

PUBLIC DISCLOSURE

May 13, 2002

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Royal American Bank
RSSD# 1857087

1604 Colonial Parkway
Inverness, Illinois 60067

Federal Reserve Bank of Chicago

230 South LaSalle Street
Chicago, IL 60604-1413

NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

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INSTITUTION'S COMMUNITY REINVESTMENT ACT (CRA) RATING:

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

Royal American Bank has provided credit consistent with its size, financial capacity, location, economic conditions, and competitive factors within its assessment area. The bank's efforts are accomplished primarily through the origination of small-business loans (loans less than or equal to \$1 million) and through real estate loans. The bank's loan-to-deposit ratio continues to exceed its peer group and reflects the bank's efforts to meet the credit needs of the community. The bank's lending within its assessment area to consumers and businesses is considered adequate. Although the assessment area is comprised primarily of upper- and middle-income tracts, the loans are reasonably dispersed throughout the assessment area. No CRA-related complaints were received by the institution or this Reserve Bank related to this institution since the previous evaluation.

The institution was rated **satisfactory** under the CRA at its previous evaluation conducted on May 11, 1998.

DESCRIPTION OF INSTITUTION

Royal American Bank is a subsidiary of Royal American Corporation, a one-bank holding company located in Inverness, Illinois. The bank is located at 1604 Colonial Parkway in Inverness, Illinois and includes an Automated Teller Machine (ATM). The bank operates three branch facilities in the neighboring communities of Bensenville, Bloomingdale, and Elgin, Illinois.

According to the December 31, 2001 Uniform Bank Performance Report, non-farm/non residential lending comprises a substantial majority (45%) of the bank's loan portfolio. The bank also offers traditional consumer and real estate loan and deposit products. Retail product offerings are primarily a result of cross-selling to the bank's small business clientele. The bank's product offerings are consistent with the bank's stated mission and in meeting the credit needs of the community. Customers can access the bank's transactional web site homepage at: <http://www.royalamerican.com/>. The web site includes hours and locations of its banking facilities, on-line banking, product offerings, and rate information.

According to the Uniform Bank Performance Report (UBPR), the bank had \$235,174,000 in total assets as of December 31, 2001. Real estate loans (62.15%) and small business and industrial loans (34.85%) comprise a substantial majority of the bank's loan portfolio. The bank's peer group includes all commercial banks having assets between \$100 and \$300 million, with 3 or more banking offices, and located in a metropolitan area. A comparison of the bank's loan distribution with information contained in the previous CRA

evaluation (May 11, 1998) reveals that total loans have increased by 7.52%.

Competition for credit within the assessment area is strong. The bank's competitors primarily consist of branches of large national bank's including LaSalle Bank, N.A.; American National Bank, Bensenville; and Harris Bank, Barrington.

DESCRIPTION OF ASSESSMENT AREA

An institution's assessment area(s) will include the towns, counties, or other political subdivisions where its branches are located and a substantial portion of its loans are made. Assessment area(s) must consist of one or more geographies defined by block numbering areas (BNAs) or census tracts, which are statistical subdivisions of a county. Census tracts are primarily used in metropolitan areas, while BNAs are used in non-metropolitan areas. 1990 U.S. Bureau of Census data is used in this evaluation, unless stated otherwise.

Royal American Bank's assessment area, as shown in Appendix A, consists of 194 census tracts located in the Chicago MSA and is comprised of portions of the communities of northern DuPage County, Lake County, northwestern Cook County, and recently Kane County. The bank's assessment area has grown since the 1998 CRA examination from 163 census tracts to 194 tracts with a recent branch opening in Elgin. The bank's assessment area is comprised of 97 upper-income census tracts (greater than 120% of MSA Median Family Income), 86 middle-income census tracts (80% - 120% of MSA Median Family Income), 5 moderate-income census tracts (50% - 80% of MSA Median Family Income), one low-income census tract (less than 50% of Median Family Income) tract, and 5 tracts which are classified as not having any population or an incarcerated population. The majority of the tracts (94.3%) in the assessment area are primarily middle- and upper-income communities, such as Inverness, Bloomingdale, Schaumburg, Palatine, Barrington, and St. Charles.

