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**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 **First American Bank, Joliet, Illinois** prepared by the **Federal Reserve Bank of Chicago**, the institution's supervisory agency, as of **February 24, 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 First American Bank promotes economic revitalization and growth consistent with its size, financial capacity, location and current economic conditions. The bank's CRA program reflects the bank's commitment to meeting the assessment area's credit needs. The bank's reasonable loan-to-deposit ratio and dispersion of loans among borrowers of different incomes and businesses of different sizes evidence the bank's overall satisfactory performance. However, the bank has a low level of loans within its assessment area. Analysis of the geographic distribution of loans revealed that the distribution of the bank's primary loan products in the low- and moderate-income tracts is considered adequate. No prohibited discriminatory lending policies or practices which would intend to discourage loan applicants were detected during the examination.

The following table indicates the performance of **First American Bank, Joliet, Illinois** with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	FIRST AMERICAN BANK JOLIET 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 CRA-RELATED COMPLAINTS HAVE BEEN RECEIVED DURING THE SCOPE OF THE EXAMINATION		

**DESCRIPTION OF INSTITUTION**

First American Bank, with total assets of \$106 million as of December 31, 1996, is a subsidiary of Northern Illinois Bancorp, Inc., a one-bank holding company located in Elk Grove Village, Illinois. The bank operates a main office at 1812 West Jefferson Street, and a limited-service branch at 3401 West Jefferson Street. Both of the bank's facilities are located in Joliet, approximately three miles apart. Deposit products and services, and loan applications are available at the branch office. The bank also has an on-premise automated teller machine (ATM) at each facility.

The bank's primary business focus is retail banking, with real estate loans being its predominant product. Based upon information contained in the December 31, 1996 Consolidated Report of Condition, approximately 92% or \$40 million of the bank's loan portfolio is comprised of real estate loans. Approximately 72% of the real estate loans are secured by one-to-four family residences (includes home equity loans). Commercial and agricultural real estate loans represent 19.07% and 1.69%, respectively, of the bank's loan portfolio. Mortgage loans include conventional loans with financing up to 95% loan-to-value with private mortgage insurance (PMI) coverage, construction loans and home equity loans. Consumer loan products include personal and home equity lines of credit, automobile loans, overdraft protection loans, and unsecured and secured personal loans. Further, the bank has a loan referral program in which mortgage loans are processed through its Alternative Credit Department (ACD). In instances where applicants do not meet the bank's underwriting standards, ACD refers the loans to other financial institutions; during the scope of the examination, the bank referred 206 mortgage loans (totaling \$10,449,835) under this program. The bank refers its student loan applications and those received by other bank affiliates to Independent Banker's Bank (IBB) in Springfield, Illinois; in 1996, the bank referred 142 student loans (totaling \$630,334).

The bank's competitors include branches of Financial Federal Trust & Savings Bank (Olympia Fields, Illinois), First of America Bank (Kalamazoo, Michigan), First National Bank of Chicago (Chicago, Illinois), First Midwest Bank (Moline, Illinois) and First National Bank of Joliet. Additional competition is provided by other bank branches and credit unions located in neighboring communities.

**DESCRIPTION OF BANK'S ASSESSMENT AREA**

The bank is located in Will County in the City of Joliet, Illinois. Joliet is located within the Chicago Metropolitan Statistical Area (MSA) approximately 35 miles southwest of Chicago's Loop. According to information obtained from a 1996 Business Resource Guide published by the Will County Center for Economic Development Foundation and the Will County Chamber of Commerce, since 1985, Will County has experienced 36,000 net new jobs. More than 1,000 new companies have located in Will County and 300 have expanded their operations. Additionally, in recent years, three communities, Joliet, Bolingbrook and Naperville, have consistently ranked among the top ten in residential construction in the Chicago area. The bank's assessment area includes the communities of Joliet, New Lenox, Channahon, Romeoville, Bolingbrook, Shorewood, Manhattan, Wilmington, and Braidwood, all located in

Will County. The assessment area consists of 24 census tracts, of which three or (12.5%) are low-income; four or (16.7%) are moderate-income; 13 or (54.1%) are middle-income; and four or (16.7%) are upper-income tracts. On September 26, 1995, management expanded the assessment area to include whole census tracts, as required by the new CRA regulation. Of the total families (25,884) within the assessment area, 5,196 or 20.1% are low-income; 4,994 or 19.3% are moderate-income; 7,570 or 29.2% are middle-income; and 8,124 or 31.4% are upper-income.

