

**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 **Midwest Bank of McHenry County** prepared by the **Federal Reserve Bank of Chicago**, the institution's supervisory agency, as of **October 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.

The bank generally promotes economic revitalization and growth, consistent with its size, financial capacity, location and current economic conditions. The bank efforts are primarily accomplished through the origination of small business, commercial, residential real estate and consumer loans. These efforts are evidenced through an adequate loan-to-deposit ratio, and the majority of its loans are originated within its assessment area. Management has developed adequate policies and procedures to avoid discriminatory or other illegal credit practices in its lending activities. There was no evidence of any discriminatory lending policies or practices intended to discourage loan applications. In addition, no complaints were received by the institution regarding its CRA performance.

The following table indicates the performance level of **Midwest Bank of McHenry County** with respect to each of the five performance criteria.

<b>SMALL INSTITUTION ASSESSMENT CRITERIA</b>	<b>MIDWEST BANK OF McHENRY COUNTY PERFORMANCE LEVELS</b>		
	<b>Exceeds Standards for Satisfactory Performance</b>	<b>Meets Standards for Satisfactory Performance</b>	<b>Does Not Meet Standards for Satisfactory Performance</b>
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	No low or moderate geographies are contained within the assessment area.		
Response to Complaints	No CRA-related complaints were received.		

**DESCRIPTION OF INSTITUTION**

The Midwest Bank of McHenry County, Union, Illinois, with total assets of \$117 million as of September 30, 1996, is a subsidiary First Midwest Corporation of Delaware, a multi-bank holding company located in Melrose Park, Illinois. The bank's main office is located in Union, with a branch in Algonquin, Illinois. Both of the bank's facilities include drive-up access, while the Algonquin branch has an automated teller machine (ATM). The bank offers deposit and loan services, for both retail and commercial customers. There are no factors limiting the bank's ability to meet the credit needs of its assessment area. The bank generally promotes economic revitalization and growth, consistent with its size, financial capacity, product offerings, and current economic condition. The bank does not face any legal constraints that would impede its CRA activities.

Midwest Bank of McHenry County's primary business focus is commercial lending, with commercial and industrial loans being the predominant loan product. According to the September 30, 1996, Consolidated Report of Condition, commercial and industrial loans (including commercial real estate), and residential real estate loans (including open-end), comprise 50% and 28.2%, respectively, of the bank's loan portfolio.

The bank's main competitors, include: Harris Bank Huntley; The First National Bank of Chicago, branch of Chicago; First National Bank of Marengo, Marengo, with a branch in Huntley; Amcore Bank NA, in Carpentersville, branch of Rockford; Home State Bank NA, Crystal Lake, and branch in Lake in the Hills; GreatBank, Algonquin; and Algonquin State Bank, Algonquin.

**DESCRIPTION OF BANK'S ASSESSMENT AREA**

The bank's main office is located in Union, Illinois, approximately 70 miles west of Chicago. The assessment area is defined as 16 census tracts, located in McHenry County, in the Chicago Metropolitan Statistical Area (MSA). The assessment area contains, wholly or in part, the municipalities of Union, Marengo, Huntley, Lakewood, Crystal Lake, Lake in the Hills, Cary, Cary Grove, Fox River Grove, Algonquin, and Carpentersville.

According to the 1990 census data, the population of the assessment area is 107,406. Minorities comprise 7.8% of the population. The adjusted median family income for the assessment area is \$49,345, while the corresponding median family income for the MSA and the State of Illinois are \$42,758 and \$38,664, respectively. The total number of families in the assessment area is 29,286, which consists of 3,019 (10.3%) low income families and 4,360 (14.9%) moderate income families.

The 1990 census data indicates that the housing stock in the assessment area consists of 37,042 housing units, of which, 28,963 or 78.2% are owner occupied and 6,661 or 18.0% are rental units. The median housing value and age are \$110,864 and 35 years, while the median gross monthly rent is \$567.

The McHenry County employment, and economic growth and development, based on the U.S. Department of Labor statistics, is primarily reliant on manufacturing, retail trades and the service industry. The total established employment is 60,630, of which manufacturing employment accounts for 35.4%, the service industry accounts for 21.6%, and retail trade accounts for 20.5% of the established employment. According to the Illinois Department of Labor, the August 1996 unemployment rates for McHenry County and the State of Illinois were 3.6% and 5.3%, while the July 1995 unemployment rates were 3.6% and 5.2%, respectively.

