

PUBLIC DISCLOSURE

November 24, 1997

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The First National Bank of McHenry
Charter Number: 15765**

**3814 West Elm Street
Post Office Box 338
McHenry, Illinois 60050**

**Comptroller of the Currency
Chicago Field Office - North
85 West Algonquin Road, Suite 340
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.

*The document is an evaluation of the Community Reinvestment Act (CRA) performance of **The First National Bank of McHenry** prepared by the **Comptroller of the Currency**, the institution's supervisory agency, as of November 24, 1997. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 C.F.R. Part 25.*

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

- The loan to deposit ratio is reasonable.
- A majority of loans are originated inside the assessment area.
- The distribution of borrowers indicates good penetration among individuals and businesses of all income levels.
- The majority of the bank's commercial loans are to small businesses.
- There have been no CRA complaints against the bank.

DESCRIPTION OF INSTITUTION

The First National Bank of McHenry is a community bank headquartered in McHenry, IL. It is wholly owned by First McHenry Corporation, a one bank holding company. The bank has two branch offices, one located in the south section of McHenry, the other in Island Lake, IL. The Island Lake facility relocated in August, 1997 into a larger facility which will now provide lending services. As of June 30, 1997, total assets equaled \$91MM. Asset mix consists of 51% investments, 40% loans, 5% cash equivalents, and 4% in fixed assets. The bank's loan portfolio equaled \$36MM with 82% in residential real estate, 13% in commercial credit and 5% in consumer credit. There are no known legal or financial impediments that would hamper the bank's performance under the Community Reinvestment Act (CRA).

The bank was last examined under CRA July 13, 1995 and received a "Satisfactory record of meeting community credit needs".

DESCRIPTION OF THE ASSESSMENT AREA

The bank has defined their assessment area (AA) as generally bounded by the Wisconsin state line to the north, US Route 12 on the east, Crystal Lake Avenue on the south, and Wonder Lake Road on the west. This area contains 12 census tracts, all of which are part of the Chicago 1600 metropolitan statistical area (MSA). There are zero low or moderate-income census tracts, 10 middle-income census tracts, and 2 upper-income census tracts. Census tract designations are derived from the 1990 Census MSA median family income which is \$42,758 and is updated every 10 years. The bank's AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income geographies.

Although there are no low- and moderate-income census tracts within the bank's AA, there are low- and moderate-income families living in the AA. Specifically, 12% of the families are low-income (individuals with income that is less than 50% of the area median income) and 17% of the families are moderate-income (individual income that is at least 50% and less than 80% of the area median income). The median family income for the AA is \$46,646 which is based on information calculated by the Department of Housing and Urban Development (HUD) and is updated annually.

Using the 1990 census data, the bank's AA has 78,882 individuals and 21,498 families. There are 28,718 housing units, 76% of which are owner occupied. The median housing value is \$106,781.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA :

- Loan to Deposit Ratio

The bank's loan to deposit ratio is reasonable. The average loan to deposit ratio since the last CRA evaluation is 45.09%. This is less than their local peer average of 67.45%. However, to the bank's credit it has been steadily increasing over the years. By the late 1980's the bank had successfully rebounded from serious loan problems and the Board was ready to focus on lending again. At this time (1987) the bank's loan to deposit ratio was at an all time low of 24.12%. Steadily the ratios have increased, and have almost doubled since ten years ago. In dollars this translates to an increase in the loan portfolio from \$11MM at December 31, 1987 to \$36MM at June 30, 1997, a 227% increase. Recent efforts to continue increasing the bank's lending include:

A "spring loan sale" in 1996. The bank lowered interest rates below their competitors on fixed rate consumer loans secured by junior mortgages. As a result, 27 loans totaling \$453M were originated in the 3 month time frame.

A "vacation on us" program began June, 1997. This program gives a borrower a vacation package when a home purchase loan application is approved and closed. To date, 42 loans totaling \$1,411M have been originated.

Additionally, upon relocation of the Island Lake facility in August, 1997, a loan officer was hired to take and approve loan applications. In a three month period, five applications were taken. Of these five, one has been funded, two are approved for funding, and two are in the process of approval.

- Lending To Borrowers of Different Income Levels

The bank's record of lending to borrowers of different income levels and businesses of different sizes is good as highlighted in the four tables below.

