

# **PUBLIC DISCLOSURE**

September 10, 2001

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

Midwest Bank of McHenry County  
RSSD: 469849

8 East Depot Street  
Union, Illinois 60180

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.

## TABLE OF CONTENTS

Institution's Overall CRA Rating .....	1
Table of Performance Test Ratings .....	1
Summary of Major Factors Supporting Rating.....	2
Description of Institution .....	3
Assessment Area Map.....	5
Scope of Examination.....	6
Conclusions With Respect to Performance Tests .....	6
Compliance with Antidiscrimination Laws.....	9
Metropolitan Statistical Area/Discription of Institution's Operations.....	10
Lending Test.....	14
Investment Test .....	16
Service Test .....	17
CRA Appendices .....	21
CRA Appendix A: Scope of Examination.....	21
CRA Appendix B: Glossary.....	22

## INSTITUTION'S RATING

**INSTITUTION'S CRA RATING:** Midwest Bank of McHenry County is rated "SATISFACTORY."

*The following table indicates the performance level of Midwest Bank of McHenry County with respect to the lending, investment, and service tests.*

PERFORMANCE LEVELS	MIDWEST BANK OF MCHENRY COUNTY		
	PERFORMANCE TESTS		
	Lending Test*	Investment Test	Service Test
Outstanding			
High Satisfactory	X	X	
Low Satisfactory			X
Needs to Improve			
Substantial Noncompliance			

\* The lending test is weighted more heavily than the investment and service tests in determining the overall rating.

## Summary of CRA Rating for Midwest Bank of McHenry County

### Lending Test

- Lending levels reflect a good responsiveness to the needs of the assessment area.
- The bank originated a good number and dollar amount of Home Mortgage Disclosure Act (HMDA)-related and small business loans within the assessment area.
- The geographic distribution of HMDA and small business loans reflects a good penetration throughout the assessment area.
- The distribution of borrowers reflects, given the limited opportunity, good penetration among customers of different income levels.
- The distribution among businesses of different revenue sizes reflects good penetration among small businesses with revenues less than or equal to \$1 million.
- The distribution by loan amounts reflects a good level of small business loans originated in amounts less than or equal to \$100,000.
- Given the limited opportunity within the assessment area, the bank reported a good level of community development loans. The majority of the bank's community development lending was generated inside the assessment area.
- There was limited use of innovative and/or flexible lending practices.

### Investment Test

- Given the limited opportunity, the bank made a good level of qualified community development investments and grants. However, investments and grants reflect that the bank is rarely in a leadership position, particularly with those not routinely provided in the private sector.
- The bank exhibits an adequate responsiveness to the credit and community development needs of the assessment area. There were some innovative and/or complex investments used to target low- and moderate- income individuals; specifically the investment with the Chicago Equity Fund (CEF) and the CRA securities purchased from Freddie Mac.
- The bank made a limited amount of donations to organizations that benefit low- and moderate-income individuals.

### Service Test

- Delivery systems are reasonably accessible to essentially all portions of the assessment area.
- The record of opening and closing branches has not adversely affected the accessibility of the bank's delivery systems. No branches have been closed since the previous examination.
- The reasonableness of business hours and services do not vary in a way that inconveniences portions of the assessment area.
- The bank provides a limited level of community development services that benefit low- and moderate-income individuals.

## INSTITUTION

### DESCRIPTION OF INSTITUTION

Midwest Bank of McHenry County, with total assets of \$339.5 million as of June 30, 2001, is a subsidiary of Midwest Banc Holdings, Inc. Melrose Park, Illinois, a multibank holding company with total assets of \$1.607 billion as of June 30, 2001. The bank's main office is located in Union Illinois. There are four full-service offices located in Union, Algonquin, McHenry and Island Lake Illinois. The bank also operates drive-up facilities at each of its offices. A full-range of real estate, commercial and consumer credit products and services and deposit products and services are available at the main office and at each full-service branch office.

Since the previous examination, dated November 20, 2000, the bank has kept its assessment area the same. Competition continues to be very strong in the area. As of June 30, 2000, there were 37 Federal Deposit Insurance Corporation (FDIC)-insured institutions with total deposits of \$3.4 billion in McHenry County. The Harris Trust and Savings Bank affiliates had 10 locations in the county with a total of \$600.553 million. Bank One had 8 offices in McHenry County with \$155.324 million of deposits. Home State Bank had 7 offices in the area with total deposits of \$358.482 million. First Midwest Bank had 5 offices in the county with total deposits of \$292.852 million. Fifth Third Bank had 4 offices in the county with total assets of \$152.611 million. Amcore Bank had 4 offices in the county with total deposits of 191.491 million. McHenry Savings Bank had 4 offices in the county with total deposits of \$118.793 million.

