

PUBLIC DISCLOSURE

January 25, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

FIRST AMERICAN BANK

RSSD Number: 763033

101 Meadowview Center
Kankakee, Illinois 60901-2000

FEDERAL RESERVE BANK
OF CHICAGO

230 South LaSalle
Chicago, Illinois 60604

Note: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound 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 Community Reinvestment Act (CRA) performance of **First American Bank, Kankakee, Illinois**, prepared by the **Federal Reserve Bank of Chicago**, the institution's supervisory agency, as of **January 25, 1999**. The agency evaluates performance in assessment area(s), as they are delineated by the institution, rather than individual branches. This assessment area evaluation may include the visits to some, but not necessarily all of the institution's branches. 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 **Satisfactory**.

Based on review of lending, investment and service activities indicates that the bank satisfactorily serves its assessment areas. The bank's performance relative to lending to borrowers with different income levels, including low-income individuals and areas and very small businesses, was very good and overall lending activity was strong. The percentage of loans made in the assessment areas was low; however, the geographic distribution of lending activities reflected adequate penetration within assessment areas. The bank made limited use of innovative and/or flexible lending programs since the previous examination, and did not make any community development loans. The bank's performance in providing qualified community development investments and grants was weak, with little use of innovative and/or complex investments to support community development initiatives. The bank's delivery systems for services are accessible to all portions of the assessment areas and it provides an adequate level of community services. Its record of opening and closing branch offices has not adversely affected the accessibility of its delivery systems, particularly to low- and moderate-income individuals and/or geographies. No CRA-related complaints have been received by the bank since the previous examination. In addition, the examination revealed no patterns or practices intended to discriminate or to discourage applications from any member of a protected class.

The table on the following page indicates the performance level of **First American Bank, Kankakee, Illinois** with respect to the lending, investment and service tests. Based on the component test ratings for large banks, the assigned composite rating is satisfactory.

PERFORMANCE LEVELS	First American Bank, Kankakee, Illinois		
	PERFORMANCE TESTS		
	Lending Test	Investment Test	Service Test
Outstanding			
High Satisfactory			X
Low Satisfactory	X		
Needs to Improve		X	
Substantial Noncompliance			

*Note: The lending test is weighted more heavily than the investment and service tests when arriving at an overall rating.

DESCRIPTION OF THE BANK-S ASSESSMENT AREAS

The bank has delineated two assessment areas. The original assessment area (A.A. #1) includes 13 census tracts and is located in the Kankakee Primary Metropolitan Statistical Area (PMSA). A second assessment area (A.A. #2) was approved in December 1997, is located in the Chicago PMSA and consists of 29 census tracts. The distribution of census tracts within the two assessment areas, by income classification, is detailed in the following table:

Distribution of Assessment Area Census Tracts By Income Classification						
Type of Census Tract	A.A. 1 # of Tracts	A.A. 1 % of Total	A.A. 2 # of Tracts	A.A. 2 % of Total	Consolidated A.A. # of Tracts	Consolidated A.A. % of Total
Low-Income	1	7.7	0	0.0	1	2.4
Moderate-Income	3	23.1	1	3.4	4	9.5
Middle-Income	8	61.5	27	93.2	35	83.3
Upper-Income	1	7.7	1	3.4	2	4.8
Total Tracts	13	100	29	100	42	100

According to 1990 U.S. census data, A.A.#1 has a total population of 54,112 and A.A.#2 has a total population of 139,498. The 1998 median family income in the Kankakee and Chicago MSAs are \$46,600 and \$59,500, respectively. The distribution of families in both MSAs, by income level, is presented in the following table:

Distribution of Assessment Area Families By Income Level					
	Low-Income Families	Moderate-Income Families	Middle-Income Families	Upper-Income Families	Families Below Poverty Level
Assessment Area 1	2,992 (21.6%)	2,227 (16.1%)	3,242 (23.5%)	5,361 (38.8%)	1,596 (11.5%)
Assessment Area 2	5,391 (14.2%)	7,143 (18.8%)	11,079 (29.2%)	14,361 (37.8%)	1,131 (3.0%)
Consolidated A.A.	8,383 (16.2%)	9,370 (18.1%)	14,321 (27.6%)	19,722 (38.1%)	2,727 (5.3%)

According to the United States Bureau of Labor Statistics, the unemployment labor statistics for

Illinois, and the Kankakee and Chicago PMSAs are as follows:

Area	December 1998	December 1997
State of Illinois	4.2%	4.7%
Kankakee PMSA	5.4%	5.7%
Chicago PMSA	4.0%	4.4%

As the preceding chart illustrates, the unemployment rate dropped in all three geographies; the largest decrease was recorded in the State of Illinois. Generally, these reductions are attributed to the improving national economy.

