
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 operations 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 **UnionBank, Sandwich, Illinois** prepared by the **Federal Reserve Bank of Chicago**, the institution's supervisory agency, as of **June 9, 1997**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 228.

INSTITUTION-S RATING: This institution is rated Outstanding.

The UnionBank in Sandwich has made an outstanding effort to offer credit consistent with its size, financial capacity, location, and current economic conditions. The bank's efforts are primarily accomplished through the origination of real estate, small business, and consumer loans. The loan-to-deposit ratio is strong, and the bank originates a substantial majority of its loans within its assessment area. Lending to low- and moderate-income borrowers is also strong and the geographic distribution of loans reflects a reasonable dispersion throughout the assessment area. In addition, no CRA-related complaints have been received since the previous examination, and there is no evidence of any prohibited discriminatory lending practices or policies intended to discourage loan applications. There are no legal or regulatory impediments which prohibit the bank from meeting the credit needs of its community.

DESCRIPTION OF INSTITUTION

The UnionBank in Sandwich, with assets of \$39.6 million as of March 31, 1997, is a subsidiary of UnionBancorp, a multi-bank holding company. The bank operates one main office in Sandwich, and one full-service branch in Plano. Both the main office and the branch have lobby hours between 8:30am and 4:30pm on Monday through Thursday, 8:30am to 6:30pm on Friday, and 8:30am to 12:30pm on Saturday. The drive-up hours for both locations are 6:30am to 7:30pm Monday through Friday, and 7:30am to 3:30pm on Saturday. The bank's primary competitor is the Sandwich State Bank, with approximately \$106 million in assets, also located in Sandwich. The bank also faces competition from various community banks in surrounding cities and towns.

The bank offers commercial, residential real estate (including mobile home loans), consumer, and agricultural loans. The bank is involved in government-guaranteed, subsidized and insured lending programs through the Federal Housing Administration (FHA) and the Illinois Housing Development Authority (IHDA). The bank also assists small businesses through its involvement in the SBA loan program. Commercial and real estate loans represent the largest portion of the bank's loan portfolio at 28% and 23%, respectively.

DESCRIPTION OF ASSESSMENT AREA

The bank's assessment area is defined as portions of DeKalb, Kendall, and Kane County, which are part of the Chicago Metropolitan Statistical Area (MSA), and parts of LaSalle County. The area is comprised of ten whole census tracts and two block numbering areas (BNAs). One of the census tracts is defined as moderate-income; seven census tracts and one BNA as middle-income; and two census tracts and one BNA as upper-income.

According to 1990 United States census data, the population of the assessment area is 51,151. The median family income for the assessment area is \$43,344. Low-income families represent 12.3%, moderate-income families represent 17.3%, middle-income families represent 27.6%, and upper-income families represent 42.8% of the assessment area's population. Minorities represent approximately 3.7% of the assessment area's population.

According to the census data, the housing stock of the assessment area is 71.4% owner occupied, 24.3% rental, and 4.3% vacant. The housing stock consists of 90.8% one-to-four family units, 4.9% five or more family units, and 3.7% mobile homes. Within the assessment area, the median housing age is 30 years and the median housing value is \$95,325.

The local economy was described by community contacts as growing, with a low level of unemployment. According to the Illinois Department of Employment Services, the unemployment rate in the assessment area's three counties as of March 1997 was 4.2% in DeKalb County, 4.4% in Kendall County, and 8.4% in LaSalle County. Unemployment has declined since March 1996, when the county unemployment rates were 4.9% in DeKalb County, 5.1% in Kendall county, and 8.8% in LaSalle County. Over the same time period the state average

unemployment rate declined from 5.6% in 1996 to 5.3% in 1997.

According to representatives within the community, Sandwich and its surrounding cities and towns are primarily bedroom communities, with most of the residents commuting to Aurora and Naperville for employment. The two largest employers in Sandwich are CTS Corp. - Frequency Control, a manufacturer employing approximately 550 people; and Impact Industries, Inc., a manufacturer of zinc and aluminum die castings employing approximately 275 people. Contacts stated that Caterpillar, an equipment manufacturer employing 3,050 people, has a large plant in Kendall County and employs some of the area residents.

