

PUBLIC DISCLOSURE

April 12, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The National Bank & Trust Company of Sycamore
Charter Number 13872**

**230 West State Street
Sycamore, Illinois 60178**

**Office of the Comptroller of the Currency
Chicago North Field Office
Arlington Place II, Suite 340
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Arlington Heights, Illinois 60005**

NOTE: 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.

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 **The National Bank & Trust Company of Sycamore (NBT)** prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **April 12, 1999**. The agency evaluates performance in assessment area(s), as they are delineated by the institution, rather than individual branches. This assessment area evaluation may include visits to some, but not necessarily all of the institution's branches. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25. That section of the regulation became effective on January 1, 1996.*

Institution's CRA Rating: This institution is rated **1**Satisfactory record of meeting community credit needs.@

The primary reasons for this rating are:

- C lending activity and levels represent a good responsiveness to community needs;
- C geographic distribution of loans reflects good penetration throughout the assessment area (AA);
- C the distribution of borrowers reflects good penetration among retail customers of different income levels and business and farm customers of different size;
- C NBT has an adequate level of qualified investments; and,
- C delivery systems, as well as, community development services are reasonably accessible to all areas and people in the assessment area.

The following table indicates the performance level of NBT with respect to the lending, investment, and service tests.

Performance Levels	The National Bank & Trust Company of Sycamore Performance Tests		
	Lending Test*	Investment Test	Service Test
Outstanding			
High satisfactory	X		
Low satisfactory		X	X
Needs to improve			
Substantial noncompliance			

* Note: The lending test is weighted more heavily than the investment and service tests when arriving at an overall rating.

The last Performance Evaluation was dated February 5, 1997 where NBT earned a *Satisfactory record of helping to meet the community credit needs.*

Description of Institution

NBT is a \$314 million intrastate financial institution, wholly-owned by NI Bancshares, a one-bank holding company headquartered in Sycamore, Illinois. The main office is located in downtown Sycamore with two full service branches, one located in Sycamore and the other located in DeKalb. The bank operates seven automated teller machines (ATMs), four full service and three cash dispensing only. The ATMs are dispersed throughout the AA.

There are no impediments which would hamper the bank's ability to help meet the needs of its communities. NBT provides a full range of services and credit products including: residential mortgage loans, home improvement loans, home equity loans, and, personal and commercial products. The institution's ability to meet various credit needs is based on its financial condition and size, product offerings, prior performance, legal impediments, and other factors. As of March 31, 1999, the bank had total average assets of \$314,000,000 and an ROA of 0.9%. Net loans represented 59% of total average assets with earning assets accounting for 93% of total average assets. The loan portfolio is comprised of 51% real estate loans, 15% commercial and industrial loans, 31% installment loans, with the remaining 3% made up of agriculture credits.

Description of Assessment Area

NBT operates in a small portion of the Chicago MSA, the northern and central sections of DeKalb county. There are a total of 16 geographies within the AA. The AA is comprised of one low-income tract (6%) (Northern Illinois University), two moderate-income tracts (13%), 11 middle-income tracts (69%), and one upper-income tract (6%). The remaining one tract does not have an income level. This area consists of a small portion of Northern Illinois University. The AA complies with the technical requirements of the CRA and does not arbitrarily exclude any low- or moderate-income geographies. The total population of the AA is 63,000 based on the 1990 census. The MSA updated median family income is \$59,500. This income figure is the basis for determining the low-, moderate-, middle-, and upper-income levels of families. The family breakdown by income levels is 13% low-income families, 16% moderate-income families, 25% middle-income families and 46% high-income families. (See **Table 1** located in the Appendix for additional AA details.)

The largest city in DeKalb County is the city of DeKalb with a population of 36,000 (1990 census). Sycamore is north of DeKalb and has a population of 11,000 (1990 census). A large proportion of the population consists of students, most of which are low-income individuals attending Northern Illinois University. The local economy is stable. Local housing consists of 54% owner-occupied units, 43% rental-occupied units and 3% vacant housing units. The median home value is \$85,500. Rental-occupied units are high due to the demand for off-campus student housing.