The bank’s assessment areas are primarily urban in nature with job opportunities available in various industries. A.A. #1’s primary industries are light manufacturing and distribution, and

A.A. #2’s main employers are involved in service oriented industries. Major employers in the assessment areas include the following:

Assessment Area Major Employers		
Company Name	Product/Services	Number of Employees
A.A. #1		
Riverside Medical Center	Medical Services	1,475
Shapiro Development Center	Mental Health Services	1,375
Provena St. Mary’s	Medical Services	1,020
Centeon	Chemical Operations	1,050
Sear Logistic Services	Distribution Center	725
K-Mart Distribution Center	Distribution Center	700
Kankakee School District #111	Education	680
Super K-Mart Store	Retail Sales	540
Baker & Taylor Company	Book Distribution	540
Kankakee Community College	Education	442
A.A. #2		
Christ Hospital	Medical Services	5,500
Oak Lawn Village Hall	Local Government	350
Eastco Corporation	Electrical Connectors	260
Automotion, Inc.	Conveyors	200

There are 21,117 total housing units in A.A. #1 and 53,483 in A.A. #2. The housing in the assessment areas is distributed as follows:

Assessment Area Housing Stock					
	Owner Occupied Units	Rental Units	Vacant Units	Median Housing Values	Median Gross Rents
Assessment Area 1	12,208 57.8%	7,742 36.7%	1,167 5.5%	\$52,289	\$382
Assessment Area 2	40,408 75.6%	12,045 22.5%	1,030 1.9%	\$95,197	\$516
Consolidated A.A.	52,616 70.5%	19,787 26.5%	2,197 2.9%	\$87,362	\$477

Median housing value is based on owner-occupied units

According to affordability ratios (calculated by dividing median housing income by median household value), housing in A.A. #2 is considerably more affordable than in A.A. #1. Interviews with community representatives revealed the need for small business loans; they indicated that many local small businesses are financing their operations through the use of credit cards or home equity lines of credit.

DESCRIPTION OF INSTITUTION

First American Bank, Kankakee, Illinois, with total assets of \$119.2 million as of September 30, 1998, is a subsidiary of First American Bank Corporation (FABC), Elk Grove Village, Illinois, a multi-bank holding company. The bank's main office is located in Kankakee, with two full-service offices in Bourbonnais, IL and Oak Lawn, IL. The bank's primary lending focus is real estate loans. This is illustrated by a portfolio in which over 90% of all loans were secured by real estate as of September 30, 1998. All three offices are equipped with automated teller machines (ATMs), and walk-up and drive-up facilities. The Kankakee office is located in a moderate-income census tract. The bank's primary competitors in Kankakee and Bourbonnais are Peoples Bank of Kankakee County (branches of Bourbonnais, Illinois) and Municipal Trust and Savings Bank (Bourbonnais), respectively.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

A review of the bank's fair lending procedures and a sample of recently made loans revealed no violations of the substantive provisions of antidiscrimination laws and regulations, including the Equal Credit Opportunity Act and Fair Housing Act. The bank's lending policies and standards, and fair lending training program are deemed effective.

The Oak Lawn office which is located in A.A. #2 was opened on May 21, 1998; during 1998 almost 23% of the bank's residential mortgage lending activity originated in A.A. #2 with the remaining 77% in A.A. #1. All small business loans, granted during 1998, originated in A.A. #1.

LENDING TEST

The bank's loan portfolio was reviewed to evaluate lending activity within the assessment areas, including geographic distribution of loans, distribution of lending by borrower profiles, level of community development lending, and the use of innovative and flexible lending practices. The

bank's performance regarding this test was evaluated based upon analyses of 1997 and 1998 Home Mortgage Disclosure Act (HMDA) data and 1998 small business data.

Lending Activity

A comparison of the bank's current loan distribution to the distribution at the previous examination (data as of December 31, 1996), revealed significant changes in the composition of the loan portfolio. State and political obligations, commercial and industrial, one-to-four family residential real estate and consumer loans increased by approximately 212%, 31%, 26% and 24%, respectively; home equity lines of credit, with no outstanding balance at the previous examination, increased by almost \$11 million. Additionally, all other loans decreased by 94% and construction and land development loans were down 50%. Overall, total loans increased approximately \$27 million or almost 59%. Management stated that the overall increase in lending was planned and reflects the bank's lending strategy. The decrease in all other and construction and land development loans was attributed to market influences.