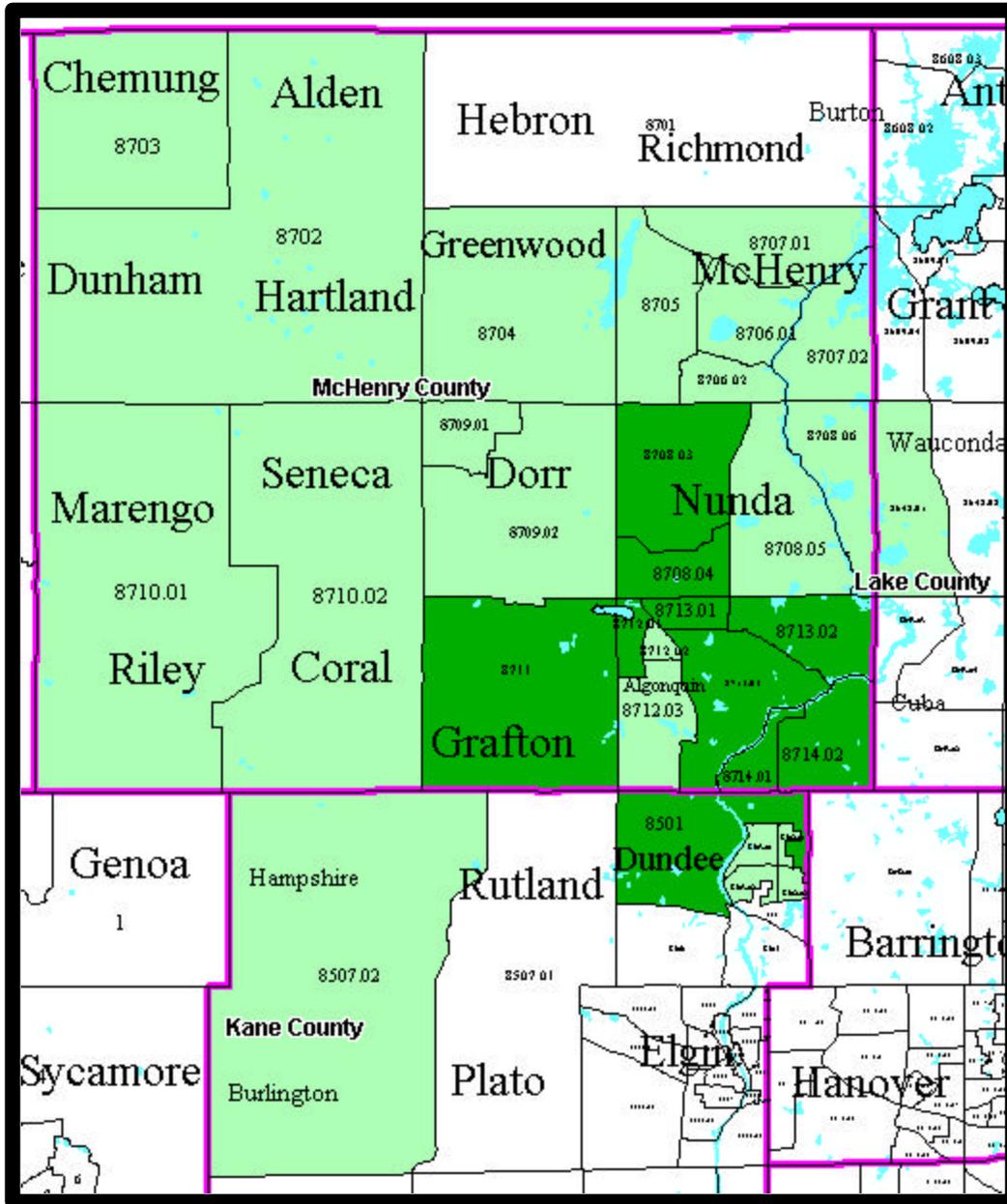
According to the June 30, 2001 Uniform Bank Performance Report (UBPR), the bank's loan portfolio compared to peer is depicted in the following table.

Loan Type	Bank Loan Mix	Peer Loan Mix
REAL ESTATE LOANS	88.26	68.22
Construction & Development	26.25	7.17
1-4 Family Residential	24.91	28.17
<i>Home Equity</i>	4.23	2.46
Other Real Estate Loans	37.10	30.15
<i>Farmland</i>	1.67	1.57
<i>Multifamily</i>	3.10	1.82
<i>Non-Farm, Non-Residential</i>	32.34	25.48
LOANS TO INDIVIDUALS	1.58	9.32
CREDIT CARD LOANS	0.00	0.29
COMMERCIAL & INDUSTRIAL LOANS	9.15	16.73
FINANCIAL INSTITUTIONS LOANS	0.00	0.01
AGRICULTURAL LOANS	0.91	1.39
MUNICIPAL LOANS	0.07	0.51
OTHER LOANS*	0.04	0.34
<ul style="list-style-type: none"> <li>• Excludes Acceptances of Other Banks, Foreign Office Loans and Leases, and Lease Financing Receivables</li> </ul>		

As the preceding table depicts, the bank's loan portfolio is comprised of 88.26% real estate and 9.15% commercial & industrial loans compared to 68.22% and 16.73%, respectively, from the peer group. McHenry County, along with other northwest suburbs of Chicago, has experienced significant growth in population and in the number of businesses that have either relocated or opened new locations in the county. This has translated into increased real estate and commercial lending opportunities for Midwest Bank of McHenry. According to management, being a real estate lender is the bank's primary focus. Since the previous examination, real estate loans have comprised a significant portion of the bank's loan portfolio, especially when compared to the peer group.

Overall, there are no factors relative the bank's financial condition, size, or local economic conditions that prevent the bank from meeting the various credit needs in its assessment area.

### Midwest Bank of McHenry County, Assessment Area



ASSESSMENT AREA Metropolitan Statistical Area: 1600 - Chicago

County: McHenry, Lake, Kane

Census Tracts:

McHenry: 8702 to 8714.02

Lake: 8642.01;

Kane: 8501,8502.01, 8502.02, 8503.01, 8503.02, 8507.02;

