

## **PUBLIC DISCLOSURE**

January 26, 1998

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### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

#### **MIDWEST BANK**

RSSD Number: 1864683

500 W. Chestnut Street  
Hinsdale, Illinois 60521

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.

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## 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 **Midwest Bank of Hinsdale, Hinsdale, Illinois** prepared by the **Federal Reserve Bank of Chicago**, the institution's supervisory agency, as of **January 26, 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 promotes economic revitalization and growth, consistent with its size, financial capacity, location and current economic conditions. This is primarily accomplished through the origination of small business, commercial, residential real estate, and consumer loans. The bank has an adequate loan-to-deposit ratio, although the majority of its loans are outside of its assessment area. The bank's lending to borrowers of different income levels and businesses of different sizes meets the standards for satisfactory performance. Management has developed adequate policies and procedures to avoid prohibited discriminatory or other illegal credit practices in its lending activities. No complaints were received by the institution regarding its CRA performance.

**DESCRIPTION OF INSTITUTION**

The Midwest Bank of Hinsdale, Hinsdale, Illinois, with total assets of \$165 million as of September 30, 1997, is a subsidiary of Midwest Banc Holdings, Inc., a multi-bank holding company located in Melrose Park, Illinois. The bank operates a main office in Hinsdale, and one branch office in Downers Grove. Both bank facilities include drive-up and automated teller machine (ATM). The bank offers deposit and loan services for both retail and commercial customers. There are no factors limiting the bank's ability to meet the credit needs of its assessment area. The bank promotes economic revitalization and growth, consistent with its size, financial capacity, product offerings, and current economic conditions. The bank does not face any legal constraints that would impede its CRA activities.

Midwest Bank's primary business focus is commercial banking, with commercial and industrial loans being the predominant loan products. According to the September 30, 1997 Consolidated Report of Condition, commercial and industrial loans comprised approximately \$36 million or 35% of the bank's total loans and leases; real estate loans secured by nonfarm/nonresidential properties comprised approximately \$31 million or 30% of total loans and leases; and, real estate loans secured by residential real estate comprised approximately \$26 million or 26% of total loans. Midwest One Mortgage Services, Inc., a subsidiary of the bank, is a residential mortgage brokerage business offering mortgage services throughout the Chicago metropolitan area. Through the mortgage company, the bank offers individuals within its assessment area a full range of purchase money and refinancing mortgage loans.

The bank's primary competitors include: Hinsdale Bank & Trust Company, Downers Grove National Bank and West Suburban Bank of Downers Grove. Competition is also provided by Harris Bank Hinsdale, National Association, a branch of the First National Bank of Chicago, and Hinsdale Federal Bank for Savings. Additionally, the bank receives strong competition for mortgage loans from several mortgage companies in the area.

**DESCRIPTION OF ASSESSMENT AREA**

The bank's main office is located in Hinsdale, Illinois, approximately 15 miles west of Chicago. The assessment area is defined as 17 census tracts, #8444 through #8457.02 in the Chicago Metropolitan Statistical Area (MSA), all located in DuPage County. The assessment area contains, wholly or in part, the municipalities of Hinsdale, Burr Ridge, Oak Brook, Oak Brook Terrace, Westmont, Clarendon Hills and Darien.

According to the 1990 U.S. census data, the population of the assessment area is 127,309. Minorities comprise 10% of the population; Asians constitute the largest minority group. The adjusted median family income for the assessment area is \$58,755, while the corresponding median family income for the MSA and the State of Illinois are \$42,758 and \$38,664,

respectively. The total number of families in the assessment area is 35,106, of which 2,624 (7.5%) are low-income; 4,177 (11.9%) are moderate-income; 7,435 (21.2%) are middle-income; and 20,870 (59.4%) are upper-income.

The 1990 U.S. census data indicates that the housing stock in the assessment area consists of 50,036 housing units, of which, 36,641 or 72.8% are owner-occupied, and 11,725 or 23.3% are rental units. The median housing value and age are \$158,216 and 33 years, while the median gross monthly rent is \$606.

