



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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## **PUBLIC DISCLOSURE**

**October 4, 2004**

# **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**Algonquin State Bank, N.A.  
Charter Number 23302**

**2400 Huntington Drive North  
Algonquin, Illinois 60102**

**Comptroller of the Currency  
ADC – Chicago-South Field Office  
7600 County Line Road, Suite 3  
Burr Ridge, Illinois 60527**

**NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.**

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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 operation 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 **Algonquin State Bank, N.A. (ASB)** prepared by **The Office of the Comptroller of the Currency (OCC)**, the institution's supervisory agency, as of October 4, 2004. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.

This evaluation covers the period since January 19, 1999, the date of the last CRA examination when the bank was rated "**Satisfactory Record of Meeting Community Credit Needs.**"

## INSTITUTION'S CRA RATING

**INSTITUTION'S OVERALL CRA RATING:** This institution is rated: **Satisfactory.**

The major factors that support ASB's overall rating include:

- The bank's loan to deposit ratio is reasonable.
- The bank's lending activity in the assessment area (AA) is reasonable.
- The bank's record of extending credit to individuals of different income levels is reasonable.
- The bank did not receive any written complaints about its performance in helping to meet the credit needs within their AA during this evaluation period.

## DESCRIPTION OF INSTITUTION

ASB is headquartered in Algonquin, Illinois, approximately 50 miles northwest of Chicago, Illinois. First Algonquin Company wholly owns ASB. First Algonquin Company is located and headquartered in Algonquin, Illinois.

The bank operates one full service office and three branch offices. The main office, located in Algonquin, Illinois has a drive-up facility and one automated teller machine (ATM). The three branch offices are also located in Algonquin. Two of the three locations have ATMs and drive-up services. The third location is a mobile branch. The bank's main office is a full-service facility and offers a full range of traditional banking products. The three branches offer only depository services.

The bank has total assets of \$144 million as of June 30, 2004. The loan portfolio represents 42 percent of total assets. The table below illustrates the composition of the loan portfolio.

<b>Loan Category</b>	<b>\$(000)</b>	<b>Percent</b>
<b>Residential Loans</b>	\$ 47,555	78.18%
<b>Commercial Loans</b>	\$ 12,523	20.59%
<b>Individual Loans</b>	\$ 738	1.21%
<b>Other</b>	\$ 15	0.02%
<b>Total</b>	<b>\$60,831</b>	<b>100%</b>

Significant competition exists in the bank's market area. Many of the bank's competitors are large regional institutions, credit card banks, and mortgage brokers; thus, competition for lending opportunities is strong. The bank is primarily a residential real estate lender.

There are no legal, financial, or other factors impeding the bank's ability to help meet the credit needs in the bank's assessment areas. There has been no change in the bank's corporate structure since the last CRA examination. The institution's prior CRA rating was "**Satisfactory Record of Meeting Community Credit Needs**" as detailed in the Performance Evaluation dated January 19, 1999.

## DESCRIPTION OF ASSESSMENT AREA

ASB has one assessment area (AA) that comprises a small portion of the Chicago metropolitan area (MA) 1600. The AA is within McHenry and Kane Counties. The AA consists primarily of Algonquin and Lake in the Hills as well as parts of Barrington Hills, Carpentersville, Cary, Crystal Lake, Fox River Grove, Grafton Township, Huntley, and Lakewood. This AA meets the requirements of the regulation and does not arbitrarily exclude low- and moderate-income geographies.

Census 2000 changed the boundaries and income levels of many existing geographies, and created some new geographies. These changes were effective January 1, 2003. The evaluation period included loans originated from January 1, 1999 through December 31, 2002, using 1990 census data.

Loans originated from January 1, 2003 through December 31, 2003 were analyzed using 2000 census data. The results of these analyses were combined to obtain an overall rating.

The total population of the AA is 124,799 based on 2000 census data. Per the 1990 census data the total population of the AA was 71,130. The current AA, based on 2000 census data, consists of 18 geographies. One (6 percent) is moderate-income, 5 (28 percent) are middle-income, and 12 (67 percent) are upper-income geographies. There are no low-income geographies in the bank's AA. Per the 1990 census data, there were ten geographies in the bank's AA. These consisted of 4 (40 percent) middle-income and 6 (60 percent) upper-income geographies. There were no low- or moderate-income geographies within the bank's AA.