## SCOPE OF EXAMINATION

During the scope of the examination, all lending, investment and service activities were reviewed using the full CRA examination procedures. The bank's loan portfolio, CRA-reportable small business from January 1, 2000 to June 30, 2001, HMDA-related, and community development loans originated from January 1, 2000 through June 30, 2001 were analyzed to determine the bank's lending performance. For purposes of the CRA evaluations, small business loans are those commercial loans with an original loan balance of less than \$1 million. The criteria used to evaluate the bank's performance under the Lending Test included the percentage of loans within the assessment area to total loans; the distribution of loans within geographies of different income levels; the distribution of loans to individuals of different income levels; the distribution of business loans by loan sizes and to businesses of different revenue sizes; and the level of qualified community development loans. Where possible, the bank's lending performance was compared to the market aggregate. Small business market aggregate data was available from January 1, 2000 to December 31, 2001. Activities evaluated under the Service Test consisted of a review period from January 1, 2000 to July 31, 2001; Investments, which include grants and donations, were reviewed from January 1, 2000 to July 31, 2001. Any reference to demographics consisted of 1990 census data. Unless specifically noted, all information presented here is consistent throughout the evaluation.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

### LENDING TEST

The bank is rated **"high satisfactory"** in the lending test. Economic and demographic data as well as interviews conducted with community representatives indicated limited opportunity for community development within the assessment area. The assessment area is a relatively affluent community that consists of a smaller low- and moderate-income population. There are no low-income census tracts in the bank's assessment area. Overall, the bank has adequately addressed the needs of the assessment area and therefore community development lending outside of the assessment area was considered.

#### Lending Activity

The bank has a high percentage of lending within the assessment area. According to the following table, approximately 57.5% of the number and 51.1% of the dollar amount for HMDA-related loans were originated within the assessment area. The table indicates that a significant portion of the dollar amount for home improvement loans was originated in the assessment area. According to 1990 census data, the median housing value is \$108,374 with a median age of 26 years in the assessment area. Current housing data for McHenry indicates median home sales are between a low of \$90,000 in Hebron and as high as \$365,000 in the Barrington area. Small business lending was adequate with 59.0% of the number and

47.7% of the dollar amount originated in the assessment area. According to 2000 census data, 90.9% of businesses in the assessment area have revenues less than or equal to \$1 million.

<b>MIDWEST BANK OF MCHENRY COUNTY</b>								
<b>Lending Inside And Outside The Assessment Area</b>								
<b>JANUARY 1, 2000 – JUNE 30, 2001</b>								
	<b>Inside</b>				<b>Outside</b>			
	#	%	\$ (‘000s)	%	#	%	\$ (‘000s)	%
HMDA Purchase	69	56.1	14,464	55.2	54	43.9	11,758	44.8
HMDA Refinancing	68	61.3	7,632	53.7	43	38.7	6,573	46.3
HMDA Home Improvement	14	70	1,224	68.7	6	30	558	31.3
HMDA Multifamily	3	21.4	961	18.1	11	78.6	4,349	81.9
<b>Total HMDA-related</b>	<b>154</b>	<b>57.5</b>	<b>24,281</b>	<b>51.1</b>	<b>114</b>	<b>42.5</b>	<b>23,238</b>	<b>48.9</b>
<b>Total small business</b>	<b>227</b>	<b>59</b>	<b>\$21,902</b>	<b>47.7</b>	<b>158</b>	<b>41</b>	<b>24,004</b>	<b>52.3</b>
<b>TOTAL LOANS</b>	<b>381</b>	<b>58.3</b>	<b>\$46,183</b>	<b>49.4</b>	<b>272</b>	<b>41.7</b>	<b>47,242</b>	<b>50.6</b>

Geographic and Borrower Distribution

The geographic distribution of HMDA-related and small business loans is “adequate”. The geographic distribution is reflective of the bank’s assessment area, which is primarily comprised of upper-income and middle-income census tracts. A review of the loans indicated an adequate level of penetration throughout the assessment area.

The borrower distribution of HMDA-related loans is “adequate.” Similar to the market aggregate, the majority of the loans were originated to middle and upper-income borrowers. Lending to low- and moderate-income borrowers was slightly below that of the market aggregate.

The distribution to businesses with revenues less than or equal to \$1 million is “ very good.”

In 2000, the bank's performance (83%) was above the market aggregate of 37.8%; The trend continued upward with 87% of loans in 2001 originated to businesses with revenues less than or equal to \$1 million.

The distribution by loan amounts to businesses is "good." In 2000, a significant portion of the loans by the bank 79.3% and market aggregate 90.9% were in amounts less than or equal to \$100,000.

### Community Development Lending

The bank made a relatively high level of community development loans. Twenty loans totaling \$12,508,490 to 6 different borrowers were reported by the bank. Given the limited opportunity available in the assessment area, nine of the twenty loans were originated outside of the assessment area. Community representatives indicated that very little opportunity exists for low- and moderate-income housing in the assessment area. However, 1990 census data indicates that approximately 28.4% of families are considered low- and moderate-income. The assessment area does not have low- or moderate-income census tracts. The bank did use innovative and/or flexible lending practices to target low- and moderate-income individuals in the assessment area (Westwood and UCAC). The majority of the community development loans were for affordable housing. Seven of the loans were for the construction of affordable condominiums units in Woodstock and Round Lake, Illinois by a for-profit development company. The condo buildings offered affordable sales prices between \$66,000 and \$99,000 and sold to low- and moderate-income individuals. The bank also provided a working capital line of credit to not-for-profit organizations to purchase HUD homes for resale to qualified low/mod income individuals and auto loans to low- and moderate-income residents. In addition, two loans were made to an individual to repair and improve the facade and structure of a commercial property, therefore helping stabilize the area.

### **INVESTMENT TEST**

The bank is rated "**high satisfactory**" in the investment test. The bank reported three qualified investments totaling \$7,200,000 benefiting a broader statewide or regional area that included the bank's assessment area. Midwest Bank of McHenry through its Holding Company purchased \$6.7 million in CRA targeted mortgage securities in northern Illinois from the Federal Home Mortgage Corporation (Freddie Mac). In addition, Midwest Bank of McHenry invested \$500,000 in the Chicago Equity Fund, a syndicator of affordable housing tax credits in Illinois. However, no uses of innovative and/or complex investments were used to target low- and moderate-income individuals; specifically those located within the bank's assessment area. A review of the donations reported by the bank revealed that an adequate level with 18 donations totaling \$7,886 was made to organizations in and out of the assessment area that target low- and moderate-income individuals.

