

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** prepared by the **Federal Reserve Bank of Chicago**, the institution's supervisory agency, as of **May 30, 1996**. 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** .

Royal American 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, which averaged 76.50% since the last examination, supports these efforts. Approximately 55% of all loans originated since the previous examination were made within the bank's assessment area and are reasonably distributed geographically and among applicants of different income levels. There is no evidence of discriminatory lending practices or policies intended to discourage individuals from applying for loans offered by the bank. No complaints were received by the bank regarding its CRA performance since the previous examination.

The following table indicates the performance level of **Royal American Bank** with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	ROYAL AMERICAN BANK PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does Not Meet Standards for Satisfactory Performance
Loan-to-Deposit Ratio	X		
Lending in Assessment Area		X	
Lending to Borrowers of Different Incomes and to Businesses of Different Sizes		X	
Geographic Distribution of Loans		X	
Response to Complaints	No complaints were received since the previous examination		

DESCRIPTION OF INSTITUTION

Royal American Bank, with total assets of \$82,691,000 as of March 31, 1996 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 a full-service branch in Bensenville, Illinois.

As noted in the mission statement, the bank places emphasis on lending to closely held businesses. According to the December 31, 1995 Uniform Bank Performance Report, the bank's largest portfolio holdings are non-farm non-residential real estate, and commercial and industrial loans, comprising 34.12% and 29.19%, respectively of the bank's loan mix. The bank also provides consumer credit products to the families of existing small business clients as well as the employees of its small business clients. 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, Arlington Heights and Bensenville; First Chicago, Mount Prospect; Harris Bank, Barrington; Northern Trust Bank-O'Hare, Schaumberg; and NBD Bank, Elk Grove.

DESCRIPTION OF THE BANK'S ASSESSMENT AREA

Inverness, Illinois, is a suburban residential community located in the Northwestern corner of Cook County, approximately 30 miles northwest of Chicago, Illinois. The bank's assessment area, effective February 20, 1996, 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 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 bank has revised its assessment area to include all geographies where it has offices. The bank's assessment area represented a significant geographic expansion from the 1995 assessment areas.

The assessment area is located within the Chicago Metropolitan Statistical Area (MSA) and includes 163 census tracts comprising the bank's 1996 assessment area, including one low- and two moderate-income census tracts. The population of the bank's assessment area (according to the 1990 U.S. census data) is 946,881. The racial and ethnic makeup of the population within the assessment area is as follows: Whites 824,504 or 87.08%; Asians 46,612 or 4.92%; Blacks 14,024 or 1.48%; individuals of Hispanic descent 60,187 or 6.36%; and all other minorities 1,554 or 0.16%. According to community representatives, the area has seen a significant increase in minority populations in the past several years, particularly among the Hispanic community. Of the bank's total population, 15 or 0.002% is concentrated in low-income areas and 7,736 or 0.82% is concentrated in moderate-income areas, with the remaining 939,130 or 99.18% concentrated 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. Of the total number of owner-occupied units, none are in low-income areas and 1,776 or 0.50% 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 (there are no housing units located in low-income areas).

Community representatives described the assessment area as being economically stable with low turnover and high occupancy rates in the business and industrial parks. There is no industrial development within the borders of Inverness. Industrial development is regionally centered in Elk Grove. According to local government officials, Elk Grove Village has approximately 3,500 firms employing 70,000 individuals. Major employers located within the assessment area include:

<u>Name of Employer</u>	<u>Product-Service/Number of Employees</u>
Motorola, Inc.	Consumer Electronics/4,000
Sears Merchandise Group	Retail Sales/5,000
Ameritech	Telephone Services/3,500
Northrup Grumman Corp.	Electronic Components/2,600
Alexian Brothers Medical Center	Medical Services/2,200
Schaumburg School District	Education/1,500
Hoffman Estates Medical Center	Medical Services/1,225
Zurich American Insurance	Insurance/1,200
The Signature Group	Insurance/1,200
Advantis	Insurance/1,100
Santa Fe	Railroad/1,000
Sanfilippo & Son, Inc.	Nuts & Seeds/1,000
Siemens Medical Systems, Inc.	Electromedical Equipment/900

According to the Illinois Department of Employment Securities, as of March 1996, the unemployment rate for the State of Illinois was 5.1%, the Chicago PMSA was 5.1%, and Cook County was 5.4%.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Management has developed adequate policies, procedures, and training programs supporting nondiscrimination 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 discriminatory lending patterns or practices intended to discourage loan applications were detected during the examination.

Loan-to-Deposit Ratio Analysis

An analysis of the bank's consolidated reports of condition since the previous examination revealed an average loan-to-deposit ratio of 76.50%. This ratio exceeds expectations for satisfactory performance, given the bank's size, financial condition, and assessment area credit needs. According to the Uniform Bank Performance Report, the bank's level of lending exceeds that of its peers which totaled 65.58%.