According to the 1990 U.S. census data, the population in the bank's assessment area is 103,005 with the City of Joliet (population 16,901) being the most heavily populated community. The racial make up of the population is as follows: Whites - 74,754 or 72.6%; Blacks - 16,647 or 16.2%; and individuals of Hispanic descent - 10,440 or 10.1%. All other minorities combined (population 1,164) makeup less than 2% of the total population within the assessment area. Of the assessment area's total population, 5,581 or 5.42% persons are institutionalized (correctional institutions, nursing homes, colleges, etc.).

According to the Illinois Department of Labor, Will County and the State of Illinois each had an estimated unemployment rate of 5.0% as of December 1996. Community representatives within the assessment area indicated that the City of Joliet has historically experienced high unemployment and declining property values due to the closing of an area steel mill a few years ago. This trend, as a result of manufacturers relocating to the area and the opening of the river boat casino, has reversed and the Joliet economy has received a boost in employment opportunities. Additionally, the three state correctional facilities within the Joliet community provide approximately 2,000 jobs for area residents. Major employers in the area include: Caterpillar Inc. (employing 3,100); St. Joseph Hospital Medical Center (employing 2,320); Empress River Casino (employing 1,862); Harrah's River Casino (employing 1,979) and Will County Government (employing 1,445). Local businesses in the assessment area are mainly service oriented.

According to the 1990 U.S. census data, the median housing value in the assessment area is \$70,333, versus the State of Illinois median housing value of \$108,960. There are 38,275 housing units within the bank's assessment area, of which 24,471 or 63.9% are owner-occupied units; 11,139 or 29.1% are rental units; and 2,665 or 7% are vacant units. One-to-four family unit homes account for the majority (31,188 or 81.5%) of the assessment area's housing. The median age of homes in the bank's assessment area is 44 years (13,734 or 35.9% were built before 1950). According to community representatives, the City of Joliet issued 1,000 single family house permits in 1996 (second in Illinois); however, there is a shortage of affordable housing within the assessment area, as there is a lack of affordable housing development.

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

The institution is in compliance with the substantive provisions of antidiscrimination laws and

regulations, including the Fair Housing Act and the Equal Credit Opportunity Act

**Loan-to-Deposit Ratio Analysis**

Analysis of the bank’s December 31, 1996 Consolidated Report of Condition revealed a loan-to-deposit (LTD) ratio of 45.06%. The bank’s LTD ratios for the most recent six quarters are as follows:

<b>FIRST AMERICAN BANK, JOLIET, ILLINOIS</b>				
<b>Date</b>	<b>Deposits</b>	<b>Loans</b>	<b>Ratio</b>	<b>Assets</b>
12/31/96	\$96,460,000	\$43,467,000	45.06%	\$105,718,000
9/30/96	\$89,172,000	\$43,192,000	48.44%	\$97,987,000
6/30/96	\$87,322,000	\$43,002,000	49.25%	\$95,933,000
3/31/96	\$86,173,000	\$42,796,000	49.66%	\$95,079,000
12/31/95	\$84,661,000	\$42,118,000	49.75%	\$84,041,000
9/30/95	\$81,418,000	\$37,805,000	46.43%	\$89,823,000
<b>Averages</b>	<b>\$87,534,000</b>	<b>\$42,063,000</b>	<b>48.10%</b>	<b>\$94,763,500</b>

As illustrated in the preceding chart, the bank’s LTD ratio over the six quarters averaged 48.10%. The chart also illustrates that the bank’s LTD ratio from September 30, 1996 to December 31, 1996 decreased as a result of deposits increasing without a corresponding increase in loans.