## SERVICE TEST

The bank is rated “**low satisfactory**” in the service test. A number of the activities and services that the bank provided did not target low- or moderate-income residents. The Bank participates in a number of festivals and community activities but these activities do not meet the definition of eligible services under CRA. The Bank’s officers do participate in various community activities including Chambers of Commerce and Economic Development Commissions but their activities are not targeted specifically to low/mod residents in the community. A number of Bank Officers are active with not-for-profit organizations in the community but their participation is not documented well. The Bank is looking into participating in additional not-for-profit organizations and activities benefiting low/mod residents in their assessment area but had not become active during the timeframe of the Bank’s recent examination. The bank’s service-delivery systems are reasonably accessible to geographies and individuals of different income levels. No branches have been closed since the previous examination. Services offered, including business hours and products, do not vary in a way that inconveniences the assessment area, and low- and moderate-income individuals. A full range of real estate, commercial and consumer credit products and services, and deposit products and services are available at the main office and at each full-service branch office. The bank provided an adequate level of community development services in and out of the assessment area.

## COMPLIANCE WITH ANTIDISCRIMINATION LAWS

The bank was examined for compliance with fair lending laws and regulations. Based on the findings of the examination, the bank was not in compliance with the substantive provisions of the anti-discrimination laws and regulations, including the Equal Credit Opportunity Act.

Most importantly, one substantive violation of Regulation B was noted during the examination regarding the bank’s loan underwriting policy. The bank’s policy articulated different treatment for unmarried joint applicants and married joint applicants. As a result, one denied application was adversely affected. This is considered discrimination on a prohibited basis (marital status) and triggers the Policy Statement on Enforcement of the Equal Credit Opportunity and Fair Housing Acts. The examination team conducted a required retroactive 24-month file search; no additional violations were noted.

Because the prohibited policy had a limited effect on individuals and was isolated to a short time period, the bank’s CRA rating was not downgraded. Management took immediate action to correct the bank’s policy and eliminate this prohibited practice.

## METROPOLITAN AREA

### DESCRIPTION OF INSTITUTION'S OPERATIONS

Midwest Bank of McHenry's assessment area is located in McHenry County, the eastern portion of Lake County and northern portion of Kane County, in northern Illinois. McHenry County makes up the northernmost portion of the Chicago Metropolitan Statistical Area (MSA). The bank's main office, branches and drive-up facilities are located within the assessment area. The Town of Union, where the bank's main office is located, is approximately 61 miles northwest of downtown Chicago. The bank has defined its assessment area as 32 contiguous census tracts: 8501, 8502.01, 8502.02, 8503.01, 8503.02, 8507.02, 8642.01, 8702, 8703, 8704, 8705, 8706.01, 8706.02, 8707.01, 8707.02, 8708.03, 8708.04, 8708.05, 8708.06, 8709.01, 8709.02, 8710.01, 8710.02, 8711, 8712.01, 8712.02, 8712.03, 8713.01, 8713.02, 8713.03, 8714.01, 8714.02. The Cities and Villages of Harvard, McHenry and Woodstock create the northern boundaries of the assessment area; Union is near the center and Island Lake is at the eastern portion with Algonquin and Crystal Lake at the southern portion of the assessment area. Low- and/or moderate-income geographies surrounding the assessment area do not appear to have been arbitrarily excluded by the bank.

Based on 1990 U.S. Census data, 10 of the census tracts are classified as upper-income areas and 22 are middle-income. The HUD adjusted median family income of the assessment area is \$77,876 in 2001, \$75,004 in 2000 and 70,475 in 1999; which are higher than the Chicago MSA median family income of \$70,500, \$67,900 and \$63,800, respectively. The total population of the assessment area is 215,097 or 58,449 families; 43.1% of the families are classified as upper-income, 28.4% as middle-income and 28.4% as low- and moderate-income. Of the low- and moderate-income families, 3.2% have incomes below the poverty level for the MSA.

The median housing value in the assessment area is \$108,374 with a median age of 26 years. Approximately 20.6% of all area housing units were built prior to 1950. By comparison, the median housing value for the Chicago MSA is \$108,960 with a median age of 47 years. Approximately 36% of all housing units in Chicago were built prior to 1950. There are 75,917 housing units in the assessment area, of which 57,712 or 76.02% are owner-occupied. The overall vacancy rate for owner-occupied and rental units is 4.5%. Median monthly rent for the assessment area is \$538, compared to \$492 for the MSA.