The median annual family income in the bank's AA, based on 2000 census data, is \$69 thousand, compared to \$75 thousand for 1990. This is a 9 percent decrease from 1990 census data. This decrease is attributed to different methods used to arrive at median annual family income during the two census periods. The 1990 census data used an estimated figure, and the 2000 census data uses actual figures, causing what appears to be a declining trend in median annual family income. Per the 2000 census 92 percent of the housing in the AA is 1-4 family units with 86 percent owner-occupied. The median home value, based on 2000 census data, was approximately \$174 thousand. This is a 47 percent increase from the 1990 census where median home values were approximately \$118 thousand.

Major employers in the area include the local school district, Kenmode Tool & Engineering, and Wauconda Tool & Engineering. The local economy is strong with several new subdivisions and large retail shops coming into the immediate area. The 2003 unadjusted seasonal unemployment rate for the AA was 6.3 percent for McHenry County and 7.0 percent for Kane County. This is comparable to the 2003 State of Illinois unemployment rate of 6.7 percent and slightly above the 2003 national unemployment rate average of 6.0 percent.

We contacted a local community official. The contact indicated that the performance of local financial institutions has been good. The credit and financial service needs are very diverse within the local community and range from the simplest to the most sophisticated needs for services and products. The local financial institutions are meeting the needs of the local community.

## **CONCLUSIONS ABOUT PERFORMANCE CRITERIA**

### **Loan-to-Deposit Ratio**

The bank's average loan-to-deposit ratio is reasonable given the bank's size, financial condition, and AA credit needs. As of June 30, 2004, ASB's quarterly average loan-to-deposit ratio for the period from September 30, 1998 to June 30, 2004 was 50 percent. The most recent loan-to-deposit ratio (June 2004) of 48 percent represents a stable trend since our last evaluation. The loan-to-deposit ratios for banks of various sizes in the AA range from an average of 82 percent to 101 percent.

The bank's loan-to-deposit ratio does not include approximately \$26 million of loans sold to the secondary market between 1999-2003. The bank originates, sells to the secondary market, and retains servicing of all the home mortgage loans sold. The bank's decision to sell loans on the secondary market frees up capital allowing additional resources for lending and increases credit available to their assessment area.

## Lending in Assessment Area

ASB's primary loan type is home mortgage (refinance, home improvement, and home purchase). This loan type constitutes a significant volume of the bank's lending mix. Residential loans comprise 78 percent of ASB's entire portfolio and have historically been the bank's primary loan product.

ASB's lending within the AA is satisfactory. Loans inside the bank's AA represent 68 percent of the number of loans and 69 percent of the dollar amount. As part of our evaluation we performed a data integrity review. We found HMDA data to be accurate. CRA data was not reviewed for integrity because the bank is not subject to reporting this information. As a result we were able to rely on the bank's data and make an appropriate and accurate assessment of the bank's performance under the CRA. The following table details the bank's lending within the AA by the number of loans originated and dollar volume since its last CRA evaluation.

<b>Lending in Assessment Area</b>										
Loan Type	Number of Loans					Dollars of Loans (000 omitted)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
<b>Home Purchase*</b>	51	41.80%	71	58.20%	122	\$6,910	47.72%	\$7,569	52.28%	\$14,479
<b>Home Refinance*</b>	355	73.50%	128	26.50%	483	\$43,698	74.60%	\$14,877	25.40%	\$58,575
<b>Home Improve*</b>	46	80.70%	11	19.30%	57	\$782	82.40%	\$167	17.60%	\$949
<b>Multi-Family*</b>	0	0.00%	1	100.00%	1	\$0	0.00%	\$200	100.00%	\$200
<b>Total HMDA*</b>	452	68.17%	211	31.83%	663	\$51,390	69.26%	\$22,813	30.74%	\$74,203

\* Represents loans originated between January 1, 1999 and December 31, 2003 as reported under the Home Mortgage Disclosure Act.

## Lending to Borrowers of Different Incomes

The bank's lending to borrowers of different income levels is satisfactory.

