

## **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 **Millbrook-Newark Bank, Newark, Illinois** prepared by the **Federal Reserve Bank of Chicago**, the institution's supervisory agency, as of **June 9, 1998**. 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**.

The bank's efforts to meet its CRA obligations are accomplished primarily through the origination of real estate and agricultural loans. Its loan-to-deposit ratio and lending within the assessment area are reasonable, given its size, financial capacity and the economic conditions within the assessment area. No evidence of prohibited discriminatory lending practices were noted during the examination, and no CRA related complaints were filed since the previous examination.

## **DESCRIPTION OF INSTITUTION**

Millbrook-Newark Bank, with total assets of \$25.6 million as of March 31, 1998, is a subsidiary of Somonauk FSB Bancorp, Inc, Somonauk, Illinois (a two-bank holding company). The bank's two offices are located in Kendall County. The main office is located in Newark and a full-service branch office is located in Millbrook; the offices are approximately 75 miles southwest of downtown Chicago. The bank is primarily an agricultural lender; however, a substantial percentage of the portfolio is secured by residential real estate loans. The bank offers an array of credit and deposit products, and an automated teller machine (ATM) is located at each office. Based on its financial condition, size and product offerings the bank is capable of meeting the credit needs within its assessment area.

The bank's competitors include: Yorkville National Bank and The Bank of Yorkville, both located in Yorkville; The Sandwich State Bank, Sandwich; Sheridan State Bank; Sheridan; and The Grundy County National Bank and a branch of First Midwest Bank, National Association, both located in Morris.

**DESCRIPTION OF ASSESSMENT AREA**

The bank’s assessment area consists of three census tracts located in the Chicago Metropolitan Statistical Area (MSA) and two block numbering areas (BNA). Two census tracts (8907.00 and 8906.00) are in Kendall County and the third tract (2.00) is in Grundy County; the two BNAs (9617.00 and 9623.00) are in LaSalle County. There are no low-income or moderate-income geographies within the assessment area, the three census tracts are middle-income and the two BNAs are upper-income.

According to 1990 census data, the assessment area’s population totaled 24,090. Approximately 4.4% of the population are incarcerated in a correctional institution in Sheridan, Illinois.

The median family income for the assessment area, MSA and nonmetropolitan Illinois are \$42,943, \$42,758 and \$29,694, respectively. There are 644 (10.0%) low-income families, 927 (14.4%) moderate-income families, 1,635 (25.4%) middle-income families and 3,220 (50.1%) upper-income families; 220 families or 3.4% live below the poverty level. A significant percentage of the assessment area’s low- income and moderate-income residents are the inmates in the correctional institution.

There are 8,526 total housing units located within the assessment area; owner-occupied housing total 5,753 (67.5%) units, rentals total 2,210 (25.9%) units and 563 (6.6%) units are vacant. The median housing value is \$90,994 and the median gross rent is \$420.

According to the United States Bureau of Labor Statistics, recent unemployment labor statistics for LaSalle, Grundy and Kendall Counties; the State of Illinois and United States are as follows:

<b>Geography</b>	<b>April 1996</b>	<b>April 1997</b>	<b>April 1998</b>
LaSalle County	8.3%	7.1%	6.2%
Grundy County	7.1%	5.8%	6.0%
Kendall County	4.5%	3.1%	2.8%
State of Illinois	5.3%	4.6%	4.1%
United States of America	5.5%	5.0%	4.3%

As illustrated in the chart, during the 24-month period which ended April 30, 1998, the sharpest unemployment decrease was experienced in LaSalle County. The low unemployment rate in Kendall County is primarily attributed to the residents’ access to employment opportunities in Naperville and Aurora. Conversely the higher unemployment rates in LaSalle and Grundy Counties are attributed to uncertainties associated with a less diverse economic base; agricultural activities drive the economies in these two counties.

The bank’s assessment area is primarily agricultural in nature; however, manufacturing and other job opportunities are also available. The following chart includes some of the area’s major non-agricultural employers:

**Millbrook – Newark Bank, Newark, Illinois**

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Company Name	# of Employees	Location	Product/Service
Millennium Petrochemical, Inc.	650	Morris	Polypropylene and Polypropylene resins
Amurol Confections	650	Yorkville	Candy Manufacturing
Sheridan Correctional	400	Sheridan	Correctional Facility
CTS Corporation.	310	Sandwich	Semi-conductors
Plano Molding Company	300	Plano	Plastic Production
Impact Industries, Inc.	261	Sandwich	Aluminum Die-casting
Jefferson Smurfit Corp., Folding Carton Division	230	Morris	Folding Cartons and Boxboard

A community representative indicated that the area's current growth, which is being fueled by residential development, is expected to continue.

**CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:**

Management has implemented policies, procedures and training programs that have been effective in preventing illegal discrimination in lending. The bank is in compliance with the substantive provisions of the antidiscrimination laws and regulations, including the Equal Credit Opportunity Act and Fair Housing Act. No illegal discriminatory lending patterns, or practices intended to discourage loan applications were detected during the examination.