The major industry within the assessment area is services. Manufacturing and retail trade are the next largest industries. The major local employers include: Northern Illinois University, State Government and DeKalb Genetics Corporation. The vast majority of businesses located in DeKalb County are

small businesses. Of the approximately 2,000 businesses, only 85 have more than 50 employees and approximately 28% have annual gross revenues of more than \$1 million. Only 2% of the households are farmers (self-employed). The local economy has been steady with little growth over the last two years. The local unemployment rate is approximately 3%.

The identified credit needs of the area can be generally assessed as residential mortgage, small business and agriculture loans per two recent contacts with economic development organizations.

The scope of this examination included a review of all HMDA products, commercial and farm loans using the examination procedures as outlined by the Comptroller of the Currency. The time period of this evaluation is from February 1997 through year-end 1998.

Conclusions With Respect to Performance Tests

Lending Test

NBT's performance under the Lending Test was evaluated in terms of: the volume of lending, the geographic distribution of loans originated and purchased, the borrower dispersion of loans originated and purchased, the responsiveness to community needs, the level of innovation and flexible products offered, as well as, community development lending activities.

Conclusions

- C Geographic distribution of loans reflects good penetration throughout the AA.
- C The distribution of borrowers reflects good penetration among retail customers of different income levels and business and farm customers of different size.
- C Lending levels represent a good responsiveness to the various credit needs of the community.
- C NBT makes use of innovative and flexible lending practices to help serve the AA credit needs.

Supporting Information

NBT's lending levels reflect good responsiveness to AA community credit needs. More than 1,200 loans were originated or purchased within the AA during this evaluation period. Fifty-five percent of this total were Home Mortgage Disclosure Act (HMDA) reportable loans, 27% business loans, 17% farm loans and the remaining 1% community development loans.

A substantial majority of loans (79%) originated or purchased during this evaluation period (HMDA reportable, small business and farm loans), were made in NBT's AA. The breakdown for the individual lending categories is:

- eighty-six percent of HMDA lending originated within the AA;
- seventy-two percent of small business lending originated within the AA; and,
- seventy-two percent of farm lending originated within the AA.

These numbers reveal that NBT is committed to serving the diverse credit needs of its community.

Based on 1997 comparable peer data (most recent data available), NBT performs very well in its AA. Within its AA, NBT ranks first for all HMDA products with a 9.2% market share. When analyzing the individual HMDA products NBT is in the top 2% of lenders in its AA. The rankings are:

- first in home purchase loans;
- first in home refinance loans; and,
- fourth in home improvement loans.

NBT ranks 54th in small business lending, placing it in the top 17% of business lenders within the AA. Market share reports reveal NBT's performance with respect to small farm lending to be favorable when compared to others. The overall market rank for farm loans is second, placing NBT in the top 4% of farm lenders in this AA. NBT's market share is 16%.

Geographic distribution of loans represents good penetration throughout the AA. A review of **Table 3 - Geographic Distribution: HMDA**, discloses that NBT makes loans in all segments of its assessment area. No conspicuous gaps were noted in the distribution. Based on 1997 comparable peer data (most recent data available), NBT performs very well penetrating low-to-moderate income areas (LMI). This is particularly true for home purchase mortgage loans. When reviewing home purchase mortgage loans, the market share for low-income tracts is almost double the overall market rate.

Small loans to businesses reveal an overall pattern of activity below the opportunities in each type of geography. This is detailed in **Table 5 - Geographic Distribution: Small Business**. The reason for the lower activity is because the low-income tract encompasses Northern Illinois University where businesses are considered part of the University. The two moderate-income tracts are contiguous to the low-income tract and a vast majority of these businesses are franchise businesses representing regional or national chains (fast food, etc.). The need for these types of businesses to borrow is limited since this activity is usually handled by the holding company.

Small farm loans represent an overall pattern that is comparable to the opportunities within the AA. **Table 7 - Geographic Distribution: Small Farm** shows that only 2% of the farms within NBT's AA are located in low- and moderate-income tracts. All of NBT's farm loans originated in middle-income tracts.

