



PUBLIC DISCLOSURE

June 24, 2014

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

North Shore Trust and Savings
Charter Number 700108

700 South Lewis Ave
Waukegan, IL 60085-6173

Office of the Comptroller of the Currency

Chicago - Schaumburg Field Office
1700 East Golf Road, Suite 800
Schaumburg, IL 60173

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.

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

Primary factors supporting this rating:

- The distribution of lending among borrowers of different income levels is excellent.
- The geographic distribution of loans within the assessment area is excellent.
- A majority of originated or purchased home loans are within the assessment area.

SCOPE OF EXAMINATION

This Community Reinvestment Act (CRA) evaluation assesses North Shore Trust and Saving's (North Shore) performance in meeting the credit needs of its community using full scope Small Bank CRA examination procedures. The evaluation period for this assessment is January 25, 2010 through December 31, 2013.

The primary performance assessment is performed under the lending test, which evaluates the bank's record of meeting the credit needs of its assessment area (AA) through lending activities. The loan review period for the lending analysis is January 1, 2012 through December 31, 2013. The lending analysis includes a review of North Shore's Home Mortgage Disclosure Act (HMDA) reported residential loan originations and purchases. The bank's HMDA Loan Application Register (LAR) was reviewed for 2012 and 2013. Our analysis included testing a sample of HMDA data to verify that the data was accurately collected, maintained, and reported in accordance with the HMDA regulation. HMDA data was deemed reliable.

Using the 2010 U.S. Census and aggregate HMDA data, we generated demographic reports to compare North Shore's 2012-2013 HMDA lending to the census data of the AA. Additionally, we compared North Shore's 2012-2013 HMDA lending to the aggregate HDMA lending data within the AA. Aggregate HMDA data for 2013 was not yet available at the time of our evaluation. Therefore, we relied on 2012 aggregate HDMA data for our analysis.

The reported Federal Deposit Insurance Corporation (FDIC) annual deposit information was used to determine the bank's deposit market share and market presence within its AA. The most recent deposit market share information is as of June 30, 2013. We used quarterly financial data since the last CRA evaluation to assess the loan-to-deposit (LTD) ratio. Quarterly loan and deposit data for 17 quarters, from March 31, 2010 through March 31, 2014, was averaged.

DESCRIPTION OF INSTITUTION

North Shore is a mutual federal savings association headquartered in Waukegan, IL. The bank is wholly owned by NSTS Financial Corporation, which is wholly owned by North Shore MHC, a federal mutual holding company. As of the date of this evaluation, the bank operates two branches in Waukegan, IL. One branch is located in a low-

income census tract, and the other is in a moderate-income census tract. The bank also operates a third branch in a middle-income census tract in Lindenhurst, IL. As of March 31, 2014, North Shore reported total assets of \$257.5 million and total deposits of \$213 million. North Shore received an “Outstanding” CRA rating from the Office of Thrift Supervision during its previous CRA evaluation dated January 25, 2010.

North Shore offers traditional thrift products and services, with heavy emphasis on residential real estate loans. As of March 31, 2014, North Shore reported a \$104.1 million loan portfolio comprising 40.4 percent of total assets. Loans secured by 1-4 family real estate mortgages account for 92.5 percent of the loan portfolio and loans secured by multifamily properties account for 6.2 percent of the portfolio. The remaining loans are commercial real estate, commercial, and consumer loans.

In addition to traditional residential mortgage loans, the bank offers Federal Housing Administration (FHA) and Department of Veterans Affairs (VA) loans, home equity lines of credit, and consumer loans. The bank supports and participates in many community development organizations throughout its AA.

North Shore has the financial capacity to assist in meeting the credit needs of its AA. Other than high competition from many financial institutions in the AA, there are no legal or other circumstances impeding the bank’s ability to help meet the AA’s credit needs.

DESCRIPTION OF ASSESSMENT AREA

North Shore’s AA consists of 153 census tracts within the Lake County-Kenosha County, IL - WI Metropolitan Division and corresponds to the boundaries of Lake County, IL. Thirty-nine tracts, or 25.5 percent, are considered low- or moderate-income geographies. Refer to Table 1 below for further details on the AA demographics. Considering the bank’s size, operational strategies, and office locations, the delineated AA meets the requirements of the CRA regulation, does not arbitrarily exclude low- or moderate-income areas, and does not reflect any other illegal discrimination.