The DuPage County employment, and economic growth and development, based on the U.S. Department of Labor statistics, are primarily reliant on manufacturing, retail trades and the service industry. According to the Illinois Department of Labor, the September 1997 unemployment rates for DuPage County and the State of Illinois were 2.6% and 4.2%, respectively, while the September 1996 unemployment rates were 3.2% and 4.9%, respectively. The most significant employers in the area include: Hinsdale Hospital with approximately 2,400 employees; Rockwell Telecommunications (Darien - telephone communication equipment) with 1,000; Molex, Inc. (Lisle - plastic molds) with 800; Maple Chase Co. (Downers Grove - smoke detectors and door chimes) with 700; Pepperidge Farm, Inc. (Downers Grove - bread, rolls and stuffing) with 600; and Keebler Co. (Elmhurst - crackers and biscuits) with 500.

Community representatives indicated that the Village of Hinsdale and surrounding communities are very affluent areas, and that there are no low- or moderate-income census tracts in the Village of Hinsdale. Hinsdale is land-locked and there is little available land for development. Significant renovation of older housing stock is occurring within the assessment area.

Construction/renovation loans were identified as one of the bank's major credit products.

The bank's assessment area meets the requirement of the regulation in that it consists of one or more contiguous political subdivisions, contains all geographies where it has an office, and consists of only whole census tracts. Additionally, the assessment area does not reflect illegal discrimination or arbitrarily exclude any low- or moderate-income areas.

**CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:**

The institution is in compliance with the substantive provisions of anti-discrimination laws and regulations, including the Equal Credit Opportunity Act and the Fair Housing Act.

**LOAN-TO-DEPOSIT RATIO**

A review of the bank's September 30, 1997 Consolidated Report of Condition revealed a loan-to-deposit ratio of 68.85%. According to the September 30, 1997 Uniform Bank Performance Report, the bank's peer group loan-to-deposit ratio is 69.30%. Although the bank's current quarterly loan-to-deposit ratio is lower than its peer group, it has increased since the previous examination due to increases in the bank's lending activity. An analysis of the bank's Consolidated Report of Condition throughout the five-quarter review period disclosed an average loan-to-deposit ratio of 65.63%, while peer group average ratios remained fairly consistent at approximately 66% since the previous examination. The following chart shows the bank's quarterly loan-to-deposit ratios since the previous examination.

9/96	12/96	3/97	6/97	9/97
63.37%	60.17%	67.57%	68.17%	68.85%

As shown in the preceding chart, with the exception of the fourth quarter of 1996 when total deposits increased greater than total loans, the bank's loan-to-deposit ratio has shown a continued increase since the previous examination. The bank's gross loans increased by 37% since September 30, 1996. At that time, the bank had approximately \$74 million in loans, with the majority or \$44 million in real estate secured loans. As of September 30, 1997, the bank had approximately \$101 million in loans, with the majority or \$63 million in real estate secured loans and \$36 million in commercial and industrial loans. While loans and deposits have both experienced increases, the increased ratio is largely a result of the large increases in lending activity, while total deposits increased by only 26%.

The bank's loan-to-deposit ratio compares favorably with its peer group, or all insured commercial banks having assets between \$100 million and \$300 million with two or less banking offices located in a MSA. The bank's loan-to-deposit ratio also compares with that of its local competitors. According to the most recent Statements of Condition, the following local competitors had loan-to-deposit ratios as of September 30, 1997 as follows:

Name of Bank	Total Assets (000's)	Loan-to-Deposit Ratio
Midwest Bank of Hinsdale	\$165,225	68.85%

Hinsdale Bank and Trust	\$212,087	80.27%
Downers Grove NB	\$166,554	76.71%
Harris Bank Hinsdale NA	\$505,759	72.64%
West Suburban Bank	\$1,277,252	67.60%
First NB of Chicago	\$54,837,423	66.61%

Although the competitors’ ratios are higher than the bank’s, it should be noted that the financial institutions with loan-to-deposit ratios that are in line with the bank’s current ratio are larger in assets with more branches and higher lending capability than the bank.