According to the 1990 census data, the population of the assessment area is 1,084,890. 1990 census data revealed that the area's median family income was approximately 26.4% above the Chicago MSA median family income. Currently, HUD's adjusted median family income for the Chicago MSA for 2002 is \$75,400. Within the bank's assessment area, 77.3% of families are middle- or upper-income, compared with 22.7% of families that are classified as low- or moderate-income.

Housing statistics from the 1990 census data show that there are 403,557 housing units in the assessment area; 70.8% of which are owner-occupied. The median housing value for the assessment area is \$139,001. The median age of the housing stock is 20 years old. Compared to the Chicago MSA median housing value of \$108,960 and median age of housing stock of 45 years, this assessment area's housing units are more expensive and newer.

According to Illinois Department of Employment Security, unemployment rates for Cook,

Kane, Lake, and DuPage Counties were 6.9%, 7.1%, 6.2% and 4.9% respectively; as of March 31, 2002. The recent rise in unemployment rates can be attributed to many area companies reducing workforces and the current instability of the national economy. According to recent information released by *Crain's Chicago Business*, the following illustrates the major employers within the Chicago MSA:

MAJOR EMPLOYERS IN THE CHICAGO MSA		
Employer	# of Employees	Product / Service
U.S. Government	78,000	Government
Chicago Public Schools	44,798	Education
City of Chicago	41,911	Municipal Government
Jewel-Osco	38,954	Retail
Cook County	27,081	County Government
U.S. Postal Service	24,800	Postal
Motorola Inc.	24,000	Communication

Community representatives contacted during the examination to determine the credit needs of the assessment area indicated that local financial institutions in the area are actively involved in the community and are adequately meeting the credit needs of the community.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Performance standards for small banks consist of the following, as applicable: the bank's LTD ratio, the percentage of loans and other lending-related activities located in the bank's assessment area, the record of lending to borrowers of different income and farms and businesses of different sizes, the geographic distribution of loans, and the record of taking action in response to written complaints. To determine CRA performance, the above standards are analyzed and evaluated within the assessment area context, which includes, but not limited to, comparative analyses of the assessment area and the state and the non-metropolitan portions of the state demographic data on median income, nature of housing stock, housing costs, and other relevant data pertaining to the bank's assessment area.

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

LOAN-TO-DEPOSIT RATIO

The bank's average loan-to-deposit ratio, calculated from data contained in the Consolidated Reports of Condition, was evaluated giving consideration to the bank's capacity to lend, competitor and peers' loan-to-deposit ratios, as well as demographic factors, economic conditions and lending opportunities present in the assessment area.

An analysis of the bank's Consolidated Reports of Condition from June 30, 2000 to March

31, 2002 revealed an average loan-to-deposit (LTD) ratio of 85.97%. According to the March 31, 2002 Uniform Bank Performance Report (UPBR) data, the bank's current LTD ratio, 88.81%, exceeds the bank's national peer group ratio of 76.99%.

The quarterly ratios for the bank and its national peer group for the past eight quarters are as follows:

LOAN-TO-DEPOSIT (Past 8 Quarters)									
Bank	6/00	9/00	12/00	3/01	6/01	9/01	12/01	3/02	Average
Royal American Bank	87.51	80.28	82.80	84.36	86.60	86.65	90.71	88.81	85.97
Bank's Peer Group (\$100-300M)	77.29	77.52	76.78	76.35	77.30	77.61	77.39	76.99	77.15
Bloomington Bank & Trust	69.53	74.63	75.17	75.95	81.59	81.77	87.35	86.91	79.11

The bank's loan, deposit, and asset growth have all contributed to the relatively strong LTD ratio since the previous examination, where the average LTD was 84.83%. The bank's commercial market concentration demands higher levels of capital relative to a traditional retail focused bank. Based on the bank's LTD ratios relative to its peer group and similarly situated peers in its market, the bank meets the standards for satisfactory performance under this criterion.

