

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

The Libertyville Bank & Trust Company promotes economic revitalization and growth consistent with its size, financial capacity, location, and the assessment area's current economic conditions. The bank started operations in October 1995, and is still growing. This growth is evident from the analysis of the bank's loan-to-deposit ratio, which has increased continually since the bank's inception in October 1995. To facilitate growth, the bank has chosen to pursue loans from a variety of sources. A significant portion of the bank's portfolio consists of indirect automobile loans purchased from an affiliate. Although the purchased loans contribute to the bank's asset growth, these purchases were not considered in the assessment of how the bank is meeting the credit needs in the assessment area. Rather, this analysis focuses on the bank's origination of real estate, small business, and consumer loans with an emphasis on home equity loans. The majority of the bank's loans are originated within the assessment area, and are reasonably distributed among applicants of different income levels and to businesses of different sizes.

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

SMALL INSTITUTION ASSESSMENT CRITERIA	Libertyville 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	Analysis of geographic distribution of loans is not applicable as there are no low- or moderate-income geographies within the assessment area.		
Response to Complaints	No CRA-related complaints were received during the examination period.		

DESCRIPTION OF INSTITUTION

The Libertyville Bank & Trust Company is located at 507 N. Milwaukee Avenue in Libertyville, Illinois, and has been in operation since October 1995. The bank is a subsidiary of Libertyville Bancorp, Libertyville. The bank has two facilities, its main office and a drive-up facility which is located five blocks away at 201 E. Hurlburt Court; both facilities are equipped with automated teller machines (ATM). The bank's primary focus is retail and business customers. The bank faces no legal impediments or local economic factors which would limit its ability to meet the area's credit needs; however, its product mix emphasizes home equity lending which limits the bank's ability to meet the needs of nonhomeowners. Major competitors include branches of American National Bank and Trust Company of Chicago, Firststar Bank Illinois and First of America Bank - Illinois NA, Harris Bank Libertyville, and Hawthorn Bank - Mundelein.

DESCRIPTION OF BANK'S ASSESSMENT AREA

The assessment area is located within the Chicago Metropolitan Statistical Area (MSA). The assessment area consists of eight census tracts, and includes Libertyville and portions of Vernon Hills, Mundelein, Green Oaks and Mettawa. According to the 1990 U.S. Census, the assessment area contains 42,400 people, of which 37,874 or 89.3% are White and 2,546 or 6.0% are Hispanic. There are no other significant minority populations in the assessment area. The assessment area is generally affluent, with median family income of \$61,291 which is considerably higher than the MSA's median family income of \$42,758.

According to 1990 census data, 5.9% or 668 of the families in the assessment area are low-income and another 12.1% or 1,363 are moderate-income. Two of the census tracts (8639.02 and 8640.02) in the assessment area are middle-income areas, with Hispanics comprising 16.9% (1,662) of the population; the remaining six census tracts are high-income. The assessment area's median housing value is \$161,011, and median housing age is 19 years. The median housing value in Libertyville is \$188,500; and according to a 1995 Libertyville community profile, the average new home value is \$213,021. Approximately 78% of the housing is owner-occupied, and 22% of the housing is rental. The gross median rent is \$670. Although home values and rents are generally high, the high median family income in the assessment area compensates and results in a housing cost that is relatively affordable for local residents.

The bank is located in Lake County which has experienced significant population growth. According to County Business Patterns, Lake County has grown 7.6% from 1990-1994. Per capita personal income has increased by 20.0%, and the growing service businesses have increased employment by 18.6% over the same period.

Major employers in the assessment area are summarized in the chart below.

COMPANY NAME	CITY	NUMBER OF EMPLOYEES	PRODUCT
Motorola, Inc.	Libertyville	7,000	Cellular Telephones
Condell Medical Ctr.	Libertyville	1,350	Hospital
Medline Industries	Mundelein	900	Hospital Supplies
Decorel Inc.	Mundelein	700	Picture Frames
The Solar Corp.	Libertyville	500	Plastic Subassemblies
Commonwealth Ed.	Libertyville	500	Regional Headquarters
Temple Steel	Libertyville	500	Steel Laminator
Zebra Technologies	Vernon Hills	460	Bar Code Labels
Rexam Medical Pkg.	Mundelein	400	Flexible Packaging
Mac Lean-Fogg Co.	Mundelein	350	Fastener Hardware
Hollister, Inc.	Libertyville	300	Health Care Products

The wealth of manufacturing employment opportunities (both skilled and unskilled labor) is indicative of why the community has prospered over the past several years. Middle- and upper-income workers have ample employment opportunities which is reflected in the area's low unemployment rate. According to the Illinois Department of Employment Security the November 1996 unemployment rate is 3.4% for Lake County and 4.3% for the nine-county Chicagoland area. Community representatives indicate that credit needs are being met and that competition for loans and deposits is increasing; they also mentioned that banking facilities are convenient for area customers.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

The institution is in compliance with antidiscrimination laws and regulations, including the Equal Credit Opportunity Act, the Fair Housing Act, and Home Mortgage Disclosure Act. No violations of the substantive provisions of antidiscrimination laws were found during the examination.