Growth is expected to continue as Chicago's suburban sprawl continues its movement westward.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

The bank is in compliance with the fair lending laws and regulations, including the Equal Credit Opportunity Act and the Fair Housing Act. The bank has an office in the Chicago MSA, and is subject to the Home Mortgage Disclosure Act.

LOAN-TO-DEPOSIT RATIO

In order to assess the bank's performance in this category, an analysis was performed of its loan-to-deposit ratio over a specific time period, and a comparison was made of its loan-to-deposit ratio to that of its competitors and its peer group.

According to the March 31, 1997 Uniform Bank Performance Report (UBPR), the bank's loan-to-deposit ratio was 70.07%. This represents an increase of 6.56% from the 63.51%, noted in the previous report. As illustrated in the following chart, the bank's six-quarter average loan-to-deposit ratio was compared to that of two local banks within the assessment area and its peer group:

BANK	LOCATION	ASSET SIZE * (000)	12/95	3/96	6/96	9/96	12/96	3/97	LOAN-TO-DEPOSIT RATIO **
UNION BANK SANDWICH	Sandwich, IL	\$39,605	65.23%	66.45%	66.49%	70.01%	73.79%	70.07%	68.67%
SANDWICH STATE BANK	Sandwich, IL	\$106,516	68.47%	71.02%	76.64%	76.89%	78.15%	79.22%	75.07%
COMMUNITY BANK OF PLANO	Plano, IL	\$71,153	64.89%	64.66%	66.06%	64.89%	67.70%	70.67%	66.48%
PEER GROUP	N/A	N/A	65.24%	65.08%	67.44%	67.58%	67.62%	67.59%	66.76%

*Asset size based upon the March quarterly consolidated report of condition (Call report)

**Loan-to-Deposit Ratio is the average of the previous six quarters as reported on the Uniform Bank Performance Report (UBPR)

While the bank's loan-to-deposit ratio is reasonable, compared to those of other local financial institutions and peer, there are several compensating factors adversely impacting the ratio which support an outstanding rating in this performance category. First, the bank sells mortgage loans in the secondary market. In the six months preceding the examination, the bank sold approximately \$4.5 million in mortgage loans on the secondary market. In addition, the bank sells commercial loan participations to its affiliate banks. In the six months preceding the examination the bank had approximately \$4.8 million in participations outstanding. These activities are not reflected in the loan-to-deposit ratio.

Based upon this review, the bank exceeds the standards for satisfactory performance in this category.

LENDING IN ASSESSMENT AREA

Small business and real estate loans originated during the six-month period preceding the examination, as well as the examination sample, were reviewed in order to assess the bank's performance in this category. The sample revealed the following geographic distribution:

LOAN TYPE	TOTAL SAMPLED	WITHIN THE ASSESSMENT AREA	PERCENT OF TOTAL
Installment	20	17	85.00%
Real Estate*	69	56	81.16%
Single Payment	15	13	86.67%
Overdraft Protection	11	10	90.91%
Home Equity	10	9	90.00%
Small Business*	87	69	79.31%
Total	212	174	82.08%

*Six month CRA sample

As the chart indicates, 82.08% of the loans sampled were made within the assessment area.

A six-month sample of small business and real estate loans was reviewed and compared with the bank's current assessment area. Small business and real estate loans were selected because they represent significant portions of the bank's loan portfolio. A sample of 87 small business loans revealed that 69 or 79.31% were made within the assessment area. In addition, a sample of 69 real estate loans revealed that 56 or 81.16% were made within the assessment area. Combining the two products sampled, a total of 80.13% (125 of 156) were made within the assessment area.

Based upon this review, the bank exceeds the standards for satisfactory performance under this category.

Lending to Borrowers of Different Incomes and to Businesses of Different Sizes

Small business and real estate loans originated during the six month period preceding the examination, as well as the examination loan sample, were analyzed in order to evaluate the bank's performance in this category.