Table 1. 2012-2013 Assessment Area Demographic Information								
Income Category	% Family Distribution	Census Tract Data Distributions						
		# Tracts	% Housing Units	% Owner Occupied Units	% Rental Occupied Units	% Single Family Units	Median Housing Value (\$)	Median Housing Age (Yrs.)
Low	18.48	9	4.64	2.39	11.25	3.84	114,856	55
Moderate	16.77	30	20.60	16.16	34.40	18.10	166,686	39
Middle	21.12	50	37.59	37.75	37.60	37.19	258,708	29
Upper	43.63	62	37.17	43.70	16.72	40.87	502,076	30
Income N/A	0.00	2	0.00	0.00	0.02	0.01	0	5
Total	100	153	100	100	100	100	351,375	33

Source: U.S. Census data (2010).

According to the 2010 U.S. Census, the AA's population was 703,462, with 239,246 households and 178,072 families. The AA consisted of 257,971 housing units, of which 72.7 percent were owner-occupied housing units (OOHU), 20.1 percent were occupied rental units, and 7.3 percent were vacant units. The median housing value was \$351,375, and median gross rent was \$1,001. As of April 2014, the Lake County, IL unemployment rate reported by the U.S. Bureau of Labor Statistics was 6.7 percent, compared to 7.2 percent in the State of Illinois and 6.3 percent in the U.S.. Weighted average median family income in the AA was \$100,127.

Competition for loans and deposits within the AA is strong. North Shore's primary competition comes from local credit unions, including Consumers Credit Union, Great Lakes Credit Union, and ALEC (Abbott Laboratories) Credit Union. Additional competition comes from 40 other financial institutions operating 233 banking offices in the AA and non-bank mortgage originators. According to deposit market share data reported by the FDIC as of June 30, 2013, North Shore ranked 21 out of 41 banks in the AA, with a total deposit market share of 1.22 percent. Dominant institutions in the area include JP Morgan Chase Bank, Lake Forest Bank and Trust Co., First Midwest Bank, BMO Harris Bank, and Libertyville Bank and Trust Co., which collectively hold over 48 percent of the market share.

We contacted representatives of two community development organizations that operate within North Shore's AA to discuss credit needs and opportunities for participation by local financial institutions. These organizations focus on the development of affordable housing, financial assistance for consumers, and property rehabilitation assistance for low- and moderate-income families. The contacts noted that the biggest opportunities for involvement by financial institutions in the AA were providing mortgage financing to low- and moderate-income borrowers and providing financing for non-profit consumer education programs. Contacts also stated opportunities exist for consumer financial education programs, financial support of community and social services organizations, and funding of computer literacy programs for low- and moderate-income populations.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

North Shore has demonstrated an Outstanding performance in meeting the credit needs of its AA.

Loan-to-Deposit Ratio

North Shore's loan to deposit (LTD) ratio of 60.4 percent is reasonable. We calculated the LTD ratio based on the average of 17 quarters of financial data from March 31, 2010 through March 31, 2014.

North Shore's LTD ratio is significantly lower than the peer group of nine similarly sized financial institutions in Lake County, IL, whose average LTD ratios for the same time

period ranged from 70.8 to 108.7 percent. However, the bank sells a significant amount of home loans on the secondary market, which dilutes the LTD ratio. During 2012 and 2013, North Shore sold more than 150 loans totaling approximately \$21 million or 20.2 percent of the bank’s loans and leases.

Lending in Assessment Area

The majority of North Shore’s lending is inside the AA. Over 76 percent of the number of home loans and approximately 72 percent of the dollar volume of home loans originated or purchased in 2012 and 2013 were in the AA. This percentage is reasonable and meets CRA performance standards. Refer to Table 2 for additional information on North Shore’s lending within its AA.

