middle and upper-income borrowers. Management attributed the low level of lending to low- and moderate-income borrowers to the fact that the bank is primarily a commercial lender that focuses on small businesses, and families and employees affiliated with these businesses.

During 1997, the bank originated 200 commercial loans. Of that total 147 or 74% were within the bank's assessment area. These commercial loans totaled approximately \$46 million, for possible average loans of \$310,811. The bank conducted an analysis of small business loans, which included all commercial loans granted within the assessment area during the 1997 calendar year. This data revealed that 47 or 32% were to businesses that had annual revenues of less than \$1 million. The analysis also revealed that 98 or 67% of the loans were granted in amounts of \$250,000 or less.

Although revenue figures were not available for the 18 sampled commercial loans, examination findings are consistent with the bank's findings. Of the 18 commercial loans reviewed, 12 or 67% were inside the assessment area. Of these 12, the loan amounts ranged from \$8,400 to \$500,000.

Based on the bank's loan analysis and the examination sample of recently originated loans, the distribution of loans reflect a reasonable penetration among individuals of different income levels and businesses of different sizes.

## **GEOGRAPHIC DISTRIBUTION OF LOANS**

The bank's analysis of the distribution of its activity within its assessment area for the 1997 calendar year was reviewed. It was noted that the bank has 163 census tracts, with one or approximately 1% considered low, two or 1% considered moderate, 72 or 44% considered middle and 88 or 55% considered upper income. Of the 297 loans originated within the assessment area, nine or 3% were in moderate, 122 or 41% in middle and 166 or 56% in upper income census tracts. Additionally, the dollar volumes were \$1 million or 2%, \$30 million or 45% and \$35 million or 53% in moderate- middle- and upper-income tracts, respectively. This examination findings indicate that loans are well distributed throughout the assessment area.

While reviewing the bank's analysis, special attention was directed towards the bank's main product, commercial loans. Of those small business/commercial loans granted within the assessment area, 6% were in moderate, 54% in middle and 39% in upper income census tracts. The dollar volume compares similarly with 3%, 57% and 41% in moderate-, middle- and upper-income tracts, respectively.

The examination loan sample included 42 commercial loans from within the bank's assessment area. Of the 42 loans, 2 or were in moderate, 14 in middle and 26 were in upper-income census tracts. This is consistent with the bank's analysis, and with the general make-up of the community. The distribution of these loans reveal that the bank's lending throughout its assessment area is more than adequate.

## **RESPONSE TO COMPLAINTS**

No complaints were received by the institution regarding its CRA performance since the previous examination.