The sample revealed the following distribution for loans with income information:

LOAN TYPE	LOW-INCOME Number of Loans	MODERATE- INCOME Number of Loans	MIDDLE- INCOME Number of Loans	UPPER-INCOME Number of Loans
Installment	9	5	0	2
Real Estate*	1	6	20	22
Single Payment	0	1	0	4
Overdraft Protection	6	2	1	2
Home Equity	0	1	0	7
Total	16	15	21	37
Percent	17.98%	16.85%	23.60%	41.57%

*Six month CRA sample

The above chart reveals that 17.98% (16 of 89) of the loans sampled were made to low-income borrowers, and 16.85% (15 of 89) were made to moderate-income borrowers. The percentage of the bank's originations to low- and moderate-income borrowers compares favorably to census data which reveals that 12.3% of the families in the bank's assessment area are classified as low-income, and 17.3% are classified as moderate-income. In addition, 1995 and 1996 HMDA data was reviewed to evaluate the bank's record of lending to borrowers of different income levels. In 1995 and 1996, 35.00% (7 of 20), and 36.00% (9 of 25), respectively, of the bank's HMDA reportable loans were originated to low- or moderate-income borrowers.

In its efforts to provide mortgage loans to low- and moderate-income borrowers within its assessment area, the bank provides loans guaranteed by the Fair Housing Administration (FHA) and the Illinois Housing Development Authority (IHDA). Since the previous examination the bank originated ten FHA loans totaling \$1.1 million and three IHDA loans totaling approximately \$283 thousand.

Discussions with management and information contained in the June 30, 1996 Consolidated Report of Income (Call Report) indicates that a substantial majority of the bank's commercial loans are made to small businesses. The bank reported 169 commercial and industrial loans, and

46 loans secured by nonfarm nonresidential properties on the June 30, 1996 Call Report. In its commitment to provide credit to small businesses within its assessment area, the bank became a certified SBA lender. The bank's SBA loans are regularly booked and serviced by its affiliate in Streator, Illinois. Since the previous examination the bank originated ten SBA loans totaling \$536,000; however, as of the examination date, two SBA loans totaling \$770,000 remained on the bank's books.

Based upon this review, the bank exceeds the standards for satisfactory performance under this category.

Geographic Distribution of Loans

Small business and real estate loans originated during the six-month period preceding the examination, as well as the examination loan sample, were analyzed in order to evaluate the bank under this category. The bank's assessment area contains one moderate income census tract.

LOAN TYPE	MODERATE-INCOME Number of Loans	MIDDLE-INCOME Number of Loans	UPPER-INCOME Number of Loans
Installment	2	10	5
Real Estate*	7	25	24
Single Payment	0	9	4
Overdraft Protection	2	5	3
Home Equity	0	6	3
Small Business*	19	37	13
Total	30	92	52
Percent	17.24%	52.87%	29.89%

* six month CRA sample

The chart reveals that 17.24% (30 of 174) of the loans sampled were made to borrowers living in or located in the moderate-income census tract, 52.87% (92 of 174) were made to borrowers living in or located in middle-income census tracts or BNAs, and 29.89% (52 of 174) were made to borrowers living in or located in upper-income census tracts or BNAs.

Analysis of the bank's real estate and small business lending activity showed that the bank penetrated every census tract/BNA with at least one loan in the six-month period preceding the examination. The real estate sample indicated that seven or 12.50% of the loans were made to borrowers living in the moderate-income census tract, 25 or 44.64% of the loans were made to borrowers living in middle-income census tracts, and 24 or 42.86% of the loans were made to borrowers living in upper-income census tracts. The small business loan sample indicated that 19

or 27.54% of the loans were made to businesses located in the moderate-income census tract, 37 or 53.62% of the loans were made to businesses located in middle-income census tracts, and 13 or 18.84% were made to businesses located in upper- income census tracts.

The bank's activity is more than reasonable, as approximately 8.3% of the assessment area's population resides in the moderate-income tract, 66.7% of the assessment area's population resides in middle-income tracts, and 25% of the assessment area's population resides in upper-income tracts.

Based upon this review, the bank exceeds the standards for satisfactory performance under this category.

Response to Complaints

No CRA-related complaints were received since the previous examination.