LOAN-TO-DEPOSIT RATIO

The bank's loan-to-deposit ratio meets the requirements for satisfactory performance. Overall, total loans increased significantly since the bank opened for business in October 1995. The loan-to-deposit ratio has increased from 35.54% on December 31, 1995 to 83.93% on September 30, 1996; and the bank's loan-to-deposit ratio, as determined from the Consolidated Reports of Condition (Call Report), averaged 60.17% over the four quarters. This growth resulted from management's efforts to boost earnings through the purchase of indirect automobile loans from an affiliate. A considerable amount of these loans were made outside of the bank's assessment area,

and management indicated that these purchases of indirect loans are not part of the bank’s CRA strategy. When the purchased loans are excluded from the calculation of the loan-to-deposit ratio, the resulting ratio of 54% still meets the standards for satisfactory performance.

The bank’s loan-to-deposit ratio is generally consistent with peers. The September 30, 1996 Uniform Bank Performance Report (UBPR) indicates that peer’s loan-to-deposit ratio is 68.30%. The loan-to-deposit ratios for a sample of the bank’s competitors (according to the September 30, 1996 Call Report data) are as follows: Harris Bank of Libertyville (\$192.9 million in assets) with a 67.29% ratio, and Hawthorn Bank - Mundelein (\$39.5 million in assets) with a 72.03% ratio.

LENDING IN ASSESSMENT AREA

The bank conducts geographic distribution analyses of its loan portfolio by census tracts, using data from its trial balances (cumulative) monthly reports. Results of the March, May, July, August, October, and December 1996 analyses identified a declining trend in the number of loans within the assessment area from 73.11% in March of 1996 to 67.57% in December of 1996. This decrease is less than 10%; however, it may be higher because the bank’s analysis overstates the in/out ratio. This overstatement results from the fact that zip codes represent a larger area than the actual assessment area which is defined by using census tracts.

Review of home equity loans, the bank’s main retail product, made during a six-month period (May through November 1996), commercial loans, the preliminary 1996 Loan Application Register (LAR), and a sample of consumer overdraft and installment loans made during November of 1996 revealed the following geographic distribution:

LOAN TYPE	TOTAL SAMPLED	WITHIN THE ASSESSMENT AREA	PERCENT OF LOANS WITHIN THE ASSESSMENT AREA
COMMERCIAL	60	28	46.67%
HOME EQUITY	50	29	58.00%
1996 LAR DATA	36	20	55.56%
EXAMINATION SAMPLE	20	11	55.00%
TOTAL	166	88	53.01%

The examination analysis of loans within the assessment area revealed 10% less loans in the assessment area than the bank's analysis; this is attributed to the bank's use of zip codes to identify loan locations for its geographic distribution analysis. The loan sample revealed that 51.82% (57 of 110) of the home equity and commercial loans originated from May 1996 to November 1996 were made within the bank's assessment area.

The bank purchases a substantial volume of indirect loans from its affiliate. These purchases of indirect loans are not part of the bank's CRA strategy. Rather, these loans are being utilized as income generating assets to help the bank's growth.

The bank's home equity, real estate, consumer and commercial lending (excluding purchased indirect automobile lending) is generally conducted within the assessment area and community representatives indicated that the bank is meeting the needs of the community. Therefore, the bank's lending within the assessment area is deemed to meet the standards for satisfactory performance.

LOANS TO BORROWERS OF DIFFERENT INCOMES AND TO BUSINESSES OF DIFFERENT SIZES.

Home equity loans represent the majority of the bank's direct consumer lending; therefore, they were analyzed to determine the level of lending to borrowers with different incomes. The analysis was based on the MSA's median family income of \$42,758. Of the 29 home equity loans reviewed within the assessment area, one loan (\$34,800) was made to a moderate-income individual, two loans (\$40,900) were to middle-income individuals, and 26 loans (\$2,008,900) were to upper-income individuals. No loans were made to low-income individuals. Because the bank has chosen to provide home equity loans as a primary vehicle for meeting the area's credit needs, the bank has somewhat limited its pool of potential borrowers to those individuals who at least already own a home, and those who purchased homes with substantial down payments and/or who have established equity over several years. Therefore, they do not address the needs of low- and moderate-income people who may not own their own homes. Nevertheless, community representatives indicate that assessment area credit needs are well served, and that the home equity product is the credit product of choice.

