

## **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 **NAB Bank, Chicago, Illinois** prepared by the **Federal Reserve Bank of Chicago**, the institution's supervisory agency, as of **May 27, 1997**. 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's efforts are accomplished primarily through the origination of commercial, real estate, and consumer loans. These efforts are evidenced by a high loan-to-deposit ratio, which is consistently higher than the bank's peer group, as well as other financial institutions competing within the bank's assessment areas. Although the bank originates more loans outside its three assessment areas than within them, those loans which are originated within the assessment area are made predominantly in low- and moderate-income census tracts. Loans are made to consumers of different income levels and to businesses of different sizes, with strong emphasis on low- and moderate-income consumers and small businesses. No CRA-related complaints have been received by the bank since the previous examination. The examination revealed no patterns or practices intended to discriminate or to discourage applications from any member of a protected class.

**DESCRIPTION OF INSTITUTION**

NAB Bank has \$98.5 million in assets as of March 31, 1997. The bank's main office is located at 222 West Cermak Road in Chicago's Chinatown. The bank has two branch offices: one on North Broadway in the Uptown neighborhood of Chicago and the other in Darien, Illinois. The bank offers deposit services, including automated teller machines (ATMs), as well as safe deposit facilities and loan services at all three locations. The Chinatown and Darien offices have drive-up teller services. Most support operations are housed at the Darien location. Bank officers and staff at all locations are mostly of Asian descent and have multilingual Asian language skills.

Primary banking competition for the main office is provided by Lakeside Bank, South Central Bank & Trust Company, Pacific Global Bank, and a branch of St. Paul Federal Bank for Savings. Primary competition for the Uptown office is provided by Uptown National Bank of Chicago, Broadway Bank, International Bank of Chicago, and branches of The First National Bank of Chicago and Firststar Bank Illinois. Competition for the Darien office is provided by branches of Hinsbrook Bank & Trust, West Suburban Bank, and Republic Bank of Chicago.

Loan products offered by the bank include business loans, residential adjustable rate mortgages, consumer loans (direct and indirect automobile, overdraft protection, and other installment), and credit cards. The bank offers government-guaranteed loans through the Small Business Administration, and requests for FHA/VA loans are referred to Firststar Bank Illinois. Similarly, requests for fixed-rate mortgage loans are referred to Midwest Mortgage Services or to Chase Manhattan Bank. The bank offers an "Easy Lending Program," which is designed to make mortgage loans available to immigrants and others who have no established local credit but who have the ability to make a 30% cash down payment. As of March 31, 1997 Uniform Bank Performance Report (UBPR), the bank's loan portfolio consisted of consumer mortgages (48%), commercial mortgages (38%), other consumer loans (5%) and other commercial loans (9%). Currently, there are no factors relative to the bank's financial condition, size, or local economic conditions which would prevent the bank from meeting community credit needs.

**DESCRIPTION OF BANK'S ASSESSMENT AREAS**

The bank has designated three separate assessment areas, one each for its main office and its two branch offices. The Chinatown and Uptown offices are located in Cook County and the Darien office is located in DuPage County. All three assessment areas are located within the Chicago Metropolitan Statistical Area (MSA). The Chinatown and Uptown assessment areas, which exhibit many similar housing, economic, and demographic characteristics, have different characteristics than the Darien assessment area. The following table summarizes these characteristics.

<b>Demographic and Economic Characteristics of NAB Bank's Three Assessment Areas</b>				
	<b>Assessment Area</b>			
	<b>Chinatown</b>	<b>Uptown (North Broadway)</b>	<b>Darien</b>	<b>Combined</b>
Number of census tracts	97	24	19	140
Low-income census tracts	47	5	0	52
Moderate-income census tracts	30	14	0	44
Middle-income census tracts	14	4	4	22
Upper-income census tracts	6	1	15	22
Total population--number	180,858	124,749	137,812	443,419
White population	25.60%	45.75%	89.93%	51.27%
Minority population	74.40%	54.25%	10.07%	48.73%
Median family income in the Chicago MSA	\$42,758	\$42,758	\$42,758	\$42,758
Median family income in the assessment area	\$21,418	\$27,401	\$56,895	\$35,210
Low-income families	49.93%	39.36%	7.44%	31.48%
Moderate-income families	19.04%	21.72%	12.46%	17.26%
Middle-income families	15.75%	17.77%	22.56%	18.79%
Upper-income families	15.28%	21.15%	57.53%	32.47%
Median housing value	\$69,147	\$120,376	\$157,089	\$147,923
Median housing age	54	56	17	40
Owner-occupied housing	19.07%	18.08%	72.68%	33.73%

The Chinatown assessment area includes a portion of downtown Chicago, the Bridgeport neighborhood, Chinatown, and other neighborhoods on the near South and Southwest sides of the city. Many of the census tracts in this assessment area have low populations because of the presence of such facilities as Soldier Field, Grant Park, the Field Museum of Natural History, McCormick Place, the University of Illinois at Chicago, the Illinois Institute of Technology, and the large medical centers of Cook County Hospital, the University of Illinois Hospital, and Rush-Presbyterian St. Luke's Hospital. As the preceding chart illustrates, the Chinatown assessment area has a significant concentration of low- and moderate-income census tracts and families; minorities dominate the population mix; housing is older and less expensive than in the other two

assessment areas; and owner-occupied housing comprises a relatively small percentage of total housing. The makeup of the minority population is 35.38% Black, 7.92% Asian, and 30.75% Latino.

