

# **PUBLIC DISCLOSURE**

November 27, 2001

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

Lakeland Community Bank  
RSSD# 1864610

935 West Rollins Road  
Round Lake Heights, Illinois 60073

Federal Reserve Bank of Chicago  
230 South LaSalle Street  
Chicago, Illinois 60604-1413

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

The bank has provided credit consistent with its size, financial capacity, location, economic conditions, and the competitive factors within its assessment area. The bank's eight-quarter average loan-to-deposit ratio of 69.22% is reasonable, although below the peer group of 74.79%. The bank's percentage of lending within its assessment area reflects that a majority of loans are within the assessment area. The geographic distribution of loans reflects excellent dispersion throughout the assessment area. The bank's lending to individuals of different income levels and businesses of different sizes is excellent. In addition, the bank has not received any CRA-related complaints since the previous CRA examination dated April 7, 1997 when the bank received a satisfactory rating. Furthermore, based on the fair lending tests performed during the November 27, 2001 consumer compliance examination, the bank is in compliance with the substantive provisions of the Equal Credit Opportunity Act and Fair Housing Act.

## **DESCRIPTION OF INSTITUTION**

Lakeland Community Bank, with total assets of \$148,623,000 as of September 30, 2001, is a subsidiary of Lakeland Financial Corporation, a one-bank holding company located in Round Lake Heights, Illinois. The bank is located at 935 West Rollins Road in Round Lake Heights, Illinois. This location includes a drive-up facility and an automated teller machine (ATM). The branch facility opened for business on December 19, 1997. The branch facility is located at 1310 South Route 12 in Fox Lake, Illinois and includes an ATM. The bank also participates in an ATM network (AGREE) that permits bank customers to make surcharge-free withdrawals at participating ATMs.

The bank's primary business focus is consumer and commercial real estate lending. Traditional consumer and business purpose loans and deposit products are offered. Loan products include real estate, installment, single-payment loans, home equity loans, agricultural and commercial loans, and home equity lines of credit.

The bank has introduced an Internet site that can be accessed at: <http://www.lcb.com/> that provides information about bank services and products, as well as access to home banking. The site includes hours and locations of its banking facilities, and consumer and commercial product offerings. The site allows online-banking customers to check account balances, to transfer funds among accounts, and to make loan payments to the bank. The bank also has a bank-by-phone system that allows customers to conduct transactions similar to those available through the Internet site.

A review of the bank's September 30, 2001 Uniform Bank Performance Report (UBPR) revealed that the bank's loan-to-deposit ratio was 67.64%. The distribution of bank's and its national peer group's loan portfolios are as follows:

Loan Mix –Comparison of Bank and National Peer Group		
LOAN TYPE	BANK AVERAGE LOAN MIX (%)	PEER AVERAGE LOAN MIX (%)
REAL ESTATE LOANS	85.57%	64.74%
LOANS TO INDIVIDUALS	5.22%	6.22%
CREDIT CARD LOANS	0.02%	0.11%
COMMERCIAL & INDUSTRIAL LOANS	8.68%	19.28%
AGRICULTURAL LOANS	0.00%	0.37%
MUNICIPAL LOANS	0.47%	0.11%
OTHER LOANS*	0.07%	0.30%

\*Excludes Financial Institution Loans, Acceptances of Other Banks, Foreign Office Loans and Leases, and Lease Financing Receivables

Similar to its national peer group, real estate loans and commercial and industrial loans comprise the majority of the bank's loan portfolio; however, real estate loans comprise a higher percentage of the bank's portfolio than those of its peer group. The bank's total loans have increased by approximately \$45 million since the previous CRA evaluation (April 7, 1997).

## DESCRIPTION OF ASSESSMENT AREA

The bank's assessment area is located in Lake County, Illinois in the Chicago Metropolitan Statistical Area (MSA). The assessment area consists of 21 census tracts: one low-income (50% - 80% of MSA Median Family Income), 17 middle-income (80 – 120% of MSA Median Family Income), and three upper-income tracts (> 120% of MSA Median Family Income).

According to the 1990 census data, the population of the assessment area is 120,358. The data also revealed that the assessment area's median family income (\$44,295) was 1% above the Chicago MSA median family income. Within the bank's assessment area, 68% of families are middle- and upper-income, while 32% of families are classified as low- to moderate-income. The 2001 Department of Housing and Urban Development's (HUD) adjusted median family income for the Chicago MSA is \$70,500.