<b>Assessment Area Demographics</b>								
<b>Midwest Bank of McHenry County</b>								
<b>Income Categories</b>	<b>Tract Distribution</b>		<b>Families by Tract Income</b>		<b>Families &lt; Poverty Level as % of Families by Tract</b>		<b>Families by Family Income</b>	
	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>
Low-income	0	0	0	0	0	0	6,898	11.8
Moderate-income	0	0	0	0	0	0	7,727	16.6
Middle-income	22	68.8	38,923	66.6	1571	84.9	16,612	28.4
Upper-income	10	31.3	19,526	33.4	279	15.1	25,212	43.1
<b>Total Assessment Area</b>	<b>32</b>	<b>100.0</b>	<b>58,449</b>	<b>100.0</b>	<b>1850</b>	<b>100.0</b>	<b>58,449</b>	<b>100.0</b>
<b>Income Categories</b>	<b>Housing Units</b>	<b>Housing Types by Tract</b>						
		<b>Owner-occupied</b>			<b>Rental</b>		<b>Vacant</b>	
		<b>#</b>	<b>%</b>	<b>%*</b>	<b>#</b>	<b>%*</b>	<b>#</b>	<b>%*</b>
Low-income	0	0	0	0	0	0	0	0
Moderate-income	0	0	0	00	0	0	0	0
Middle-income	51,393	35,674	65.3	00	11,711	75.7	2,541	74.9
Upper-income	24,524	20,037	34.7	0	3,761	24.3	850	25.1
<b>Total Assessment Area</b>	<b>75,917</b>	<b>57,711</b>	<b>100.0</b>	<b>0</b>	<b>15,472</b>	<b>100.0</b>	<b>3,391</b>	<b>100.0</b>
* Percentage of housing units by income census tract level								
<b>Income Categories</b>	<b>Total Businesses by Tract</b>		<b>Businesses by Tract &amp; Revenue Size</b>					
			<b>Under \$1 million</b>		<b>Over \$1 million</b>			
	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>		
Low-income	0	0	0	0	0	0		
Moderate-income	0	0	0	0	0	0		
Middle-income	5,242	54.1	4,633	0	417	0		
Upper-income	4,085	42.2	3,529	0	401	0		
Tract not reported	357	3.7	0	0.0	0	0		

<b>Total Assessment Area</b>	<b>9,684</b>	<b>100.0</b>	<b>8,162</b>	<b>0</b>	<b>818</b>	<b>0</b>
<b>Percentage of Total Businesses:</b>				<b>90.9</b>		<b>9.1</b>

As of June 30, 2000, there were 37 Federal Deposit Insured Corporation (FDIC)-insured institutions within McHenry accounting for \$3.430 billion in bank deposits. The Harris Trust and Savings Bank affiliates account for the largest market share at 17.51% or \$600.553 million followed by Home State Bank at 10.45% or \$358.482 million, First Midwest Bank at 8.54% or \$292.852 million, and Amcore Bank at 5.58% or \$191.491 million. Midwest Bank of McHenry County had a 5.34% market share with \$183.293 million in deposits.

The assessment area is primarily a middle- and upper-income community with many residents commuting to Chicago or surrounding suburbs for employment. According to the Illinois Department of Commerce & Community Affairs, some of the largest employers in and surrounding the bank's assessment area are:

Employer	Purpose/Service	Employees
Harvard, Illinois		
1. Motorola	Consumer Electronics	2,500
2. Cotter & Company	Distribution Center	300
Woodstock, Illinois		
1. McHenry County	Government	1,200
2. Centegro Health System	Healthcare	686
3. Unit School Dist. 200	K-12 Education	600
4. Brown Printing Co.	Printing	550
5. Automated Liquid	Packaging	510
6. Claussen Pickle	Pickle Packaging	500
Spring Grove, Illinois		
1. Intermatic, Inc.	Electrical Components	1,146
McHenry, Illinois		
1. Brake Parts Company	Brake Parts	840
2. Northern Ill. Medical Center Health Facility		800

The State of Illinois Department of Employment Security indicated the state's 2000 unemployment rate was 4.4%, slightly higher than 4.3% in 1999. The unemployment rate for the Chicago PMSA also increased slightly from 4.1% in 1999 to 4.2% in 2000. There was no increase in the unemployment rate for McHenry County, which remained at 3.2% in both 1999 and 2000.

Discussions with a number of community representatives within or surrounding the assessment area were considered in determining the community's banking needs and evaluating the bank's performance in meeting those needs. Community representatives stated that the assessment area comprises an affluent community

with very little opportunity for affordable housing. A majority of the residents are professionals with large corporations and have great earning potential. Manufacturing jobs and other blue collar positions have become much more in demand throughout the northwest suburbs over the past few years as business development continues to move north and west of Chicago. The supply of these well-paying jobs has lured wage-laborers from the other suburbs of Chicago and from parts of Southern Wisconsin. According to one community representative, while lending is available for those who qualify, those in most need are still struggling to find quality housing close to their place of employment.

There does not appear to be a lack of affordable housing in the northwest suburbs. According to one community representative, there is a decent quantity of housing available to low- and moderate-income families, but that the buildings are in very poor shape. The opportunities to move to better housing conditions are limited and there is no subsidized rent housing that provides an acceptable standard of living. Other community representatives have stated that new development is occurring especially for first-time homebuyers. More affordable single family residences and townhomes are being built in the area. So it would appear that there is still a need for affordable rental housing in the area. There have been townhomes built in the assessment area with prices ranging from \$66,000 up to \$99,000, some of which were financed by Midwest Bank.

Another community contact voiced a concern that the economy is beginning to decline and that she noticed that demand in the area is starting to slow and that jobs are not as readily available. Also, foreclosures were increasing throughout the county and this is leading to less residential creation. Vacant land is plentiful in the Assessment area that would permit more multifamily rental properties to be built if the economy stabilizes. The median house price in McHenry County is generally higher than the Chicago MSA.

According to the contact, there is not enough housing available to low- and moderate-income families and as another contact mentioned above, the ones that are available are in a dilapidated state. There are waiting lists for Section 8 subsidized rent housing, so low-income families have very limited opportunities. She also stated that the overall housing environment for low- and moderate-income families is not strong in McHenry County.

All of the community contacts agreed that there was adequate participation by local banks in community development. It was felt that the larger banks do play a bigger role and usually take the lead in the development of the community. There were no negative comments received from any of the community contacts concerning Midwest Bank of McHenry County.

The affordable housing, currently available, is not large enough to accommodate the number of families that would like to relocate to the area. This problem will continue to escalate as increasingly larger corporations move into the northwest suburbs attracting jobs from other areas.