LENDING IN THE ASSESSMENT AREA

To assess the extent of lending within the assessment area, the following were reviewed: 2000 and 2001 Home Mortgage Disclosure Act (HMDA) data, home-equity lines of credit (HELOC), and small business loans, defined as loans with original amounts of \$1 million or less. The sample period for the HELOC's and small business loans consisted of the year ending December 31, 2001. Information from the performance context, such as economic conditions present within the assessment area, loan demand, bank size, financial condition, branching network, and business strategies, were considered when evaluating the bank's performance.

Analysis of the bank's 2000 and 2001 HMDA data, and home-equity lines of credit and small business loans originated from January 1, 2001 – December 31, 2001 revealed the

following distribution:

LENDING WITHIN THE ASSESSMENT AREA			
LOAN TYPE	TOTAL SAMPLED	WITHIN THE ASSESSMENT AREA	PERCENT OF TOTAL
Consumer Loans*	45	23	51.1%
Small Business Loans**	39	25	64.1%
TOTALS	84	48	57.1%

* Sample comprised of 2000 and 2001 HMDA Data (20 loans) and 2001 Home Equity Lines of Credit (25 loans)

** Sample comprised of January 1 – December 31, 2001 Small Business loans (39 loans)

CONSUMER LENDING

The bank's 2000 and 2001 HMDA Data and home equity lines of credit originated between January 1, 2001 – December 31, 2001 were reviewed to analyze the bank's consumer lending within its assessment area. Of the 45 HMDA-related loans originated during the sample period, 23 (51.1%) were originated within the bank's assessment area.

SMALL BUSINESS LENDING

The bank's small business loans originated January 1, 2001 – December 31, 2001 were reviewed to analyze the bank's commercial lending within its assessment area. Of the 44 small business loans selected for the sample period, 25 (64.1%) were originated within the bank's assessment area.

CONCLUSION

The bank's combined level of lending for consumer and small business loans, for the sample periods indicated for each, demonstrates that the bank's combined level of lending within its assessment area represents 57.1% of the sample selected. Overall, consumer and small business lending within the bank's assessment area meets the standards for satisfactory performance under this criterion

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

The distribution of loans among borrowers of different income levels was determined by reviewing 2000 and 2001 Home Mortgage Disclosure Act (HMDA) data, home-equity lines of credit (HELOC's) and small business loans. The sample period for the HELOC's and small business loans consisted of the year ending December 31, 2001. Information from the performance context, such as economic conditions present within the assessment area, demographics, loan demand, bank size, financial condition, branching network, and business strategies, were considered when evaluating the bank's performance.

Analysis of borrower income information from 2000 and 2001 HMDA data and home-equity loans originated January 1, 2001 – December 31, 2001 indicate the following distribution to borrowers of different incomes:

Distribution of Loans by Borrower Income Level*				
	LOW-INCOME BORROWERS	MODERATE-INCOME BORROWERS	MIDDLE-INCOME BORROWERS	UPPER-INCOME BORROWERS
Consumer Loans	-	3	2	18
% of Total Borrowers	-	13%	8.7%	78.3%

*Information based on HUD's 2002 Adjusted Median Family Income for the Chicago MSA of \$75,400

Consumer Lending

The distribution in the preceding chart indicates that a majority (87%) of the loans were made to middle- and upper-income borrowers. The bank's combined lending to borrowers with low- or moderate- incomes (13%) is adequate when compared with the low- and moderate-income families (22.7%) within the assessment area; and therefore reflects slightly marginal, yet adequate, loan penetration among borrowers of different income levels given the bank's assessment area characteristics and performance context.