Housing statistics from the 1990 census data show that there were 45,395 housing units in the assessment area. Housing units are 77.3% owner-occupied. The median housing value for the assessment area is \$97,153 while the median age of the housing stock is 24 years. The Chicago MSA median housing value is \$108,960 and median age of housing stock is 45 years. This assessment area's housing units are less expensive and newer, as compared with the Chicago MSA.

Information from the State of Illinois Department of Employment Security indicates that Illinois had an unemployment rate of 4.4% for 2000 and 5.2% for September 2001. Lake County's unemployment rate was 3.6% for September 2001 and 7.1% for 2001; both lower than the state's. Lake County unemployment rates have remained stable since the previous

CRA examination.

MAJOR EMPLOYERS IN THE BANK'S ASSESSMENT AREA		
Employer	# of Employees	Product / Service
Baxter Healthcare Corp.	2,500	Health Care equipment
Grieve Corp.	150	Industrial & Laboratory Ovens
Midwest Printed Circuit Services	140	Printed Circuit Services
Meirer's Outdoor World	50	Wooden & Chainlink fencing

The community representative contacted during the examination to determine the credit needs of the assessment area, stated that the bank is involved in the community and is adequately meeting the credit needs of the community.

### CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank was examined for compliance with fair lending laws and regulations; no evidence of prohibited discriminatory credit practices was found. The bank is in compliance with the substantive provisions of anti-discrimination laws and regulations, including the Equal Credit Opportunity Act and the Fair Housing Act.

### LOAN-TO-DEPOSIT RATIO

A review of the bank's Consolidated Reports of Condition from December 31, 1999 to September 30 2001 (eight quarters) revealed an average loan-to-deposit (LTD) ratio of 69.22%, a peer average LTD of 74.79%, and LTD averages of 59.58% and 62.32% for two local competitors.

The quarterly ratios for the bank, its peer group, and selected local competitors since December 31, 1999 are as follows:

QUARTER	BANK	PEER	FIRST STATE BANK OF ROUND LAKE, ROUND LAKE BEACH, IL	STATE BANK OF THE LAKES, ANTIOCH, IL
12-31-99	69.00%	71.33%	58.27%	56.23%
03-31-00	72.15%	72.07%	58.50%	59.21%
06-03-00	71.41%	74.71%	56.32%	61.25%
09-30-00	68.08%	74.92%	57.22%	64.51%
12-31-00	68.42%	76.23%	59.46%	65.61%
03-31-01	69.21%	75.32%	59.62%	65.49%
06-30-01	67.84%	76.78%	64.23%	66.91%
09-30-01	67.64%	76.92%	69.02%	65.32%
<b>AVERAGE</b>	<b>69.22%</b>	<b>74.79%</b>	<b>59.58%</b>	<b>62.32%</b>

As of September 30, 2001 the bank's LTD ratio was 67.64%, which is lower than that of its peer group but similar to that of its local competitors. Although the bank's LTD ratio has

declined over the past six quarters and has been declining in relationship to the bank's peer group, the bank's eight-quarter average LTD ratio has been similar to, or better than, its local competitors and meets the standards for satisfactory performance.

### **LENDING IN ASSESSMENT AREA**

Analysis of the bank's 2000 and January 1 - October 5, 2001 HMDA data and its commercial loans originated from April 1, 2001 – September 30, 2001 revealed the following distribution:

<b>LENDING WITHIN THE ASSESSMENT AREA</b>			
<b>LOAN TYPE</b>	<b>TOTAL SAMPLED</b>	<b>WITHIN THE ASSESSMENT AREA</b>	<b>PERCENT OF TOTAL</b>
Mortgage	176	123	69.89%
Commercial Loans	60	41	68.33%
<b>TOTALS</b>	<b>236</b>	<b>164</b>	<b>69.49%</b>

### CONSUMER LENDING

The bank's 2000 and January 1 2001 - October 5, 2001 Home Mortgage Disclosure Act (HMDA) data was reviewed to analyze the bank's record of lending in the assessment area. Of the 176 real estate-related loans reported on the HMDA loan application registers (LARs), 123 loans or 69.89% totaling \$12,787,000 were originated within the bank's assessment area.

### COMMERCIAL LENDING

The bank's commercial loans originated April 1, 2001 – September 30, 2001 were reviewed to analyze the bank's commercial lending within its assessment area. Of the 60 commercial loans originated during the sample period, 41 loans or 68.33% were originated within the bank's assessment area. This level of commercial lending in the bank's assessment area meets the standards for satisfactory performance.

Overall, consumer and commercial lending within the bank's assessment area meets the standards for satisfactory performance under this criterion.