Community representative interviews indicate that McHenry County is growing very rapidly. New housing starts is the primary focus of the growth. Most of the people moving into the area are younger families with children, looking to get a larger home at a reasonable price. The contacts indicated that the financial institutions in the area are meeting the credit needs of the community.

The bank's assessment area meets the requirement of the regulation and consists of one or more contiguous political subdivisions, contains all geographies where it has an office, and consists of only whole census tracts. Additionally, the assessment area does not reflect illegal discrimination or arbitrarily exclude any low- or moderate-income areas.

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

The institution is in compliance with the substantive provisions of anti-discrimination laws and regulations, including the Equal Credit Opportunity Act and the Fair Housing Act.

#### **Loan-to-deposit Ratio**

An analysis of the bank's Consolidated Report of Condition over the past eight quarters, beginning December 31, 1994, revealed an average loan-to-deposit ratio of 47.82%. This is considered adequate, given bank's size, financial condition, and assessment area's credit needs. According to the Uniform Bank Performance Report (UBPR) dated June 30, 1996, the bank's average loan-to-deposit (LTD) ratio was 17.1% below the peer group's loan-to-deposit ratio. A contributing factor to this difference is that the bank opened a branch in Algonquin in August of 1994, and the deposit growth has out paced the loan growth. Using information from the September 30, 1994 and September 30, 1996 call reports, loans have grown from \$20.3 million to \$54.6 million (a 168.7% increase) and deposits have grown from \$35 million to \$105.5 million (a 201% increase). The bank's loan-to-deposit ratio meets the standards for satisfactory performance.

#### **Lending in Assessment Area**

The examination loan sample was reviewed regarding lending activity within the assessment area. The following table summarizes the geographic distribution of the loan sample:

<b>LOAN TYPE</b>	<b>TOTAL SAMPLED</b>	<b>WITHIN THE ASSESSMENT AREA</b>	<b>PERCENT OF TOTAL</b>
Real Estate Mortgage	10	7	70
Home Equity Lines of Credit	10	6	60
Installment	20	11	55
Single Payment	10	7	70
Overdraft Protection	9	8	89
Commercial	19	9	47
<b>Total Approved</b>	<b>79</b>	<b>48</b>	<b>60.8</b>

As the preceding chart illustrates, 60.8% of sampled loans were within the bank's assessment area.

The bank's analysis of all loans originated in 1995, demonstrated that 252 of 397 loans, or 63.5%, were to individuals or commercial customers within the bank's assessment area. The CRA sample, which consists of the bank's two highest volume loan products, consumer mortgages and installment loans, for the period of April 1, 1996, to September 30, 1996, revealed that 100 of 188 (53.2%) consumer mortgages and installment loans were within the assessment area.

The bank's 1995 and 1994 HMDA data revealed that 37 of 63 (58.7%) and 51 of 73 (69.9%), respectively, of loans originated were within the bank's assessment area. The bank's loan distribution meets the standards for satisfactory performance.

### **Lending to Borrowers of Different income and Businesses of Different Sizes**

The CRA sample contained income information for 129 of 188 loans and revealed that 44 of 129 (34.1%) consumer mortgages and installment loans were originated to low-income individuals, while 24 of 129 (18.6%) were to moderate-income individuals. The examination loan sample demonstrated that of 39 loans originated within the assessment area, 5 (12.8%) were to low-income and 5 (12.8%) were to moderate-income individuals. The bank's 1995 HMDA revealed that two loans were originated to low- or moderate-income individuals, while 1994 showed no loans to low- or moderate-income individuals.

The bank's analysis of small business loans, which includes all commercial loans originated

between August 1, 1995, and October 31, 1996, reveals that 145 of 185 (78.4%) were to businesses that had annual revenues of less than \$1 million. The analysis of the bank's lending to borrowers of different income levels and businesses of different sizes revealed that the bank exceeds the standards for satisfactory performance.

**Geographic Distribution of Loans**

An analysis of the geographic distribution of loans is not applicable, as there are no low- or moderate-income geographies within the assessment area.

**Response to Substantiated Complaints**

No CRA-related complaints were received since the bank became a member of the Federal Reserve System.