The distribution of borrowers reflects good penetration among retail customers of different income levels and business customers of different size. A review of **Table 4 - Borrower Distribution: HMDA**

discloses that NBT makes loans to retail customers of all different income levels. Four percent of these loans were originated to low-income individuals as compared with 19% of the families within FMB=s AA low-income area. The major reason for this variance is that vast majorities of low-income people in the AA are students attending Northern Illinois University. Twenty-four percent of HMDA loans were made to moderate-income individuals. This percentage compares favorably to the demographics, as 22% of the families within the AA are moderate-income. Market share reports disclose that despite loans to low-income borrowers are less than the demographic data with respect to home purchase loans, NBT ranks first overall and the market share is higher in low-income areas than overall.

The penetration to business customers of different sizes is good as detailed in **Table 6 - Borrower Distribution: Small Business**. The table discloses that NBT makes 75% of its business loans to businesses with revenues of less than \$1,000,000. The table also reveals that 83% percent of its business loans were made in original amounts of less than \$100,000. These facts disclose that NBT is making a vast majority of its business loans to small businesses in small dollar amounts. NBT ranks 36th when lending to businesses with revenues of less than \$1,000,000. This places the bank in the top 11% of all small business lenders in the AA.

Lending to farms shows high penetration to farms with revenues of less than \$1,000,000. Loans to these farms represent 90% of all farm loans originated. This is detailed in **Table 8 - Borrower Distribution: Small Farm**. The table also discloses that 92% percent of farm loans originated were in amounts less than \$100,000. These facts show that NBT is originating a very high level of farm loans to farms with less than \$500,000 in revenue. NBT ranks second in its AA in originating farm loans to farms with less than \$500,000 in revenue. This places the bank in the top 4% of all small farm lenders in the AA.

NBT makes an adequate level of community development loans. These activities include making loans for multi-family dwellings, as well as, providing credit through the commercial loan department. Although **Table 2 - Lending Volume**, discloses only three loans, these loans were for multi-family purposes and totaled \$810,000. Additionally, NBT originated four loans, which meet the definition of community development. However, due to reporting requirements these credits are reported and analyzed with small business data. These seven loans total more than \$1.4 million and are to community organizations that promote community service and construction of affordable housing within the AA.

NBT makes use of flexible lending practices to help serve the AA credit needs. These products include: low down-payment mortgage loans, 30 year fixed-rate mortgage loans, low-interest operating loans to farmers through the Illinois Farm Development Authority (IFDA) Loan Program, and, SBA loans. The latter two programs assist borrowers who may not meet NBT=s underwriting criteria or afford the borrower better rates or terms offered by the bank. The bank also provides Letter of Credit facilities to developers of low- and moderate-income housing. This amounted to \$200,000 for this last year.

INVESTMENT TEST

NBT's performance under the Investment Test was evaluated in terms of: the volume of qualified investments and grants; the level of innovation and complexity associated with the investments; the degree to which the investments and grants responded to the credit and community development needs of the bank's assessment areas; and, the degree to which these investments and activities are not routinely provided by private investors.

Conclusions:

- C NBT has an adequate level of qualified community development investments and grants. Investments and grants total \$237,000 and represent .7% of Tier 1 capital.
- C NBT exhibits an adequate responsiveness to credit and economic development needs.

Supporting Information

NBT's investments consist of grants and donations to numerous community organizations that provide community services to low- and moderate-income individuals and promote economic development. As reflected in **Table 10 - Qualified Investments**, 62 qualified investments were made during the evaluation period. Sixty-nine percent of these investments were for community service; 18% for economic development/small business; and, the remaining 13% were for revitalizing and stabilizing the community. This diversity represents management's commitment to the various needs of its area and people. Community contacts disclosed that there is not a pressing need for other types of investments at this time. The reason is that all area banks participate through lending opportunities.

SERVICE TEST

NBT's performance under the Services Test was evaluated in terms of Retail Banking Services (the accessibility of delivery systems, changes in branch locations and the reasonableness of business hours and services to help meet the assessment area's needs) and the level of community development services provided in the AA.

Conclusions:

- C NBT's delivery systems are reasonably accessible to, essentially, all portions of the institution's AA. Branches and ATMs are distributed throughout its AA.

- C NBT's opening and closing of branches has not adversely affected the accessibility of its delivery systems.
- C Services, including business hours, do not vary in a way that inconveniences certain portions of the assessment areas, particularly low- and moderate-income individuals.
- C NBT provides an adequate level of community development services.