### **LENDING TO BORROWERS OF DIFFERENT INCOMES AND TO BUSINESSES OF DIFFERENT SIZES**

A review of 2000 and year-to-data 2001 HMDA loans sampled revealed the following distribution of loans among borrowers of different income levels.

<b>Distribution of HMDA-Related Loans by Borrower Income Level*</b>				
<b>LOAN TYPE</b>	<b>LOW-INCOME BORROWERS</b> Number / \$000's	<b>MODERATE-INCOME BORROWERS</b> Number / \$000's	<b>MIDDLE-INCOME BORROWERS</b> Number / \$000's	<b>UPPER-INCOME BORROWERS</b> Number / \$000's

Purchase – Money	5/\$292	18/\$2,472	7/\$881	10/\$1,096
Refinance	10/\$761	20/\$1,751	24/\$3,042	18/\$2,206
Home improvement	4/\$220	4/\$30	2/\$22	1/\$14
<b>TOTAL #</b>	<b>19/\$1,273</b>	<b>42/\$4,253</b>	<b>33/\$3,945</b>	<b>29/\$3,316</b>

\* Information based on HUD's 2000 Adjusted Median Family Income

### HMDA-Related Lending

Of the 123 loans that had income information available and that were originated in the assessment area, 61 loans or 49.5% were made to low-and moderate-income borrowers, 33 loans or 26.8 % were to middle-income borrowers, and 29 loans or 23.5% were to upper-income borrowers.

Moderate-income borrowers received the largest dollar amount of loans, \$4,253,000 or 33.2% of all HMDA-related loan dollars. Low- and moderate-income borrowers received 43.2% of the total dollar amount of loans. The bank's distribution of loans to the different income levels in the assessment area exceeds the standards for satisfactory performance.

### Commercial Lending

Of the 41 commercial loans made within the assessment area, 28 or 68.2% were made to businesses with annual revenues of less than \$1 million. All small business loans originated during the sample period were in amounts of \$1 million or less. The review showed that the bank originated 36 small business loans totaling \$1,732,278 in amounts of \$100,000 or less. The bank also originated 5 small business loans totaling \$1,151,814 in amounts of \$100,001 to \$1 million. The bank is a strong small business lender based on the preceding figures.

Overall, the distribution of the bank's loans to borrowers of different income levels and to businesses/farms of different revenue sizes exceeds the standards for satisfactory performance.

## **GEOGRAPHIC DISTRIBUTION OF LOANS**

The geographic distribution of loans originated during the sample period, by census tract income classification and loan type, is as follows:

<b>LOAN DISTRIBUTION BY CENSUS TRACT CLASSIFICATION AND LOAN TYPE</b>				
<b>Loan Type</b>	<b>Loans in Low- Income Tracts #/%</b>	<b>Loans in Middle- Income Tracts*** #/%</b>	<b>Loans in Upper- Income Tracts #/%</b>	<b>Total Loans</b>
<b>HMDA Loans*</b>	0/0%	117/95.1%	6/4.9%	123
<b>Commercial**</b>	2/4.9%	39/95.1%	0/0%	41
<b>Total</b>	<b>2/1.2%</b>	<b>156/95.1%</b>	<b>6/3.7%</b>	<b>164</b>

\* Sample comprised of 2000, and year to date 2001 (January 1, 2001 to October 5, 2001) HMDA data

\*\* Sample comprised of commercial loans originated from April 1, 2001 - September 30, 2001

\*\*\* No moderate-income census tracts within the bank's assessment area

According to the September 31, 2001 UBPR, 58% of the bank's real estate loans are concentrated in 1-4 family residential real estate loans. One-to-four family residential real estate loans represent the largest percentage of loans in the bank's loan portfolio. The above chart shows that 95% of the bank's mortgage loans were originated in middle-income geographies. The bank originated no mortgage loans in its low-income tract and only six in its upper-income tract. Distribution of HMDA-related loans is not well balanced among these geographies and could be improved.

The bank made 95% of its business loans in middle-income geographies. According to the 1999 Dun & Bradstreet report, 79% of the small businesses within the assessment area are located in middle-income geographies. The bank originated two commercial loans in its low-income tract. Overall, 95% of the bank's mortgage and commercial loans were originated in middle-income geographies. Seventeen or 81% of the geographies in the assessment area are classified as middle-income. The geographic distribution of the bank's loans meets the standards for satisfactory performance.

## **RESPONSE TO COMPLAINTS**

The bank has not received any CRA-related complaints since the previous examination; therefore this criterion was not reviewed.