Table 2. Lending in the Assessment Area (\$ in thousands)										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total #	Inside		Outside		Total \$
	#	%	#	%		\$	%	\$	%	
Home Purchase	206	70.07	88	29.93	294	24,193	64.90	13,083	35.10	37,276
Home Refinancing	219	82.33	47	17.67	266	31,926	77.50	9,720	22.50	41,646
Home Improvement	16	100.00	0	0.00	16	1,301	100.00	0	0.00	1,301
Total Home Loans	441	76.56	135	23.44	576	57,420	71.98	22,353	28.02	79,773

Source: HMDA data (2012 & 2013).

Lending to Borrowers of Different Incomes

North Shore’s distribution of lending among borrowers of different income levels is excellent. We based our analysis on the number of HMDA-reportable loans to both low- and moderate-income borrowers originated or purchased in 2012 and 2013 and compared these figures to the aggregate percentages of HMDA loans to low- and moderate-income borrowers reported in the AA. Over 23 percent of North Shore’s HMDA-reportable loans that were originated or purchased during the review period were to low-income borrowers. This percentage significantly exceeds the aggregate distribution of 6.6 percent by the peer group to low-income borrowers. Similarly, North Shore’s 27.91 percent of HMDA loans originated or purchased to moderate-income borrowers significantly exceeds the peer group distribution of 11.58 percent to moderate-income borrowers.

In addition, North Shore’s lending to low- and moderate-income borrowers significantly exceeds the percentages of both low- and moderate-income families in the AA. Refer to Table 3 below for further details.

Table 3. Borrower Distribution of Residential Real Estate Loans in North Shore's AA (2012-2013)				
Borrower Income Level	# of Loans	% of Loans	HMDA Peer Group Distribution %	Family Distribution %
Low	61	23.64	6.60	18.48
Moderate	72	27.91	11.58	16.77
Middle	54	20.93	18.49	21.12
Upper	50	19.38	53.66	43.63
Not Available	21	8.14	9.68	0.00
Totals	258	100.00	100.00	100.00

Source: U.S. Census data (2010) and HMDA data (2012 & 2013).

Geographic Distribution of Loans

North Shore's distribution of loans in its AA among low- and moderate-income geographies is excellent. We based our analysis on the number of HMDA-reportable loans originated or purchased in both low- and moderate-income census tracts in 2012 and 2013 and compared this figure to the aggregate lending percentages of HMDA loans in low- and moderate-income census tracts reported in the AA. North Shore's HMDA-reportable loans originated or purchased in low- income census tracts made up 4.65 percent of total HMDA loans purchased or originated in 2012 and 2013. This percentage significantly exceeds the aggregate distribution of 1.96 percent by the peer group. Similarly, North Shore's 20.16 percent of HMDA loans originated or purchased in moderate-income census tracts significantly exceeds the peer group distribution of 11.58 percent in moderate- income census tracts.

In addition, North Shore's lending in both low- and moderate- income census tracts significantly exceeds the percentages of owner occupied housing units (OOHU) in both low- and moderate- income census tracts in the AA. Refer to Table 4 below for further details.

Table 4. Geographic Distribution of Residential Real Estate Loans in North Shore's AA (2012-2013)				
Census Tract Income Level	# of Loans	% of Loans	HMDA Peer Group Distribution %	OOHU Distribution %
Low	12	4.65	1.96	2.39
Moderate	52	20.16	8.22	16.16
Middle	125	48.45	31.70	37.75
Upper	69	26.74	58.13	43.70
Not Available	0	0.00	0.00	0.00
Totals	258	100.00	100.00	100.00

Source: U.S. Census data (2010) and HMDA data (2012 & 2013).

We did not see evidence of unreasonable exclusion from lending of any low- and moderate-income tracts. There were no unexplained lending gaps in the bank's AA.

Responses to Complaints

North Shore did not receive any written comments or complaints regarding its CRA performance during our evaluation period. The Office of the Comptroller of the Currency (OCC) has not received any CRA-related comments or complaints during the evaluation period.

FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

Pursuant to 12 C.F.R. 195.28(c), in determining a federal savings association's (FSA) CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the FSA, or in any assessment area by an affiliate whose loans have been considered as part of the FSA's lending performance.

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping meet community credit needs.