The Uptown neighborhood is located on Chicago's North side. It is one of the city's most ethnically diverse areas and has high population density compared to the other two assessment areas. As the preceding chart illustrates, minorities comprise more than one-half of the population in the Uptown assessment area; low- and moderate-income families comprise over 60% of the families in the area; housing is of similar age to housing in the Chinatown area but is nearly twice as expensive; and owner-occupied housing comprises a relatively small percentage of the total housing. The makeup of the minority population is 18.87% Black, 12.20% Asian, and 22.3% Latino.

The Darien assessment area includes the communities of Darien, Hinsdale, Westmont, Clarendon Hills, Willowbrook, Burr Ridge, and portions of Downers Grove and Woodridge. As illustrated in the preceding chart, this area consists entirely of middle- and upper-income census tracts; the population is predominantly White with middle- and upper-incomes; housing is newer and costs substantially more than in the other two assessment areas; and the majority of residential properties are owner-occupied.

The economic and demographic differences among these three assessment areas indicate that the credit needs of the consumers and businesses within them are likely to be different.

The Chicago Metropolitan area has diverse employment opportunities, from large international conglomerates to small businesses. The area is well-served with excellent public transportation and interstate highways, providing the labor force with great mobility in obtaining employment throughout the area.

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

Management has developed policies, procedures and training programs supporting nondiscrimination in lending. 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**

A review of the bank's quarterly Consolidated Reports of Condition and the Uniform Bank Performance Reports (UBPR) for the period March 31, 1996 through March 31, 1997 revealed that the quarterly loan-to-deposit ratios averaged 78.15%. The bank's average loan-to-deposit ratio is higher than the bank's nationwide peer group's ratio (69.68%) for the same period, and compares favorably with the most representative local competitors in the bank's assessment areas.

The following chart illustrates these figures:

<b>Loan-to-Deposit Ratio of NAB Bank,                      Its Peer Group, and Other Local Financial Institutions                      (Ranked from Highest to Lowest Five-Quarter, Average Loan-to-Deposit Ratio)</b>							
	<b>Assets as                      of 3/31/97                      (\$000)</b>	<b>Loan-to-Deposit Ratio</b>					
		<b>3/31/97</b>	<b>12/31/96</b>	<b>9/30/96</b>	<b>6/30/96</b>	<b>3/31/96</b>	<b>Average</b>
Broadway Bank	\$114,751	104.84%	99.65%	104.02%	105.61%	102.81%	103.39%
<b>NAB Bank</b>	<b>\$98,516</b>	<b>81.44%</b>	<b>80.82%</b>	<b>79.69%</b>	<b>76.16%</b>	<b>72.62%</b>	<b>78.15%</b>
West Suburban Bank	\$498,378	67.78%	71.35%	74.61%	76.46%	74.41%	72.92%
Lakeside Bank	\$256,121	73.13%	73.85%	73.22%	70.90%	70.91%	72.40%
National Peer Group	N/A	69.87%	69.90%	70.30%	69.82%	68.51%	69.68%
Hinsbrook Bank & Trust	\$114,605	68.08%	65.18%	61.13%	66.00%	63.17%	64.71%
International Bank of Chicago	\$41,192	66.19%	66.63%	62.78%	55.14%	63.52%	62.85%
Uptown National Bank	\$173,831	65.04%	64.41%	65.63%	63.41%	55.46%	62.79%
South Central Bank & Trust	\$89,420	62.16%	58.79%	56.40%	53.15%	52.98%	56.70%
Republic Bank of Chicago	\$383,369	49.03%	47.69%	45.39%	43.09%	39.23%	44.89%

As the preceding chart illustrates, the bank’s loan-to-deposit ratio has consistently outperformed its nationwide peer group and all but one local competitor during this review period. The bank’s loan-to-deposit ratio exceeds the standards for satisfactory performance.

**Lending in Assessment Area**

To evaluate the bank’s CRA lending performance within its combined assessment area, bank personnel prepared a report of all loans made during the six-month period (November 1, 1996 through April 30, 1997). From this report, all consumer real estate loans secured by 1-4 family residences and all secured direct installment loans originated during the six-month period were reviewed. In addition, the 1995 and 1996 Home Mortgage Disclosure Act (HMDA) reports were reviewed. The following table summarizes this review:

<b>Loans Within the Assessment Area</b>				
Loans made from 11/01/96 through 4/30/97:	<b>Total Number of Loans in the Period</b>	<b>Number of Loans Within the Assessment Area</b>	<b>Number of Loans Outside the Assessment Area</b>	<b>% of Loans Within the Assessment Area</b>
Consumer real estate	45	26	19	57.78%
Secured direct installment	147	56	91	38.10%
1995 HMDA	91	54	37	59.34%
1996 HMDA	120	57	63	47.50%
Totals	403	193	210	47.89%

As the preceding chart illustrates, 47.89% of the total number of loans originated by the bank during the sample period were made within the assessment area. Because the majority of loans sampled were not made within the bank's three assessment areas, the bank does not meet the standards for satisfactory performance under this performance criterion.