In evaluating the borrower distribution of home mortgage loans, we considered the number of households that live below the poverty level (3 percent for 1990 census and 2 percent for 2000 census), the unemployment rate for McHenry County (6.3 percent) and for Kane County (7.0 percent) and the high cost of housing. The average median housing cost for 1990 census was \$118 thousand and in the 2000 census it increased to \$174 thousand. The poverty level, the unemployment rate and high cost of housing are barriers that may have a negative affect on home ownership.

## HMDA Loan Originations (January 1, 1999 – December 31, 2002)

The borrower distribution of home purchase loans is satisfactory. Home purchase loans made to low-income borrowers are below the percentage of low-income families within the AA. Opportunity to make home purchase loans to low-income borrowers is limited due to the high housing cost as well as the poverty level and the high unemployment level. Home purchase loans made to

moderate-income borrowers are above the percentage of moderate income-families within the AA.

The borrower distribution of home improvement loans is satisfactory. Home improvement loans made to low-income borrowers exceed the percentage of low-income families within the AA. Home improvement loans made to moderate-income borrowers are below the percentage of moderate-income families within the AA.

The borrower distribution of home refinance loans is satisfactory. Home refinance loans made to low-income borrowers are near the percentage of low-income families within the AA. Home refinance loans made to moderate-income borrowers exceeds the percentage of moderate-income families within the AA.

<b>Borrower Distribution of Residential Real Estate Loans (1999 – 2002)</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Purchase*	9.41	2.86	13.48	22.86	27.68	37.14	49.43	37.14
Home Improvement*	9.41	16.67	13.48	9.52	27.68	30.95	49.43	42.86
Home Refinance*	9.41	7.21	13.48	19.23	27.68	37.02	49.43	36.54

\*Represents loans originated between January 1, 1999 and December 31, 2002 as reported under the Home Mortgage Disclosure Act.

### **HMDA Loan Originations (2003)**

The borrower distribution of home purchase loans is adequate. The bank did not make any home purchase loans to low- or moderate-income borrowers. Opportunity to make home purchase loans to low- or moderate-income borrowers is limited with the average median housing cost, using 2000 census, of \$174 thousand, thereby limiting home ownership opportunities for low- and moderate-income borrowers.

The borrower distribution of home improvement loans is excellent. Home improvement loans made to both low- and moderate-income borrowers significantly exceeds the percentage of low- and moderate-income families within the AA.

The borrower distribution of home refinance loans is satisfactory. Home refinance loans made to low-income borrowers are below the percentage of low-income families within the AA. Opportunity to make home refinance loans to low-income borrowers is limited due to the poverty level and unemployment rate. Home refinance loans made to moderate-income borrowers exceed the percentage of moderate-income families within the AA.

<b>Borrower Distribution of Residential Real Estate Loans (2003)</b>								
<b>Borrower Income Level</b>	<b>Low</b>		<b>Moderate</b>		<b>Middle</b>		<b>Upper</b>	
<b>Loan Type</b>	<b>% of AA Families</b>	<b>% of Number of Loans</b>	<b>% of AA Families</b>	<b>% of Number of Loans</b>	<b>% of AA Families</b>	<b>% of Number of Loans</b>	<b>% of AA Families</b>	<b>% of Number of Loans</b>
Home Purchase*	8.38	0.00	13.22	0.00	25.18	22.22	53.21	77.78
Home Improvement*	8.38	25.00	13.22	50.00	25.18	25.00	53.21	0.00
Home Refinance*	8.38	3.97	13.22	19.84	25.18	28.57	53.21	47.62

\* Represents loans originated in 2003 as reported under the Home Mortgage Disclosure Act.

### **Geographic Distribution of Loans**

An analysis of the geographic distribution of loans is not meaningful as there are no low- or moderate-income geographies in the bank's AA for data analyzed using the 1990 census. Changes to the 2000 census data show that there are no low- and only one moderate-income geography in the bank's AA. The moderate-income geography for the 2000 census represents only 6 percent of the total geographies inside the bank's AA.

### **Responses to Complaints**

ASB has no outstanding complaints about its performance in helping to meet the credit needs within its AA during this evaluation period.

### **Fair Lending Review**

We found no evidence of illegal discrimination or other illegal credit practices.