According to the September 30, 1996 Uniform Bank Performance Report (UBPR), the bank’s LTD ratio is 20.74% lower than the peer group’s ratio (bank - 47.56% versus peer - 68.30%). Management attributes this difference to the bank’s secondary market loan activity; during the scope of the examination, the bank sold 441 mortgage loans (totaling \$52,417,836) in the secondary market. The UBPR revealed that the bank had a higher percentage of its loan portfolio in real estate loans (particularly one-to-four family and home equity loans) than the peer group. Management attributes the high percentage (66.53%) of real estate-related lending to the bank’s aggressive advertising campaigns.

Given the bank’s strong secondary market mortgage loan activity and comments received from community representatives regarding the bank’s willingness to extend credit, the bank’s LTD ratio is considered reasonable and meets the standards for satisfactory performance.

**Lending in Assessment Area**

Analysis of the examination loan sample revealed the following level of lending within the assessment area:

LOAN TYPE	TOTAL SAMPLED	WITHIN THE ASSESSMENT AREA	PERCENT OF TOTAL
Real Estate	261*	111	43%
Installment (Direct/Indirect)	20	6	30%
Home Equity (Open-End)	58**	23	40%
Check Credit (overdraft)	10	5	50%
Commercial and Agricultural	10	6	60%
<b>Total:</b>	<b>359</b>	<b>151</b>	<b>42%</b>

\* Represents the total number of real estate loans (a primary loan product) recorded on the bank's preliminary 1996 LAR. This figure does not represent the 37 applications withdrawn and/or denied.

\*\*Represents a CRA statistical loan sample in a recent six-month period.

The preceding chart illustrates that the majority of the loans were made to borrowers who reside outside the bank's assessment area. Additionally, review of the bank's preliminary 1996 Loan Application Register (LAR) revealed that 42% of the loans (including the reported home equity loans) were made to borrowers who reside within the bank's assessment area. Management stated that the low level of lending within the assessment area is due, in part, to mortgage loan referrals from affiliated banks that may not be in the same market area as the bank.

The bank's performance under this criterion does not meet the standards for satisfactory performance, as a majority of the bank's loans (particularly the bank's primary loan products) are made outside its assessment area.

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

Analysis of the examination consumer loan sample revealed the following distribution of loans among borrowers of different income levels:

LOAN TYPE	LOANS TO LOW-INCOME BORROWERS	LOANS TO MODERATE-INCOME BORROWERS	LOANS TO MIDDLE-INCOME BORROWERS	LOANS TO UPPER-INCOME BORROWERS	TOTAL
	# / \$000's	# / \$000's	# / \$000's	# / \$000's	# / \$000's
Real Estate	13/ \$207	28/ \$688	87/ \$2,388	254/ \$9,712	382 / \$12,995
Installment	1/ \$5	1/ \$16	2/ \$104	16/ \$365	20 / \$490
Home Equity	1/ \$19	1/ \$40	17/ \$542	44/ \$2,774	63 / \$3,375
Check-Credit*	0/ \$0	2/ \$2	0/ \$0	3/ \$3	5 / \$5
Totals	15/ \$231	32/ \$746	106/ \$3,034	317/ \$12,854	470 / \$16,865

The preceding chart includes the CRA sample for home equity loans and all of the 1996 HMDA-reportable loans.

\*The applicants' income was not available for five check-credit files.

As the chart illustrates, loans are primarily distributed among middle- and upper-income borrowers (423 or 90%). The preceding sample of 470 loans (totaling \$16,865) revealed that 16 loans (3.4%) totaling \$231,000 (1.4%) were made to low-income borrowers; 32 loans (6.8%) totaling \$746,000 (4.4%) were made moderate-income borrowers; 106 loans (22.5%) totaling \$3,034,000 (18.0%) were made to middle-income borrowers; 317 loans (67.3%) totaling \$12,854,000 (76.2%) were made to upper-income borrowers. This lending activity is considered adequate given the assessment area’s market demographics.