Management stated that there are compensating factors which help explain the bank's low level of lending in its assessment areas. Management indicated that the bank experiences a high level of customer loyalty. When customers move out of the assessment area, they often retain existing credit relationships with the bank, resulting in out-of-area loans. A review of the six-month loan sample revealed that a high percentage of loans outside the bank's assessment area are made in low- and moderate-income census tracts. An analysis of the 110 consumer real estate and direct installment loans made outside of the bank's assessment areas during the six-month sample period revealed that 51 (46.36%) of these loans were made in 33 low-income or moderate-income census tracts. Additionally, the bank has made four loans outside of its assessment areas for the purchase and rehabilitation of multi-family residences used to house recovering substance abusers; the aggregate amount of these loans at the time of the examination was \$941,990.

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

The six-month loan sample was used to evaluate the bank's performance under this criterion. A small business loan is defined as having an original principal balance of \$1 million or less. Of the 35 commercial borrowing relationships sampled, 97.14% (34 of 35) involved small businesses.

The following chart summarizes the distribution of the sampled consumer real estate mortgages secured by 1-4 family residences and secured direct installment loans, by borrower income level:

<b>Number of Consumer Real Estate and Secured Direct Loans                      Made During the Period 11/01/96 - 4/30/97                      By Borrower Income Level</b>					
	<b>Low- Income</b>	<b>Moderate- Income</b>	<b>Middle- Income</b>	<b>Upper- Income</b>	<b>Total</b>
Consumer real estate loans	4	11	6	5	26
Secured direct installment loans	19	26	5	4	54
<b>Total</b>	<b>23</b>	<b>37</b>	<b>11</b>	<b>9</b>	<b>80</b>
% of Total	28.75%	46.25%	13.75%	11.25%	100.00%

The chart demonstrates that the bank is making loans to borrowers of all income levels, including low- and moderate-income individuals. The bank’s 1995 and 1996 HMDA data reveals that 57.14% (28 of 49) and 65.45% (36 of 55), respectively, of loans were made to low- and moderate-income individuals.

The bank’s loan penetration among borrowers of different income levels and businesses of different sizes exceeds the standards for satisfactory performance.

**Geographic Distribution of Loans**

The six-month loan sample was reviewed to determine the level of lending activity in low- and moderate-income census tracts. The following chart summarizes the geographic distribution of the sampled loans made within the assessment area:

<b>Geographic Distribution of Loans Made Within the Assessment Areas                      During the Period 11/1/96 - 4/30/97                      By Census Tract Income Level</b>					
	<b>Low- Income</b>	<b>Moderate- Income</b>	<b>Middle- Income</b>	<b>Upper- Income</b>	<b>Total</b>
Number of Census Tracts	52	44	22	22	140
Number of Census Tracts With Loan Originations	6	21	3	2	32
Number of Loans Made	32	42	5	3	82*

\*Consumer Real Estate and Secured Direct Installment

The preceding chart illustrates that the bank is making loans in census tracts of all income levels

within its three assessment areas. Furthermore, most of the bank's loans (74 of 82, or 90.24%) were made in the low- and moderate-income census tracts. The bank, however, has originated these loans in just 32 of 140 (22.86%) of the total census tracts in its three assessment areas. Part of the reason for this low dispersion is because 34 of the 140 census tracts have low population density, thereby reducing the bank's lending opportunities in these census tracts; five of the census tracts have no population, 17 have 1 to 500 people, and 12 have 501 to 1,000 people. Of these 34 census tracts with low population density, 19 are designated as low-income, seven are moderate-income, six are middle-income, and two are upper-income.

An additional consideration when evaluating the bank's performance under this assessment factor is the bank's support in a local community-based initiative in the Chinatown assessment area. Over the past six years, a 32-acre parcel of land on the north edge of Chinatown has been developed by the Chinese American Development Corporation (CADC) into a multi-use commercial/residential property. The bank has been an active participant in providing funding throughout the various development phases; at the time of the examination, two loans totaling \$574,810 are outstanding, but other loans have been made during the development period to CADC, and to individual purchasers of the business and residential properties constructed on the site.

A further analysis of lending activity indicates that the Darien assessment area, which surrounds the bank's newest branch, has received very few loans in this six-month review period. However, because of the compensating factors discussed above, the bank is meeting the standards for satisfactory performance under this assessment criterion.

### **Response to Complaints**

No CRA-related complaints have been received by the institution concerning its CRA performance; therefore, this criterion is not rated.