## LENDING TEST

### Analysis of Lending Activity

A review of the bank's HMDA data indicated that 58.1% of the number and 46.2% of the dollar amount was originated within the assessment area in 2001 with 55.3% and 51.2%, respectively, in 2000 and 61.9% and 55% in 1999. Small business lending comprised 60.2% of the number and 45.2% of the dollar amount originated within the assessment area in 2001, and 58.5% and 49%, respectively, in 2000.

### Analysis of Geographic Distribution

The assessment area, which consists of 10 upper- and 22 middle- census tracts, is comparable to the bank's lending distribution. According to the 2000 HMDA data, 33.3% of the bank's and 44.7% of the market aggregate loans were originated in upper-income census tracts. Middle-income tracts accounted for 66.7% of the bank's and 55.3% of the market aggregate's originations.

Small business loans were primarily concentrated in the bank's middle-income census tracts, which account for 80 of 158 loans in 2000 and 35 of 69 loans in 2001. Market aggregate data was not available for 2001; however, 2000 data indicated 49.1% of the small business loans were made in upper- and 50.9% in middle-income census tracts.

### Analysis of Distribution by Borrower Income and Revenue Size of the Business:

According to the 2000 HMDA data, 23.8% of the bank's loans were made to low- and moderate-income borrowers with 27% made to middle-income borrowers and 39.7% made to upper-income borrowers.

A review of the distribution by revenue size of the business indicated that 83% or 132 of 159 small business loans in 2000 were to businesses with revenues less than or equal to one million dollars. This represents a significant amount to small businesses. The dollar amount of loans to businesses with revenues less than or equal to one million dollars was \$10,304,000 which represented 68.3% of the total dollars funded on small business loans by Midwest Bank of McHenry.

Distribution of Small Business Loans by Revenue Size of Business				
	<= \$1 Million		> \$1 Million	
	#	%	#	%

2000 Bank	132	83	27	17
<b>2000 Market*</b>	<b>2124</b>	<b>37.8</b>	<b>3497</b>	<b>62.2</b>
2001 Bank	60	87	9	13

\*Excludes Bank activity

An analysis of distribution by loan amounts indicates that 79.3% or 126 of 159 of small business loans were in amounts equal to or less than \$100,000 in 2000 and 73.9% or 51 of 69 in 2001. Market aggregate data for 2000 indicated that 90.9% of the small business loans were in amounts equal to or less than \$100,000. The table below depicts the loan amounts for 2000 and 2001.

Distribution of Small Business Loan Amounts						
	< = \$100,000		>\$100,000 to < = \$250,000		>\$250,000 to < = \$1M	
	#	%	#	%	#	%
2000 Bank	126	79.3	19	11.9	14	8.8
<b>2000 Market*</b>	<b>5111</b>	<b>90.9</b>	<b>261</b>	<b>4.6</b>	<b>249</b>	<b>4.4</b>
2001 Bank	51	73.9	11	15.9	7	10.1

\*Excludes Bank activity

### Community Development Lending

The bank originated 20 community development loans totaling \$12,508,490 to 6 different borrowers. Of the 6 borrowers, one is a large development company building affordable condominiums and townhouses priced between \$66,000 and \$99,000. In addition, loans were made to not-for-profit organizations that then made funds available to low-and moderate-income residents to purchase automobiles and find affordable housing in the area. Because of the limited opportunity within the bank's assessment area, some loans were originated out of the assessment area. The loans depicted in the following table were reviewed during the examination and meet the definition of community development.

Community Development Loans				
Year Loan was Originated	In/Out of Assessment Area	Income Tract	Loan Amount	Type of Financing Provided
2000	In	Middle	\$6,663,040	5 Construction loans to for affordable condos and townhouses
2000	In	Middle	\$250,000	Line of Credit to a not-for-profit corporation providing financing to low- and moderate- income purchasers of

Community Development Loans				
Year Loan was Originated	In/Out of Assessment Area	Income Tract	Loan Amount	Type of Financing Provided
				automobiles.
2000	Out	Low	\$1,013,250	7 separate loans made to a for-profit developer to purchase and restore distressed residential property for rental to low-income families utilizing the HUD Section 8 program in Chicago.
2001	In	Middle	\$3,035,200	2 Construction loans for affordable condos and townhouses
2001	In	Middle	\$100,000	Line of Credit to a not-for-profit corporation to purchase homes for resale to low- and moderate-income residents
2001	In	Middle	\$450,000	2 Loans made to an individual to remodel the facade of his business in Elgin, IL.
2001	Out	Low	\$812,000	Construction Loan made to in a Chicago Empowerment Zone. Funds used to remodel units & convert to affordable condos.
2001	Out	Low	\$185,000	A Loan made to purchase and restore a distressed residential property for rental to low-income families in Chicago utilizing the HUD Section 8 program.

### INVESTMENT TEST

The bank reported three qualified investment totaling \$ 7.2 million; of which, \$500,000 was an investment in the Chicago Equity Fund which is a syndicator of low- income housing tax credits in the Chicago MSA and \$6.7 million was the purchase of CRA targeted mortgage backed securities from the Federal Home Loan Mortgage Corporation (Freddie Mac).

Type of Qualified Investment	Amount	Purpose

<b>Chicago Equity Fund</b>	\$500,000	<b>Investment in Tax Credit Equity Fund</b>
<b>Federal Home Loan Mortgage Corp.</b>	\$6,700,000	<b>Purchase of CRA targeted Mortgage Backed Securities.</b>

In addition, the bank has made 18 qualified donations worth \$7,886.50 to various organizations that target low-and moderate-income individuals during 2000 and 2001. The location and benefit of these organizations varied; both in and out of the bank's assessment area.

