

## **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 **Lake Forest Bank & Trust Company, Lake Forest, Illinois** prepared by the **Federal Reserve Bank of Chicago**, the institution's supervisory agency, as of **December 23, 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**.

Lake Forest Bank & Trust Company promotes economic revitalization and growth consistent with its size, financial capacity, location, and the current economic conditions of its assessment area. The bank provides this community support through the origination of real estate, small business, and consumer loans. The extent of the bank's lending activities is evidenced by the growth in loan volume and increases in the bank's loan-to-deposit ratio. The majority of the bank's loans are made within the assessment area. Loans to small businesses, as well as consumers of all income levels are prevalent. The examination revealed no patterns or practices intended to discriminate or discourage loan applications from any member of a protected class. There were no CRA-related complaints received by the bank since the previous examination.

The following table indicates the performance level of **Lake Forest Bank & Trust Company, Lake Forest, Illinois** with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	LAKE FOREST BANK & TRUST COMPANY 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	There are no low- or moderate-income geographies in the assessment area.		
Response to Complaints	No CRA-related complaints have been received since the previous examination.		

**DESCRIPTION OF INSTITUTION**

Lake Forest Bank & Trust Company, with total assets of \$241.3 million as of September 30, 1996, is a subsidiary of Lake Forest Bancorp, Inc., Lake Forest, Illinois, a one-bank holding company with total assets of \$216.8 million as of March 31, 1996. The bank's main office is located in downtown Lake Forest. The bank operates a limited service drive-up facility, approximately one block from the main office. The bank also has two full-service branches. One branch is located in the western portion of Lake Forest and the second is in downtown Lake Bluff. Credit products and services are available at the main office and at each full-service branch office.

Competition in the assessment area is provided by Biltmore Investors Bank, Lake Forest; a branch of The Northern Trust Company, Chicago; a branch of First National Bank of Chicago; a branch of Harris Trust and Savings Bank, Chicago; a branch of First Midwest Bank NA, Moline; and a branch of Avondale Federal Savings Bank, Chicago.

The bank offers mortgage, consumer, and commercial loan products. Review of the bank's loan portfolio as of September 30, 1996 showed that residential mortgage loans represented 26% of the bank's outstanding loans. By comparison, home equity and consumer loans each represented 16% of the portfolio, while commercial operating and real estate secured loans represented 38% of the portfolio. There are no factors relative to the bank's financial condition, size, or local economic conditions which prevent the bank from meeting community credit needs.

**DESCRIPTION OF LAKE FOREST BANK & TRUST COMPANY'S ASSESSMENT AREA**

The bank's offices are located in Lake County, in northeast Illinois along Lake Michigan. The City of Lake Forest, where the bank's main office is located, is approximately 25 miles north of downtown Chicago. The bank has defined its assessment area as six contiguous census tracts: # 8632.02, # 8633.00, # 8634.00, # 8635.00, # 8646.00, and # 8650.00. This area encompasses most of the Cities of Lake Forest and Lake Bluff.

Based on 1990 U.S. Census Bureau data, all six of the census tracts in the assessment area are classified as upper-income and nonminority areas. The median family income of the assessment area is \$102,020, which is significantly higher than the Chicago MSA median family income of \$42,758. The total population of the assessment area is 24,646; the populations of Lake Forest and Lake Bluff are 17,836 and 5,513, respectively. The assessment area's population is 95.6% White, 0.8% Black, 2.2% Asian, 1.2% Hispanic, 0.1% American Indian and 0.1% other.

The median housing value in the assessment area is \$393,795. The median age of the housing stock in the assessment area is 30 years with 24.3% of all area housing built prior to

1950. By comparison, the median housing value for the Chicago MSA is \$108,960 while the

median housing age is 44 years with 36.2% of all housing built prior to 1950. Median monthly rent for the assessment area is \$723, compared to \$492 for the MSA.

The assessment area is primarily an upper-income bedroom community with many residents commuting to Chicago or surrounding suburbs for employment. The largest employer in Lake Forest is Moore Business Forms & Systems employing 600 people. Two of the largest employers in Lake County are Abbott and Baxter Laboratories, which are located in Waukegan and North Chicago respectively.

The State of Illinois Department of Employment Security indicated that the unemployment rate for nonagricultural employment in the State of Illinois was 4.9% in September 1996, compared to 4.8% in September 1995. The unemployment rates for the Chicago MSA were 4.8% in 1996 and 1995. By comparison, the unemployment rates for Lake County were 3.5% in 1996, and 3.3% in 1995.

**CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:**

The bank was examined for compliance with fair lending laws and regulations. No evidence of prohibited discriminatory credit practices was detected. The bank is in compliance with the substantive provisions of antidiscrimination laws and regulations, including the Equal Credit Opportunity and Fair Housing Acts.

**Loan-To-Deposit Ratio Analysis**

The bank's September 30, 1996 Consolidated Report of Condition revealed a net loan-to-deposit ratio of 69.03%. Review of the Consolidated Reports of Condition from June 30, 1995 through September 30, 1996 revealed that the bank had a six-quarter, average net loan-to-deposit ratio of 62.21%. During this period, net loans increased by \$63.9 million, or 69.90%, from \$91.4 million to \$155.3 million, while deposits increased by \$57.3 million, or 34.15%, from \$167.7 million to \$225.0 million.

The September 30, 1996 Uniform Bank Performance Report (UBPR), revealed that the bank's peer group net loan-to-deposit ratio was 70.47%, compared to the bank's ratio of 69.03%. This level of lending ranks the bank in the 45 percentile of its peer group. Analysis of the UBPR data from June 30, 1995 through September 30, 1996 revealed a peer group six-quarter, average net loan-to-deposit ratio of 69.16% compared to the bank's average of 62.21%. The level of lending during this six-quarter period places the bank's average percentile ranking at 32% of peer group. The historical loan-to-deposit ratios for the bank and peer group are illustrated in the chart below.