TABLE #1

This table illustrates the **Home Mortgage Disclosure Act (HMDA)*** loans made to borrowers of different income levels for 1996 and year-to-date 1997 in the bank's AA. The bank's record of originating HMDA loans to low- and moderate-income borrowers is consistent with the population of low and moderate income families in the AA.

1996	#	%	\$(000)	%	YTD-1997	#	%	\$(000)	%
Low	7	16%	\$201	7%		4	15%	\$112	6%
Moderate	5	12%	\$190	6%		3	11%	\$151	8%
Middle	15	35%	\$1,273	42%		13	48%	\$797	40%
Upper	16	37%	\$1,385	45%		7	26%	\$910	46%
Total	43	100%	\$3,049	100%		27	100%	\$1,970	100%

*HMDA reportable loans include loans on 1-4 family and multi-family dwellings for the following reasons: home purchase, refinancing of the home purchase, and home improvement loans.

TABLE #2

This table illustrates the sample of 20 **consumer** loans originated in 1996 and 1997. Nineteen of these loans were in the bank's AA. The majority of loans are made to those who are low or moderate- income borrowers.

1996 and 1997	# Of Loans	%	\$(000'S)	%
Low	2	11%	\$21	9%
Moderate	8	42%	\$97	42%
Middle	8	42%	\$101	43%
Upper	1	5%	\$15	6%
Total	19	100%	\$234	100%

TABLE #3

This table represents all of the loans to **businesses with gross revenues under \$1,000M** in the bank's AA for 1996. The majority of loans are originated for amounts under \$100M.

1996	Loans within assessment area to companies with revenues less than \$1,000,000.				Total Loans	
LOAN AMOUNTS	#	% OF TOTAL	\$(000)	% OF TOTAL	#	\$(000)
0-99,999	17	89%	\$615	74%	24	\$828
100,000-250,000	2	11%	\$214	26%	6	\$832
OVER 250,000	0	0%	\$0	0%	2	\$701
TOTALS	19	100%	\$829	100%	32	\$2,361

TABLE #4

This table represents all of the loans to **businesses with gross revenues under \$1,000M** in the bank's AA for 1997. The majority of loans are originated for amounts under \$100M.

1997	Loans within assessment area to companies with revenues less than \$1,000,000.				Total Loans	
LOAN AMOUNTS	#	% OF TOTAL	\$(000)	% OF TOTAL	#	\$(000)
0-99,999	24	96%	\$638	31%	33	\$905
100,000-250,000	0	0%	\$0	0%	3	\$330
OVER 250,000	1	4%	\$1,400	69%	2	\$2,600
TOTAL	25	100%	\$2,038	100%	38	\$3,835

- Lending in the Assessment Area

A majority of loans have been originated inside the AA. A review of HMDA loans, home equity lines of credit (HELC), instalment and commercial loans originated for 1996 and as of June 30,1997 was performed and is summarized in the tables below.

1996

LOAN TYPE	\$ VOLUME OF LOANS INSIDE THE AA.	% OF TOTAL LOANS	# VOLUME OF LOANS INSIDE THE AA.	% OF TOTAL LOANS
HMDA LOANS	\$3,049	85%	43	81%
HELC	\$ 178	100%	3	100%
INSTALMENT	\$ 431	70%	60	74%
COMMERCIAL	\$2,352	99%	30	94%

AS OF JUNE 30, 1997

LOAN TYPE	\$ VOLUME OF LOANS INSIDE THE AA.	% OF TOTAL LOANS	# VOLUME OF LOANS INSIDE THE AA.	% OF TOTAL LOANS
HMDA LOANS	\$1,970	82%	27	84%
HELC	\$ 175	100%	3	100%
INSTALMENT	\$ 849	90%	58	82%
COMMERCIAL	\$2,355	61%	28	74%

- Geographic distribution of Loans

An analysis of the geographic distribution of loans is not meaningful as there are no low- or moderate- income census tracts in the bank's AA.

- Compliance with Antidiscrimination Laws

No violations of the substantive provisions of the Antidiscrimination laws and regulations were identified in the course of the evaluation.

- Community Reinvestment Act Complaints

No complaints have been received relating to the Community Reinvestment Act.