### SERVICE TEST

#### Retail Services

There are four offices located throughout the assessment area; all full service with drive-up facilities. They are located in Union, Algonquin, McHenry and Island Lake, Illinois. All branches are located in middle- and upper-income-census tracts. All are in different census tracts throughout the Assessment area. An ATM is located at or near each of Midwest Bank's four offices and customers are permitted to use any of the 15 Midwest Bank full service ATM locations throughout the Chicago area for free. According to 1990 Census Data, 27.8% or 20,190 of 72,638 households located in middle- and upper-income census tracts were low-and-moderate households.

*The following table illustrates the bank's hours of operation at the branch locations and drive-up facilities:*

LOCATIONS	COUNTY / CENSUS TRACT	HOURS OF OPERATIONS		
Main Office * 17622 Depot Street Union, IL 60180	McHenry/8710.02	Main Lobby	8:00am – 4:00pm 8:00 am - 6:00pm 8:00am – 12:00pm	Mon. - Thur. Friday Saturday
<u>Drive-Up</u> * 17622 Depot Street Union, IL 60180	McHenry/8710.02	Drive-Up	7:30am – 5:30pm 7:30am - 6:00pm 7:30am – 12:00pm	Mon. - Thur. Friday Saturday
Algonquin Office 2045 E. Algonquin Road Algonquin, IL 60102	McHenry/8714.02	Lobby	9:00am – 4:00pm 9:00am - 7:00pm 9:00am – 1:00pm	Mon. Thur. Friday Saturday
Drive Up*	McHenry/8714.02	Drive-Up	7:00am – 7:00pm	Monday – Friday

LOCATIONS	COUNTY / CENSUS TRACT	HOURS OF OPERATIONS		
2045 E. Algonquin Rd Algonquin, IL 60102			7:00 am – 1:00pm	Saturday
McHenry Office * 5555 Bull Valley Road McHenry, IL 60050	McHenry/8708.03	Lobby	9:00am – 4:00pm 9:00am - 7:00pm 9:00am – 12:00pm	Mon. - Thur. Friday Saturday
Drive Up * 5555 Bull Valley Road McHenry, IL 60050	McHenry/8708.03	Lobby	7:00am – 7:00pm 7:00am – 1:00pm	Monday – Friday Saturday
Island Lake Office * 204 E. State Road (Rte 176) Island Lake, IL 60042	Lake/8642.01	Lobby	9:00am – 4:00pm Closed 9:00am – 6:00pm 9:00am - 12:00pm	Mon. - Thur. Wed Friday Saturday
Drive Up * 204 E. State Road Island Lake, IL 60042	Lake/8642.01	Lobby	8:00am – 6:00pm 8:00am – 12:00pm	Monday – Friday Saturday

\*Automated teller machines (ATM) Facility Available

### Alternative Delivery Systems

The bank offers 24-hour banking through “Telebank”, a telephone banking system that enables customers to check on balances for all deposit accounts and loans, access current rates, request a fax of deposit account activity for current or past monthly statement, confirm deposits, withdrawals, and checks that have been paid, transfer funds between accounts and receive year-to-date interest paid.

The bank also offers banking via the Internet using "NetTeller" and "BillPayer". These web sites offer customers 24/7 access to their Midwest Bank accounts. "NetTeller" uses clear, easy to use point-and-click screen menus that lets the customer view up to the minute information about their checking, savings, money market accounts, CD's and IRA's. Customers can transfer funds, view cleared checks, obtain current interest rates or check the status of any outstanding loans. "NetTeller" is free to customers. "BillPayer" allows a customer to pay bills automatically. "BillPayer" pays any bill via the Internet whenever a customer wants or it can set up an automatic payment schedule for recurring bills eliminating missing a payment due date. Funds are drawn from a customer's checking account. The fee for this service is \$7.50 per month.

### Changes in Branch Locations:

No branches have been closed since the previous examination.

### Reasonableness of Services

In addition to regular banking services, the bank offers the following products and services, which are beneficial for low-and moderate-income individuals:

- Bank at Work - Employee Account- this is a banking program that Midwest Bank offers to business customers' employees. This account includes the following: Free Checking, Free First order of checks, Free Traveler Checks, Free Money Order Discounts, Free Direct Deposit Services, an ATM Card, Midwest Master Money Card, Bounce Protection Overdraft Privileges, Consumer Loans at .25% discount, Interest Rate Bonus on Deposits, Safe Deposit Box Discount, Free "Telebank" Telephone Banking, and Free PC On Line Banking with "NetTeller".

In addition, the bank also offers Electronic Transfer Account (ETA), which is an account designed by the Department of Treasury. It ensures those required to receive Federal payments electronically have access to an account at a reasonable cost. The electronic transfer act (EFT) rule provides that any individual receiving a Federal benefit, wage, salary, or retirement payment is eligible to open an ETA.

#### Community Development Services

The bank provided community development services both within and outside of its assessment area that promote community development.

Organization	Purpose	Bank Activity
Algonquin Economic Development Commission	The Commission is responsible for the planning and development of the industry and revitalization projects in the area to assist in job creation and small business development	The Bank President is an active member of this Commission working on the development of a 1000-acre industrial park in Algonquin.
Horizon's for the Blind	This is a not-for-profit organization established in 1977 to improve the quality of life for people who are blind and visually impaired. They also employ 15 full- and part-time people who are low- and moderate individuals	Bank staff provided financial advice and assistance to Horizon's staff in running a not-for-profit organization
Light Center Foundation, Inc.	This not-for-profit organization's programs support visits to physically, developmentally and behaviorally challenged children and young adults, as well as children deemed "at risk"	Bank staff participated in the building of the Light Center structure and assisted in structuring future programming for the children. Bank also sponsored an activity that provided gifts to Low/Mod children during the Christmas holiday season.