According to the September 30, 1998 Uniform Bank Performance Report, the bank's loan portfolio indicate that the percentage of total real estate loans was 24.36% higher than peer and commercial and industrial, and loans to individuals were 13.32% and 10.07% less than peer, respectively. Management stated the composition of the loan portfolio reflects the bank's status as a retail real estate lender.

As the following table illustrates, the bank's average loan-to-deposit ratio (LTD) for the six quarters that ended September 30, 1998 was 62.75%, which were 723 basis points lower than peer. The bank, peer group and two local competitor's LTD ratios are depicted in the following table:

Loan-to-Deposit Ratio Analysis				
Institution	Total Assets as of September 30, 1998 (\$000's)	LTD as of September 30, 1998	LTD as of September 30, 1997	Average LTD for the Six Quarters Ended September 30, 1998
First American Bank, Kankakee, IL	\$119,207	66.82%	57.16%	62.64%
<i>Peer</i>		<i>71.00%</i>	<i>69.99%</i>	<i>69.87%</i>
Municipal Trust and Savings Bank, Bourbonnais, IL	\$233,948	65.85	67.67%	66.83%
Peoples Bank of Kankakee County, Bourbonnais, IL	\$85,932	61.44%	64.90%	63.26%

The bank's LTD ratio was consistent with its peer group and local competitors. During the 12-month period that ended September 30, 1998, the bank's LTD increased by 966 basis points; this was attributed to lending focus and market demand.

Assessment Area Concentration of Loans

Seven hundred loans were reviewed to determine the bank’s level of lending within the assessment area. The results of the analyses are illustrated in the following table:

Lending Within the Assessment Areas						
Loan Type	Total Number of Loans	Number within Assessment Areas	Percent within Assessment Areas	Total Dollar Value of Loans (\$000’s)	Dollars within Assessment Areas	Percent within Assessment Areas
Real Estate	684	326	47.7%	\$27,589	\$12,346	44.7%
Commercial	16	4	25.0%	\$2,426	\$181	7.5%
Total	700	330	47.1%	\$30,015	\$12,527	41.7%

As the preceding table illustrates, 47.1% of real estate and commercial loans and 41.7% of the loan dollars were extended within the assessment areas. The large percentage of commercial and real estate loans located outside of the assessment areas is attributed to local resident borrowings to finance ventures outside of the assessment areas. Also, the bank’s significant mortgage marketing campaign attracts many borrowers from outside the assessment areas and tends to have a negative effect on performance regarding concentration of loans in the assessment areas.

Geographic Distribution

According to the 1990 U.S. census data, almost 12% of the census tracts within the consolidated assessment areas are designated as either low- or moderate-income tracts. The distribution of real estate and commercial loans originated within the assessment area during the review period is illustrated in the following table:

Income Classification of Census Tract	Number of Real Estate Loans	Dollar Amount of Real Estate Loans (\$000’s)	Number of Commercial Loans	Dollar Amount of Commercial Loans (\$000’s)
Low-Income	1 0.3%	\$8 0.1%	0 0.0%	0 0.0%
Moderate-Income	30 9.2%	\$798 6.5%	0 0.0%	0 0.0%
Middle-Income	272 83.4%	\$10,420 84.3%	4 100%	\$181 100%
Upper-Income	23 7.1%	\$1,120 9.1%	0 0.0%	0 0.0
Total	326 100%	\$12,346 100%	4 100%	\$181 100%

Approximately 9.4% of the number of real estate and commercial loans and 6.4% of real estate and commercial loan dollars were made in low- or moderate-income census tracts. There were loan originations in the one low-income and three moderate-income census tracts in A.A. #1. However, no loans were originated in the only moderate-income census tract in A.A. #2, and no commercial loans were originated in any of the 29 census tracts comprising A.A. #2. The low lending level in A.A. #2 was attributed to the fact that the office has only been open since May 1998, and the bank is still in the process of developing a local customer base.

Borrower Characteristics

The bank’s performance concerning lending to borrowers of different income levels was analyzed in the context of median family income distribution within the Assessment Area. According to the 1990 U.S. census data, the median family income distribution was as follows:

	Assessment Area 1	Assessment Area 2	Consolidated A.A.
Low-Income	21.6%	14.2%	16.2%
Moderate-Income	16.1%	18.8%	18.1%
Middle-Income	23.5%	29.2%	27.6%
Upper-Income	38.8%	37.8%	38.1%
Total	100%	100%	100%

The following table shows the distribution of real estate loans originated in the Assessment Area, among borrowers of different income levels, during the 24-month period that ended December 31, 1998.