<b>LOAN-TO-DEPOSIT RATIO HISTORY</b>			
<b>RATIO DATE</b>	<b>BANK RATIO</b>	<b>PEER RATIO</b>	<b>PERCENTILE</b>

LOAN-TO-DEPOSIT RATIO HISTORY			
09/30/96	69.03%	70.47%	45
06/30/96	68.01%	69.57%	44
03/31/96	60.02%	68.35%	27
12/31/95	60.53%	68.17%	29
09/30/95	61.16%	68.90%	29
06/30/95	54.51%	69.52%	16
6 QUARTER AVERAGE	62.21%	69.16%	32

The bank’s loan-to-deposit ratio is considered reasonable given the bank’s capacity to lend, and the demographic data, economic conditions, and identified credit needs of the assessment area. As a result, the bank’s performance under this criterion meets the standards for satisfactory performance.

**Lending in Assessment Area**

A sample of real estate, home equity, installment, and commercial loans for the six-month period from June 30, 1996 through November 30, 1996 was reviewed to determine the bank’s level of lending within the assessment area. The results of this review are displayed in the following chart.

LENDING IN ASSESSMENT AREA						
LOAN TYPE	TOTAL LOANS SAMPLED		LOANS MADE WITHIN THE ASSESSMENT AREA		% OF TOTAL LOANS WITHIN THE ASSESSMENT AREA	
	#	\$	#	\$	#	\$
Real Estate	82	17,083,300	51	12,539,500	62.2	73.4
Home Equity	92	7,265,918	69	5,892,500	75.0	81.1
Installment	63	814,476	33	354,029	52.4	43.5
Commercial	70	23,481,034	39	13,398,273	55.7	57.1
TOTAL	307	48,644,728	192	32,184,302	62.5	66.2

As the preceding chart illustrates, 62.5% of the total number of loans and 66.2% of the total dollar amount of loans were made within the assessment area. The lower level of installment loans within the assessment area reflects the fact that many of those borrowers are young adults who grew up in the community but currently reside outside of the assessment area. The lower level of commercial loans within the assessment area reflects the number of business owners who reside in the community but whose businesses are located outside the assessment area. The majority of loans, were made within the assessment area, indicating that the bank’s performance under this criterion meets the standards for satisfactory performance.

**Lending Analysis Based Upon Borrower Income and Size of Business**

A sample of real estate, home equity, and installment loans for the six-month examination loan

sample period (from June 30, 1996 through November 30, 1996) was reviewed to determine the bank’s level of lending to consumers of different income levels. A three-year trend analysis of the bank’s commercial loan portfolio was reviewed to determine the level of lending to small businesses.

Consumer Loans

Consumer real estate, home equity, and installment loans originated during the sample period were reviewed to determine how the borrowers’ income compares to the MSA median family income. The following chart illustrates the number and percentage of loans to low-, moderate-, middle-, or upper-income borrowers:

LENDING BASED ON BORROWER INCOME								
LOAN TYPE	LOW-INCOME		MODERATE-INCOME		MIDDLE-INCOME		UPPER-INCOME	
	#	%	#	%	#	%	#	%
Real Estate	0	n/a	1	2.1	5	10.4	42	87.5
Home Equity	2	3.0	1	1.5	3	4.5	61	91.0
Installment	9	30.0	2	6.7	4	13.3	15	50.0
TOTAL	11	7.6	4	2.7	12	8.3	118	81.4
% Population		4.2		4.9		9.2		81.7

The preceding chart shows that real estate and home equity loans were made to upper-income applicants at rates higher than their percentage of the assessment area population. This higher percentage of upper-income applicants for real estate-related loans reflects the high cost of homes in the assessment area. The preceding chart also shows that there is a wider distribution of applicant income for installment loans, with a significant number of these loans made to lower-income applicants. Combined, the bank’s lending to consumers of different income levels approximates the percentage of low-, moderate-, middle-, and upper-income residents within the assessment area’s population.

Small Business

The bank’s June 30, 1994, 1995, and 1996 Consolidated Reports of Condition were reviewed and compared to determine the level of lending to small businesses. Instructions for the preparation of the Consolidated Report of Condition define small business loans as those with

original loan amounts of \$1 million or less. The following chart illustrates the bank’s small business lending:

<b>LENDING TO SMALL BUSINESSES</b>			
	JUNE 30, 1996	JUNE 30, 1995	JUNE 30, 1994
SMALL BUSINESS	\$ 26,002,000	\$ 20,616,000	\$ 10,892,000
COMMERCIAL	\$ 47,446,000	\$ 23,103,000	\$ 10,892,000
% SMALL BUS.	54.8%	89.2%	100.0%

The preceding chart shows that the majority of the bank’s outstanding commercial loans as of June 30, 1996 were to small businesses. It also shows that small business outstandings have increased by 139%, from \$10.8 million in June 1994 to \$26.0 million in June 1996. The number of small business loans increased by 130%, from 110 in June 1994 to 253 in June 1996.

Based on the preceding analyses, the bank’s level of lending to individuals of different incomes and small businesses is reasonable and meets the standards for satisfactory performance.

**Geographic Distribution of Loans**

The bank’s assessment area consists of six census tracts, all of which are considered upper-income areas. Because there are no designated low- or moderate-income geographies located within the bank’s assessment area in which lending activity could be measured, this criterion is not rated.

**Response to Complaints**

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