Christmas in April	Partnership with various communities to rehabilitate homes of low-income residents.	Officers of the bank volunteer on behalf of the bank.
Crystal Lake and McHenry Lions Club	Program provides eye exams and eyeglasses to low-income individuals in the area.	Bank officer has been the Chairman of Fundraising.

**CRA APPENDIX A**

**SCOPE OF EXAMINATION**

The chart below is provided as a supplement to the scope. Please refer to page 7 for the Scope of Examination.

<b>SCOPE OF EXAMINATION</b>			
<b>TIME PERIOD REVIEWED</b>	<ul style="list-style-type: none"> <li>• HMDA - 1/1/99 - 6/30/01</li> <li>• Small Business - 1/1/00 - 6/30/01</li> <li>• CD Loans, Investments and Services 1/1/00 - 6/30/01</li> </ul>		
<b>FINANCIAL INSTITUTION</b>	<b>PRODUCTS REVIEWED</b>		
Midwest Bank of McHenry County Union, Illinois	<ul style="list-style-type: none"> <li>• HMDA</li> <li>• Small Business</li> <li>• Community Development Loans</li> </ul>		
<b>LIST OF ASSESSMENT AREAS AND TYPE OF EXAMINATION</b>			
<b>ASSESSMENT AREA</b>	<b>TYPE OF EXAMINATION</b>	<b>BRANCHES VISITED<sup>1</sup></b>	<b>OTHER INFORMATION</b>
<b>MSA:</b> 1600 – Chicago  <b>County:</b> 111- McHenry  <b>Census Tracts:</b>  McHenry County: 8702 - 8714.02  Lake County: 8642.01  Kane County: 8501 - 8501.02	<b>Full procedures</b>	<ul style="list-style-type: none"> <li>• McHenry</li> <li>• Union</li> </ul>	The bank has only one assessment area  First time examined as Large Bank CRA

Note: "Branches visited" indicates where technical compliance with the CRA (signs, public file, etc.) was confirmed. The evaluation of the institution's CRA performance takes into consideration activity from all branch locations, as described in the Scope of Examination.

<sup>1</sup>There is a statutory requirement that the written evaluation of a multistate institution's performance must list the individual branches examined in each state.

## CRA APPENDIX B

### GLOSSARY

**Aggregate lending:** The number of loans originated and purchased by all lenders subject to reporting requirements as a percentage of the aggregate number of loans originated and purchased by all lenders in the MSA/assessment area.

**Block numbering area (“BNA”):** Statistical subdivisions of a county for grouping and numbering blocks in non-metropolitan counties where local census statistical area committees have not established census tracts. BNAs do not cross county lines.

**Census tract:** Small subdivisions of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan statistical areas. They usually have between 2,500 and 8,000 persons, and their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

**Community development:** Affordable housing for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals, activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration’s Development Company or Small Business Investment Company programs (13 CFR 121.301) or have gross annual revenues of \$1 million or less; or, activities that revitalize or stabilize low- or moderate-income geographies,

**Consumer loan:** A loan to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories of loans: motor vehicle, credit card, home equity, other secured loan, and other unsecured loan.

**Family:** Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married couple family or other family, which is further classified into “male householder” (a family with a male household and no wife present) or “female householder” (a family with a female householder and no husband present).

**Full review:** Performance under the lending, investment, and service tests is analyzed considering performance context, quantitative factors (e.g., geographic distribution, borrower distribution, total number and dollar amount of investments, branch distribution) and qualitative factors (e.g., innovation, complexity).

**Geography:** A census tract or a block numbering area delineated by the U.S. Bureau of the Census in the most recent decennial census.

**Home Mortgage Disclosure Act (“HMDA”):** The statute that requires certain mortgage lenders that do business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applications, the amount of loan requested, and the disposition of the application (e.g., approved, denied, and withdrawn).

**Home mortgage loans:** Include home purchase and home improvement loans as defined in the HMDA regulation. This definition also includes multifamily (five or more families) dwelling loans, loans for the purchase of manufactured homes and refinancings of home improvement and home purchase loans.

**Household:** Includes all persons occupying a housing unit. Persons not living in households are classified as living in-group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

**Low-income:** Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent in the case of a geography.

**Limited review:** Performance under the lending, investment, and service tests is analyzed using only quantitative factors (e.g., geographic distribution, borrower distribution, total number and dollar amount of investments, branch distribution).

**Market share:** The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all lenders in the MSA/assessment area.

**Metropolitan area:** Any primary metropolitan statistical area (“PMSA”), metropolitan statistical area (“MSA”), or consolidated metropolitan area (“CMSA”), as defined by the Office of Management and Budget, with a population of 250 thousand or more, and any other area designated as such by the appropriate federal financial supervisory agency.

**Moderate-income:** Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 percent and less than 80 percent in the case of a geography.

**Middle-income:** Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 percent and less than 120 percent in the case of a geography.

**Multifamily:** Refers to a residential structure that contains five or more units.

**Optional loans:** Includes any unreported category of loans for which the institution collects and maintains data for consideration during a CRA examination. Also includes consumer loans and other loan data an institution may provide concerning its lending performance.

**Owner-occupied units:** Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

**Qualified investment:** A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

**Small loans to business:** A loan included in “loans to small businesses” as defined in the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$1 million or less and are either secured by nonfarm nonresidential properties or are classified as commercial and industrial loans.

**Small loans to farms:** A loan included in “loans to small farms” as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500 thousand or less and are either secured by farmland, including farm residential and other improvements, or are classified as loans to finance agricultural production and other loans to farmers.

**Owner-occupied units:** Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

**Qualified investment:** A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

**Upper-income:** Individual income that is more than 120 percent of the area median income, or a median family income that is more than 120 percent in the case of a geography.