Lending in Assessment Area

A review of the bank's Home Mortgage Disclosure Act (HMDA) data revealed that during 1995, the bank originated 45% (9 of 20) of its HMDA reportable loans within its delineated communities. The examiners also reviewed the bank's internal analysis of its lending activity (including non-HMDA reportable loans) originated by the bank during 1995. This analysis indicated that the bank originated 50% (152 of 304) of all loans during 1995 within its delineated communities. The same analysis indicated that during the first quarter of 1996, the bank originated 69.61% (71 of 102) of all loans within its assessment area. Since the previous

examination the bank originated 54.93% (223 of 406) of all loans within its delineated communities/assessment area.

The examination loan sample was reviewed regarding lending activity within the assessment area. The loan sample revealed the following:

Loan Type	Total Number of Loans Sampled	Number within Assessment Area	Percent of Total
Consumer (Direct)	10	5	50.00
Single Payment	10	6	60.00
Overdraft Protection	3	3	100.00
Home Equity Lines	8	4	50.00
Real Estate	10	4	40.00
Commercial	15	12	80.00
Total Originations	56	34	60.71

As the preceding chart illustrates, 60.71% of the approved loans were within the bank's assessment area. The bank's increased lending activity within its assessment area in 1996 appears to be attributable to the expansion in the assessment area. The new assessment area more fully encompasses the geographic distribution of the bank's lending activity and supports the bank's satisfactory performance.

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

A review of the examination loan sample, by loan type, revealed the following income level distribution:

Loan Type	Low-Income \$000's/Number	Moderate-Income \$000's/Number	Middle-Income \$000's/Number	Upper-Income \$000's/Number
Consumer Direct	\$0/0	\$8,000/2	\$19,837/2	\$58,450/5
Single Payment	\$0/0	\$0/0	\$0/0	\$80,276/5
Overdraft Protection	Information Not Available			
HELIC	\$0/0	\$0/0	\$0/0	\$851,000/8
Real Estate	\$0/0	\$0/0	\$0/0	\$1,739,150/10
Total Originations	\$0/0	\$8,000/2	\$19,837/2	\$2,728,876/28

As the preceding chart indicates, the bank made no loans to low-income individuals, and had only limited activity to moderate-income individuals. The majority of the bank's lending was to upper-income individuals. Discussions with management indicated that the bank focuses on closely held businesses, and families and employees affiliated with these businesses. Since the last examination, the bank has originated eight FHA loans for \$765,000. The bank utilizes both of these programs to help meet the credit needs of low- and moderate-income individuals and businesses.

A review of the bank's June 1995 Consolidated Reports of Condition showed the following number of loans to small businesses and small farms:

Type of Loan	Number of Loans	Amount Currently Outstanding
Loans Secured by nonfarm nonresidential properties		
a. With original amounts of \$100,000 or less	4	\$199,000
b. With original amounts of more than \$100,000 through \$250,000	11	\$2,013,000
c. With original amounts of more than \$250,000 through \$1,000,000	22	\$8,088,000
Commercial and Industrial Loans		
a. With original amounts of \$100,000 or less	99	\$3,792,000
b. With original amounts of more than \$100,000 through \$250,000	20	\$3,121,000
c. With original amounts of more than \$250,000 through \$1,000,000	14	\$4,821,000
Loans Secured by Farmland		
a. With original amounts of \$100,000 or less	0	\$0
b. With original amounts of more than \$100,000 through \$250,000	0	\$0
c. With original amounts of more than \$250,000 through \$1,000,000	0	\$0
Loans to Finance Agricultural Production and other Loans to Farmers		
a. With original amounts of \$100,000 or less	0	\$0
b. With original amounts of more than \$100,000 through \$250,000	0	\$0
c. With original amounts of more than \$250,000 through \$1,000,000	0	\$0

As the preceding chart illustrates, the majority of the bank's loans secured by nonfarm nonresidential properties are large (original amounts exceed \$250,000) and the majority of the bank's commercial and industrial loans are smaller (original amounts less than \$100,000). Since January 1, 1996, the bank has originated 39 commercial loans, of which 13 were made to businesses with less than \$1 million in revenues. The bank has no agricultural loans to small farms, which is consistent with the credit needs in the assessment area. Additionally, since the previous examination, the bank originated nine loans through the Small Business Administration's Low-Doc program for \$1,827,292.

An analysis of the examination loan sample, FHA and SBA lending activities, and the June 1995 Consolidated Reports of Condition indicate that the bank's level of lending to individuals of different income levels does not meet the requirements for satisfactory performance; however, lending to businesses of different sizes is more than satisfactory, thus the overall satisfactory rating for this criterion.

Geographic Distribution of Credit Within the Assessment Area

A review of the bank's 1995 HMDA data revealed that the bank did not originate any loans in low- or moderate-income census tracts. As discussed under the Assessment Area Profile, there are no owner-occupied units in low-income areas, and 1,776 or 0.50% are in moderate-income areas. In addition, the bank refers most mortgage loans to mortgage investors and these originations are not reflected on the bank's HMDA data.

Response to Substantiated Complaints

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