Borrower Income Level	Number of Real Estate Loans	Percent of Real Estate Loans	Dollar Value of Real Estate Loans (\$000’s)	Percent of Total Dollar Value
Low-Income	33	11.0%	\$1,240	10.6%
Moderate-Income	74	24.6%	\$2,083	17.8%
Middle-Income	106	35.2%	\$4,116	35.1%
Upper-Income	88	29.2%	\$4,276	36.5%
Total	301	100%	\$11,715	100%

Low- and moderate-income families, living above the poverty level, are 29.0% of the population in the combined assessment areas. As shown in the preceding table, 35.6% of the loans and 28.4% of their dollar value were made to low- or moderate-income borrowers. The bank refers loan applications that do not meet its standards to brokers, many of which are loaned by other lenders; see service test for a discussion of this program.

Business loans were reviewed to determine the level of lending to businesses of different revenue sizes. Small business loans, including those made to small businesses were reviewed. During 1998, the bank made four loans, all below \$100,000 each for a total of \$181,000, within the assessment areas.

Business revenue information was only available for one of those loans, and it indicated that the loan was made to a small business (businesses with annual gross revenues of less than \$1 million).

According to the June 30, 1997 and June 30, 1998 call reports, business lending totaled approximately \$12.3 million and \$10.9 million, respectively. Small business lending represented almost 59% of the bank's total outstanding commercial loans in 1997 and over 56% in 1998. The distribution of the bank's small business loan portfolio, by number and loan amount, is depicted in the following table:

Distribution of Small Business Loans				
Category	Number of Small Business Loans June 30, 1998	Amount of Loans June 30, 1998 (\$000's)	Number of Small Business Loans June 30, 1997	Amount of Loans June 30, 1997 (\$000's)
Less than or equal to \$100,000	14	252	19	361
Greater than \$100,000 through \$250,000*	1	103	1	127
Greater than \$250,000 through \$1 million	9	5,778	12	6,766
Total	24	6,133	32	7,254

The preceding table shows that, during the 12-month period that ended June 30, 1998, the total number of small business loans and the amount of these loan dollars decreased by 25.0% and 15.5%, respectively. Also, three small loans secured by farmland or agricultural products made during each year. The total balances were \$74,000 and \$43,000 in 1997 and 1998, respectively. Bank management indicated that no identified community development loans were originated since the previous examination.

Innovative or Flexible Lending Practices

The bank's participation in flexible lending programs is primarily through its Affordable Mortgage Program. This program offers a variety of first mortgage products that feature flexible lending guidelines including: 40/40 debt-to-income ratios; and alternative documentation for the verification of assets, income and credit information, and demonstrated ability to pay debt. For the 21-month period that ended December 31, 1998, the bank originated 33 loans, totaling almost \$2.7 million, through this program. Of the 33 loans, six loans (18.2%) totaling \$344,650 (12.8%) were secured by property located in the assessment areas.

CONCLUSION

Since the previous examination, overall lending has experienced significant increases, as the

majority of activity is concentrated in real estate. Although the bank's loan-to-deposit ratio is consistent with local competitors and its peer group, the percentage of loans originated within the assessment areas was low. However, the geographic distribution of loans made within the assessment areas reflects adequate penetration throughout the assessment areas. Given the product lines, lending activity reflects strong penetration among customers of different income levels. The bank is serving the credit needs of low-income individuals and small businesses. Since the previous examination, the bank has not made any community development loans, and made limited use of innovative and/or flexible lending practices to serve assessment area credit needs. Based on the findings, the bank meets the standards for satisfactory rating performance.

INVESTMENT TEST

The bank's investment portfolio and special program activities that foster community development were reviewed. Qualified investments and grants were reviewed for innovativeness, responsiveness to credit and community development needs and the degree to which private investors do not routinely provide these investments. Interviews with community representatives, indicated that the assessment areas offer significant opportunities for qualifying investments; however, the bank's participation in local community development activities represented only small donations to local qualifying organizations. During the review period the bank donated \$125 to the Salvation Army Food Pantry and \$120 to the American Red Cross.

CONCLUSION

The bank's performance demonstrates a less than adequate level of qualified community development investments and grants, and it exhibits poor responsiveness to credit and community development needs. The bank rarely uses qualified investments to support community development initiatives; therefore, its performance does not meet the standards for a satisfactory rating.

SERVICE TEST

The bank's systems for delivering retail banking and community development services were reviewed for range, accessibility, innovativeness and responsiveness; the alternative nature of the systems used for delivering services was not reviewed. In addition, the distribution of the bank's branches, record of opening and closing branch offices and community development service activities were reviewed.