Supporting Information

NBT's three offices and seven ATMs are centrally located within the AA. Approximately 80% of the AA population are within a five-mile radius of the offices or ATMs. The remaining population is within a ten-minute drive of a bank facility. The bank has opened one branch since the last Performance Evaluation. This branch is located in the city of DeKalb and adds convenience to customers living in that city. Branch hours are reasonable and convenient for customers. Bank services are available in the evenings and on Saturdays.

Alternative delivery systems include bank-by-phone and low-cost checking accounts for both consumers and businesses. Using the bank-by-phone system, customers can obtain information on checking, savings and loan accounts 24 hours a day, free of charge. A depositor may also transfer funds among accounts. Significant weight is not placed on these alternative delivery systems because no specific data is available on how much of a positive impact there is on LMI individuals.

The bank provides an adequate level of community development services. Management provides technical assistance as Board members, officers, and consultants belong to many organizations in the area that promote economic development. Technical assistance is provided to a local economic development corporation, which attracts new business to the area and promotes start-up businesses. Community contacts indicate that NBT is very active in providing community development activities to area organizations.

FAIR LENDING REVIEW

The OCC conducted a fair lending examination of NBT concurrently with its CRA examination. Owner-occupied home purchase loans were targeted for the review. We analyzed the rates and terms offered to single female applicants with those afforded to married joint applicants. The bank is in compliance with the substantive provisions of the antidiscrimination and fair housing laws with respect to providing similar rates and terms to single female applicants and married joint applicants purchasing homes for occupancy.

APPENDIX

TABLE 1 Demographic Information for the Assessment Area						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA % of #
Geographies (Census Tracts/BNAs)	16	6	12	69	6	5
Population by Geography	63,423	11	15	58	7	9
Owner-Occupied Housing by Geography	11,753	1	7	82	10	0
Businesses by Geography	2,065	4	18	72	5	1
Farms by Geography	77	1	1	98	0	0
Family Distribution by Income Level	13,457	19	22	28	31	0
Median Family Income	= \$42,758	Median Housing Value		= \$85,561		
HUD Adjusted Median Family Income for 1998	= \$59,500	Unemployment Rate		= 3.0%		
Households Below the Poverty Level	= 13.7%					

Source: 1990 U.S. Census and 1998 HUD updated MFI.

TABLE 2
LENDING VOLUME

	% of Total Bank Deposits in Rated Area	Residential		Small Business		Small Farm		Community Development		Total Loans		% of Total Bank Loans in Rated Area
		#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	
MSA/Assessment Area	100	669	68,944	335	27,422	217	8,668	3	810	1224	105,844	100

TABLE 3
Geographic Distribution: HMDA

Product:	Low-Income Tracts		Moderate-Income Tracts		Middle-Income Tracts		Upper-Income Tracts		Overall Market Rank*	Market Share*					Total Loans	
	% Owner OCC Units	% BANK Loans	% Owner Occ Units	% BANK Loans	% Owner Occ Units	% BANK Loans	% Owner Occ Units	% BANK Loans		Overall	Low	Mod	Mid	Upp	#	% of Total
HOME PURCHASE MORTGAGE LOANS	1%	1.0%	7%	6.0%	82.0%	85.0%	10.0%	8.0%	1	9.3	17.6	7.4	10.0	3.7	209	100%
HOME REFINANCE LOANS	1.0%	0.0%	7.0%	4.0%	82.0%	93.0%	10.0%	3.0%	1	10.8	0.0	6.4	11.8	5.1	435	100%
HOME IMPROVEMENT LOANS	1.0%	0.0%	7.0%	9.0%	82.0%	73.0%	10.0%	18.0%	4	4.9	0.0	6.9	4.2	8.3	22	100%

(*) Based on 1997 Aggregate HMDA Data only.