Small Business Lending

An analysis of small business loans originated within the bank's assessment area from January 1, 2001 through December 31, 2001 was conducted to assess the bank's performance under this criterion. The sample was comprised of 25 small business loans, ranging from amounts of \$25,000 to \$808,000. The analysis revealed that 5 of the 25 (or 20%) loans originated in the bank's assessment area were made to small businesses with gross annual revenues less than or equal to one million dollars.

Further analysis reveals that small business loan originations in the \$100,000 or less category represent 32.0% of the total small business loan originations in the bank's assessment area for the sample period.

Original Dollar Amount	Outstanding Number	Outstanding Dollar Amount (000's)
Less than or equal to \$100,000	8	\$465,507
Greater than \$100,000 through \$250,000	9	\$1,841,000
Greater than \$250,000 through \$1 million	8	\$4,538,000

Total	25	\$6,844,507
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Conclusion

Given the demographics of the bank's assessment area, the consumer and small business loan distribution across borrowers of different income levels and businesses of different sizes, and the bank's record of small business originations, the bank adequately meets the standards for satisfactory performance in this criterion.

GEOGRAPHIC DISTRIBUTION OF LOANS

The distribution of lending activities among geographies of different income levels within the assessment area, particularly those defined as low- and moderate-income, was reviewed. To assess the bank's performance, the following were reviewed: Home Mortgage Disclosure Act (HMDA) data from 2000 and 2001, and home-equity lines of credit and small business loans from the year ending December 31, 2001. Demographic characteristics of census tracts, such as housing types, income levels, and populations were considered in the evaluation.

The bank's assessment area is currently comprised of one low-income census tract (8546.98), and represents .05% of the bank's populated assessment area. Five (2.6%) of the 189 populated census tracts within the bank's assessment area are considered moderate-income census tracts. Of the remaining 183 populated census tracts within the bank's assessment area, 86 (45.5%) are middle-income tracts and 97 tracts (51.3%) are delineated as upper-income tracts.

The geographic distribution of consumer and small business loans originated within the bank's assessment area, in the sample period identified above, by census tract income classification and loan type, are as follows:

LOAN DISTRIBUTION BY CENSUS TRACT CLASSIFICATION AND LOAN TYPE					
LOAN TYPE	Loans in Low-Income Tracts	Loans in Moderate-Income Tracts	Loans in Middle-Income Tracts	Loans in Upper-Income Tracts	Total Loans
Consumer	0	0	4	19	23
Small Business	0	6	11	8	25
Total	0	6	15	27	48
% of Total Loans	-	12.5%	31.3%	56.3%	100%

For the analysis period, the bank did not originate any consumer loans in the bank's sole low-income census tract; however, this tract only represents .05% of the bank's total assessment area. Six small business loans were originated within the bank's five moderate-income tracts. This is considered adequate given that moderate-income tracts only represent 2.6% of the bank's total assessment area.

Given the concentration of the population in middle- and upper-income census tracts, it is reasonable to expect a majority (88.3%) of the bank's consumer and small business lending is originated within the respective middle- and upper-income tracts within its assessment area.

As noted previously, lending to low- and moderate-income borrowers is reasonable for the demographic make up of the bank's assessment area, and was considered in evaluating this criteria. Given the preceding factors, the bank meets the standards for satisfactory performance.

COMPLAINTS

Neither the bank, nor this Reserve Bank, has received any CRA-related complaints since the previous examination related to this institution.

FAIR LENDING

The bank is in compliance with the substantive provisions of the anti-discrimination laws and regulations, including the Equal Credit Opportunity and Fair Housing Acts. A sample of the banks' lending activity was reviewed to determine whether loan policies and lending standards were in compliance with the fair lending laws and regulations, and implemented on an equitable basis. No evidence of prohibited discriminatory credit practices was detected.