With the absence of annual revenue information in the commercial credit files, loan size was used as a proxy to determine if the distribution of lending to businesses of different sizes is reasonable. Review of the bank’s 1995 and 1996 Consolidated Reports of Condition (as of June 30) revealed the following loan distribution among small businesses:

Loan Amount (\$000)	1996			1995		
	#	\$	%	#	\$	%
<b>Commercial Real Estate Loans</b>						
\$100 or less	10	312	9.42%	11	373	6.59%
\$100 - \$250	7	721	21.77%	7	850	15.01%
\$250 - \$1 million	6	2,279	68.81%	11	4,441	78.41%
TOTAL	23	3,312		29	5,664	
<b>Commercial and Industrial Loans</b>						
\$100 or less	38	866	31.16%	75	1,120	57.11%
\$100 - \$250	1	82	2.95%	4	309	15.76%
\$250 - \$1 million	4	1,831	65.89%	2	532	27.13%
TOTAL	43	2,779		81	1,961	

The preceding chart illustrates that the total number and dollar amount of commercial real estate loans decreased from 1995 to 1996. During this same period, the number of outstanding commercial and industrial loans decreased; however, the outstanding dollar amount increased. The 1995 and 1996 call reports showed no “small agricultural” lending activity. Management stated that the bank receives little or no loan requests for this type of borrowing, as agricultural businesses are almost nonexistent within the bank’s assessment area.

The bank participates in the Small Business Administration (SBA) loan program. During the examination review period, the bank originated three SBA-504 loans (totaling \$2,127,000); the credit files indicated that the borrowers of these loans used the loan proceeds primarily for business expansion and working capital.

The loan distribution reflects a reasonable penetration among individuals of different income levels (including low- and moderate-income) and businesses of different sizes, indicating that the bank’s performance meets the standards for satisfactory performance.

**Geographic Distribution of Loans**

The MSA portion of the bank’s assessment area consists of 24 census tracts, of which three (12.5%) are designated as low-income tracts; four (16.7%) are moderate-income tracts, 13 (54.1%) are middle-income tracts; and four (16.7%) are upper-income tracts. The distribution of the bank’s two primary loan products (real estate and home equity) within the assessment area is as follows:

<b>GEOGRAPHIC LOAN DISTRIBUTION BY CENSUS TRACT</b>					
<b>Loan Type</b>	<b>Loans in Low-Income Census Tracts</b>	<b>Loans in Moderate-Income Census Tracts</b>	<b>Loans in Middle-Income Census Tracts</b>	<b>Loans in Upper-Income Census Tracts</b>	<b>Total</b>
	<b>#!/\$000's</b>	<b>#!/\$000's</b>	<b>#!/\$000's</b>	<b>#!/\$000's</b>	<b>#!/\$000</b>
Real Estate*	7/\$660	2/\$9	45/\$2,493	30/1,879	84/\$5,041
Home Equity	2/\$33	3/\$14	41/\$1,227	14/\$495	60/\$1,769
<b>Totals</b>	<b>9/\$693</b>	<b>5/\$23</b>	<b>86/\$3,720</b>	<b>44/\$2,374</b>	<b>144/\$6,810</b>

\*According to HMDA data which represents 1996 lending activity in the MSA portion (Will County) of the bank’s assessment area.

As the preceding chart illustrates, census tracts of all income level tracts reflected lending activity. Nine loans (6.3%) totaling \$693,000 (10.1%) were made in the low-income census tracts; five loans (3.5%) totaling \$23,000 (0.3%) were made in moderate-income census

tracts; 86 loans (59.7%) totaling \$3,720,000 (54.6%) were made in middle-income census tracts; and 44 loans (30.5%) totaling \$2,374,000 (34.9%) were made in upper-income census tracts.

The bank’s most recent (January of 1997) self analysis of HMDA data revealed no loan activity in three moderate-income tracts census (8808, 8821, 8824) and two low-income tracts (8819, 8825). Three of the four moderate-income tracts within the bank’s assessment area had no loan activity for any of the bank’s sampled products (installment, check-credit, real estate, home equity). The five tracts with no HMDA-reportable loan activity represent 3,988 or 11.13% of the total households and 1,815 or 7.42% of the owner-occupied households within the bank’s assessment area. Bank management stated that some of these tracts have a high density of industrial/commercial areas with little residential housing.

The bank's performance in making loans in all geographies within the assessment area, including low- and moderate-income tracts, is adequate. Lending activity is dispersed and penetrates the majority of the census tracts in the bank's assessment area. No evidence of irregular lending patterns was detected.

**Response to Substantiated Complaints**

The institution received no complaints regarding its CRA performance during the examination review period.