TABLE 4
Borrower Distribution: HMDA

Product:	Low-Income Families		Moderate-Income Families		Middle-Income Families		Upper-Income Families		Overall Market Rank*	Market Share*					Total Loans	
	% of Families	% BANK Loans	% of Families	% BANK Loans	% of Families	% BANK Loans	% of Families	% BANK Loans		Overall	Low	Mod	Mid	Upp	#	% of Total
HOME PURCHASE MORTGAGE LOANS	19	8	22	27	28	40	31	25	1	9.3	11.3	11.1	11.6	13.6	209	100
HOME REFINANCE LOANS	19	2	22	23	28	40	31	35	1	10.8	3.7	11.6	12.9	16.2	435	100
HOME IMPROVEMENT LOANS	19	0	22	27	28	36	31	37	4	4.9	0.0	4.1	6.8	6.0	22	100

(*) Based on 1997 Aggregate HMDA Data only.

TABLE 5
Geographic Distribution: SMALL BUSINESS

	Low-Income Tracts		Moderate-Income Tracts		Middle-Income Tracts		Upper-Income Tracts		Overall Market Rank*	Market Share*					Total Loans	
	% of Businesses	% BANK Loans	% of Businesses	% BANK Loans	% of Businesses	% BANK Loans	% of Businesses	% BANK Loans		Overall	Low	Mod	Mid	Upp	#	% of Total
MSA/Assessment Area	4.0%	1.0%	18.0%	4.0%	72.0%	91.0%	5.0%	2.0%	54	0	0	0	1	0	335	100

(*) Based on 1997 Aggregate Small Business Data only.
(% of Businesses does not add to 100% due to 1% being in a N/A tract.)

TABLE 6
Borrower Distribution: SMALL BUSINESS

	Businesses with Revenues of \$1 million or less			Loans by Original Amount Regardless of Business Size			Market Share**		Total Loans	
	% of Businesses	% BANK Loans	% Market Loans*	< \$100,000	\$100,000 to \$250,000	> \$250,000	All	Rev \$1 million or less	#	% of Total
MSA/Assessment Area	72	75	51	279	31	25	0	1	335	100

(*) The market consists of all other Small Business reporters in BANK's assessment area and is based on 1997 Aggregate Small Business Data only.
(**) Based on 1997 Aggregate Small Business Data only.

TABLE 7
Geographic Distribution: SMALL FARM

	Low-Income Tracts		Moderate-Income Tracts		Middle-Income Tracts		Upper-Income Tracts		Overall Market Rank*	Market Share*					Total Loans	
	% of Farms	% BANK Loans	% of Farms	% BANK Loans	% of Farms	% BANK Loans	% of Farms	% BANK Loans		Overall	Low	Mod	Mid	Upp	#	% of Total
MSA/Assessment Area	1.0%	0.0%	1.0%	0.0%	98.0%	100.0%	0.0%	0.0%	2	16	0	0	18	6	217	100

(*) Based on 1997 Aggregate Small Farm Data only.

TABLE 8
Borrower Distribution: SMALL FARM

	Farms with Revenues of \$500 thousand or less			Loans by Original Amount Regardless of Business Size			Market Share**		Total Loans	
	% of Businesses	% BANK Loans	% Market Loans*	< \$100,000	\$100,000 to \$250,000	> \$250,000	All	Rev \$500,000 or less	#	% of Total
MSA/Assessment Area	79	90	98	199	10	8	16	17	217	100

(*) The market consists of all other Small Farm reporters in BANK's assessment area and is based on 1997 Aggregate Small Farm Data only.

(**) Based on 1997 Aggregate Small Farm Data only.

TABLE 9

DISTRIBUTION OF BRANCH AND ATM DELIVERY SYSTEM																	
	Deposits	Branches						ATMs						Population			
	% of Total BANK Deposits	# of BANK Branches	% of Total BANK Branches	Location of Branches by Income of Geographies				# of BANK ATMs	% of Total BANK ATMs	Location of ATMs by Income of Geographies				% of the Population within Each Geography			
				Low	Mod	Mid	Upp			Low	Mod	Mid	Upp	Low	Mod	Mid	Upp
MSA/Assessment Area	100	3	100	0	0	3	0	7	100	1	1	5	0	11	15	58	7

TABLE 10 QUALIFIED INVESTMENTS											
	Affordable Housing		Service Community		Economic Development/ Small Business		Stabilize or Revitalize		Total Investments		
		\$ (000's)		\$ (000's)		\$ (00's)		\$ (000's)		\$ (000's)	
MSA/Assessment Area	0	0	43	59	11	172	8	6	62	237	100