Retail Banking Services

The bank is a full-service bank with a main office and two branch offices; drive-up facilities are located at each office. In addition, there are two ATM s at each office to further accommodate accountholders. The bank offers a full array of loans to consumers, businesses and organizations in accordance with nondiscriminatory lending standards. Also, the bank has designed a variety of deposit products, to meet the different needs of the residents and commercial customers in the assessment areas.

Distribution of Branches Among Geographies

The following table illustrates the bank’s hours of operation at each office and drive-up facility:

First American Bank, Kankakee, Illinois Branch Locations	County Census Tract	Hours Of Operation		
Main Office * 101 Meadowview Center Kankakee, IL 60901	Kankakee 0117.00	Lobby: Drive-Up	9:00am – 4:30pm 9:00am – 12 noon 9:00am – 5:00pm 9:00am – 12 noon 8:00am – 5:30pm 8:00am – 6:00pm 8:00am – 12 noon	Monday – Thursday Wednesday Friday Saturday Monday – Thursday Friday Saturday
Bourbonnais Branch * 288 N. Main Street Bourbonnais, IL 60914	Kankakee/ 0120.00	Lobby:	8:30am – 4:30pm 9:00am – 12 noon 9:00am - 5:00pm	Monday – Thursday Tuesday Friday

		Drive-Up	9:00am – 12 noon 8:00am – 5:30pm 8:00am – 6:00pm 8:00am – 12 noon	Saturday Monday – Thursday Friday Saturday
Oak Lawn Branch *Opened 5/98 6200 W. 95 th Street Oak Lawn, IL 60453	Cook/ 8223.02	Lobby: Drive-Up:	8:00am – 6:00pm 8:00am – 7:00pm 8:00am – 1:00pm 8:00am – 6:00pm 8:00am – 7:00pm 8:00am – 1:00pm	Monday – Thursday Friday Saturday Monday – Thursday Friday Saturday

* Automated teller machines (ATM) Facility Available

Alternative Systems for Delivering Retail Banking Services

Through the First American Bank ATM network, the bank provides alternative delivery channels for retail banking services which increases access for low- and moderate-income individuals. Currently the network operates ATMs at 180 Chicagoland and statewide locations. Also, bank customers with a First American Bankcard are able to utilize the Cash Station ATM network located throughout the Midwest area to conduct basic transactions.

Twenty-four hour banking is available through “bank by phone”, a telephone banking service, and through “FirstAmBank”, a computer banking service utilizing the Internet. The bank also offers electronic bill payment via either telephone banking or personal computer banking.

The bank’s alternative initiatives are primarily focused on loan referrals to other investment entities. The bank has formed an Alternative Credit Department (ACD) to provide a funding source for mortgage loan applicants who do not meet its credit standards. These applicants are referred to brokers. The bank assists the consumers by providing advise and counsel regarding the ACD program. Since the previous examination, 22 loans totaling approximately \$1.5 million resulted from referrals through the ACD program. Of the 22 loans, seven loans totaling \$387,608 were granted to low- or moderate-income borrowers. An additional 25 mortgage loans totaling approximately \$2.6 million resulted from referrals to other banking entities. The bank also refers applications for student loans to a funding agency. During the review period, 177 student loans totaling \$742,973 resulted from the bank’s referrals.

Record of Opening and Closing Offices

The bank has opened one branch office since the previous examination. Offices are reasonably distributed within the bank’s assessment areas and are readily accessible to all individuals, including residents and small businesses. The main office is located in a moderate-income census tract, and all locations offer Saturday hours as a convenience for bank customers.

Range and Accessibility of Services Provided to Geographies

The bank’s three locations offer services to meet the needs of the assessment areas, including low-

and moderate-income individuals. In addition to regular banking services, the bank offers Free Checking, a no-cost account featuring no minimum balance, no monthly maintenance fee and no cost per check fee; and Classic Checking Account, an account for customers age 45 and over with no cost check writing and a free First American ATM card.

CONCLUSION

The bank's service delivery systems are accessible to all portions of the assessment areas. Its offices are accessible and delivery systems address the needs of low- and moderate-income people and/or geographies. The bank provides a reasonable level of community development services. The bank's performance is considered to be high satisfactory. Overall the bank's performance is considered to be highly satisfactory; this is attributed to the ACD referral program and credit counseling activities.

OVERALL CONCLUSION

The bank's performance is generally strong. The overall concentration of lending within the two assessment areas is less than adequate; however, the distribution of loans to low- and moderate-income individuals is strong and the distribution to low- and moderate-income geographies is reasonable. The bank's level of qualified investments and grants are less than satisfactory; however, services are accessible to all segments of the assessment areas and business hours are reasonable.