**LOAN-TO-DEPOSIT RATIO**

On March 31, 1998, the bank's loan-to-deposit (L/D) ratio was 64.8% and its peer group L/D was 65.9%. The average L/D ratio for the six quarters, which ended March 31, 1998, was 59.3%. The following table includes the bank and some of its competitors' L/D ratio on March 31, 1997 and March 31, 1998.

Institution	Assets 03/31/1998	L/D 03/31/98	L/D 03/31/97
Millbrook-Newark Bank	\$ 25,616,000	64.81%	56.13%
Yorkville National Bank	\$139,506,000	69.82%	62.34%
The Bank of Yorkville	\$ 63,623,000	77.79%	70.48%
The Sandwich State Bank	\$109,718,000	74.50%	79.22%
Sheridan State Bank	\$ 14,724,000	60.92%	55.70%
The Grundy County National Bank	\$ 89,509,000	61.89%	62.02%

The bank's loan-to-deposit ratio compares favorably with those of banks with home offices in its assessment area. Considering the bank's size, financial condition, assessment area's credit needs, and the local capacity to lend, its performance is reasonable and meets the expectation for satisfactory performance.

**LENDING IN ASSESSMENT AREA**

**Millbrook – Newark Bank, Newark, Illinois**

All loans originating between November 1, 1997 and April 30, 1998 were reviewed. Approximately 79.5% (136 of 171 loans) and 68.4% of the dollar value of the loans originated in the assessment area. The review of the examination loan sample revealed the following geographic distribution:

<b>Loan Type</b>	<b>Total Sampled</b>	<b>Within The Assessment Area</b>	<b>Percent Of Total</b>
Installment	10	7	70.0
Home Equity Lines of Credit	11	9	81.8
Real Estate	5	3	60.0
Single Payment	10	6	60.0
Commercial Loans	10	9	90.0
Total	46	34	73.9

The total dollar value of the examination loan sample was \$955,411; of which, approximately \$697,816 (73.0%) originated in the assessment area.

The bank’s performance meets the expectation for satisfactory performance.

**LENDING TO BORROWERS OF DIFFERENT INCOME LEVELS AND BUSINESSES OF DIFFERENT SIZES**

In the assessment area, there were 644 (10.0%) low-income families, 927 (14.4%) moderate-income families, 1,635 (25.4%) middle-income families and 3,220 (50.1%) upper-income families. A sample of 20 retail loans was reviewed to determine the bank’s performance in lending to borrowers with different income-levels.

<b>Loan Type</b>	<b>Low-Income \$/Number</b>	<b>Moderate-Income \$/Number</b>	<b>Middle-Income \$/Number</b>	<b>Upper-Income \$/Number</b>
Installment	\$2,600/1	\$12,033/3	0	\$14,000/2
Single Payment	\$1,410/1	0	\$1,900/1	0
Home Equity	0	\$105,400/3	\$15,000/1	\$145,900/5
Real Estate	0	0	0	\$132,558/3
Total	\$4,010/2	\$117,433/6	\$16,900/2	\$292,458/10

As the preceding table indicates, 10.0% of the sampled loans and 0.9% of the dollar amount of loans were granted to low-income families, and 30.0% of the loans and 27.3% of the dollar amount were granted to moderate-income families.

In general, the bank does not collect information pertaining to the revenue of its business customers. Lending to businesses of different revenue sizes was reviewed using information from Consolidated Reports of Condition. According to the June 1997 Consolidated Reports of Condition, the distribution of the bank’s small farm portfolio, by number and loan amount within certain dollar categories is as follows:

<b>Small Farm Loans</b>	<b>1997 Number</b>	<b>1997 Amount (\$000)</b>
Less than or equal to \$100,000	20	\$754
Greater than \$100,000 through \$250,000	12	\$1,729
Greater than \$250,000 through \$1 million	2	\$665
Total	34	\$3,148

As the preceding table illustrates, loans of \$100,000 or less represented 58.8% of total small farm loans in June 1997. All 51 small business loans, reported in the June 30, 1997 Consolidated Report of Condition, were in amounts of \$100,000 or less.

Approximately 47% (81) of the six-month loan sample of 171 loans were commercial or agricultural, and 80 of the 81 loans were in amounts of \$100,000 or less.

The overwhelming majority of commercial lending qualifies as small business/farm loans. Approximately 40.0% of 20 consumer loans and 28.2% of the dollar amount were to low- and moderate-income families. Considering local demographics, the distribution of loans to borrowers of different income levels and businesses of different revenue sizes exceeds the standards for satisfactory performance.

**GEOGRAPHIC DISTRIBUTION OF LOANS**

There are no low-income or moderate-income geographies located within the assessment area; therefore, no analysis of this category was completed.

**RESPONSE TO COMPLAINTS**

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