The following chart includes data showing the distribution of loans to borrowers of different income levels for all consumer files analyzed where income information was available. The table includes the six-month home equity sample, the installment loans, the overdraft loans, and the real estate loans recorded in the 1996 LAR.

DISTRIBUTION OF FAMILIES, BY INCOME LEVEL, WITHIN THE ASSESSMENT AREA						
	Total Number of Families	Family Income Median \$	Low-Income Families #/%	Moderate-Income Families #/%	Middle-Income Families #/%	Upper-Income Families #/%
Assessment Area	11,236	61,291	668/5.9	1,363/12.1	2,219/19.7	6,986/62.2
MSA: 1600	1,864,224	42,758	370,037/19.8	324,237/17.4	447,320/24.0	722,630/38.8
DISTRIBUTION OF LOANS AMONG FAMILIES OF DIFFERENT INCOME LEVELS						
Exam Findings*			2/3.51	2/3.51	3/5.26	57/89.06

* includes the 64 consumer loans (excluding indirect automobile loans) that were within the assessment area.

The data indicates that two of the loans analyzed were to low-income applicants and two were to moderate-income applicants. This performance is generally consistent with the level of low-income and moderate-income families of 5.9% and 12.1%, respectively, within the assessment area. The emphasis on home equity loans is reflected in the low level of lending to low and moderate-income applicants. Three loans were made to middle-income applicants, and the remaining 57 or 89.06% were made to upper-income applicants. This performance compares with the level of middle-income and upper-income families of 19.7% and 62.2%, respectively within the assessment area. Two of the loans were overdraft lines to low-income borrowers for \$1000, and one overdraft line to middle-income borrowers for \$500. The sample of installment and overdraft protection loans are not emphasized, as the samples were too small to be statistically valid. The analysis of the bank's 1996 LAR revealed that the bank originated 20 mortgages within the assessment area, one of which was to a moderate-income borrower; the remaining 19 mortgage loans were to upper-income borrowers. The 20 loans totaled \$2,011,000, with an average of \$100,500. By using loan amount as a proxy, the mortgage loans appear to meet the area's needs.

The following analysis covers the secondary market loans that the bank refers to help meet area credit needs. The 3/1 and 5/1 adjustable rate mortgages, the 15- and 30-year term mortgages, and the 5- and 7-year balloon loans are the most popular real estate products offered by the bank. All such products are available with 5% down payments. Although income information was not readily available, a six-month (from January through June of 1996) sample of 31 loans the bank sold in the secondary market indicated that the average loan amount was \$162,211 which generally matches the housing costs within the market according to the 1990 census data.

Additionally, 60 commercial loans were reviewed for lending to businesses of different sizes. The sample revealed that 28 or 46.67% of the commercial loans were within the assessment area. Of those loans in the assessment area, 10 or 35.71% were to businesses with revenues of \$1 million or less. Thirteen commercial loans were in amounts of \$100,000 or less; eight were between \$100,001 and \$249,999; seven were between \$250,000 and \$1 million; and one was over \$1 million.

The bank's June 30, 1996 Call Report indicates the following:

LOAN SIZE	LOANS OUTSTANDING ON JUNE 1996 CALL REPORT	
	#	\$
NONFARM/NONRESIDENTIAL REAL ESTATE SECURED		
\$100,000 OR LESS	1	35
\$100,000-\$250,000	6	1,109
\$250,000-\$1MM	14	7,345
TOTALS	21	8,489
COMMERCIAL AND INDUSTRIAL LOANS		
\$100,000 OR LESS	47	1,241
\$100,000-\$250,000	12	1,234
\$250,000-\$1MM	7	2,327
TOTALS	66	4,802

Commercial and industrial loans in amounts of \$100,000 or less represent 71.21% (47 of 66) of the portfolio, and 55.17% of all commercial loans were for \$100,000 or less. Overall, the institution's performance meets the requirements for satisfactory performance. The bank's level of consumer and consumer real estate loans is approximately 10% less than the market levels in the moderate-income category; however, the consumer instalment and overdraft loan samples were too small to do a meaningful analysis. The bank's lending to small businesses is strong, with approximately 35% of its business lending to small businesses with revenues of \$1 million or less.

Geographic Distribution of Loans

Analysis of geographic distribution of loans is not applicable as there are no low- or moderate-income geographies in the assessment area.

Responses to Complaints

The bank has not received any CRA-related complaints.