The bank’s loan-to-deposit ratio is reasonable, given the bank’s size, financial condition and credit needs within the assessment area. In addition, the bank compares favorably with local competitors, including larger financial institutions and peers.

**LENDING IN ASSESSMENT AREA**

According to the bank’s analysis of its lending activity within its assessment area, using all loan categories, the majority or approximately 54% of the total loans were originated outside of its assessment area. For the 1997 calendar year, the level of lending within the assessment area was as follows:

<b>LOAN TYPE</b>	<b>TOTAL # OF LOANS ORIGINATED</b>	<b># OF LOANS WITHIN THE ASSESSMENT AREA</b>	<b>% OF TOTAL LOANS WITHIN THE ASSESSMENT AREA</b>
Commercial Fixed/Variable	149	77	51.68
Consumer Simple Interest	25	8	32.00
Letters of Credit	44	26	59.09
Mortgage - Construction/rehab	47	21	44.68
Mortgage 1-4 Family	34	15	44.12
Consumer - Personal	69	23	33.33

LOAN TYPE	TOTAL # OF LOANS ORIGINATED	# OF LOANS WITHIN THE ASSESSMENT AREA	% OF TOTAL LOANS WITHIN THE ASSESSMENT AREA
Commercial - Real Estate	57	25	43.86
Home Equity Lines	55	26	47.27
<b>Total</b>	<b>480</b>	<b>221</b>	<b>46.04</b>

A six-month sample of the bank's main loan products was analyzed to help validate the results of the bank's analysis. Commercial loans and real estate construction/rehabilitation loans were found to be the main products. During July through December of 1997, the bank originated 11 or 45.8% of its construction loans within its assessment area. Of total real estate loan dollars, \$4.5 million or 41.6% were originated within the assessment area. During the same period, the bank originated 54 or 50.9% of its total commercial loans within its assessment area. Of total commercial loan dollars, \$12.9 million or 39% were originated within the assessment area. The examination loan analysis further supports the fact that the majority of the bank's loan activity is outside of its assessment area.

Although the majority of 1997 lending activity was outside of the assessment area, a review of the bank's 1996 lending activity revealed that 51.56% of the bank's loans were originated within the assessment area. Management had no specific reasons as to why loan activity within the assessment area was low, but stated that with the opening of the full-service branch and the presence of the bank's mortgage company in Downers Grove, loan volume should improve.

The bank's level of lending within the assessment area is low and does not meet the standards for satisfactory performance.

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

A sample of construction/rehab loans, one of the bank's main product lines, was used to assess

the bank's lending to borrowers of different income levels within the assessment area. A review of real estate construction/rehab lending activity from July to December 1997 revealed that no loans were originated to low- or moderate-income borrowers; of the 11 loans originated within the assessment area, all were originated to upper-income borrowers. According to 1990 census data, of the total families within the bank's assessment area, 7.5% are low-income, 11.9% are moderate-income, 21.2% are middle-income, and 59.4% are upper-income families. Although the majority of the families within the assessment area are upper-income, lending activity among low-, moderate-, and middle-income individuals is low.

A review of the bank's 1996 HMDA data revealed a total of 14 reportable mortgage loans, of which eight were originated within the bank's assessment area. Of the eight loans, one was made to a moderate-income borrower, one was to a middle-income borrower, and six or 75% were to upper-income borrowers.

Considering dollar volume, commercial loans are also one of the bank's main loan products. During 1997, the bank originated 206 commercial loans (excluding letters of credit). Of that total, 102 loans or approximately 50% were made within the bank's assessment area; these commercial loans totaled \$27.7 million, for an average loan amount of \$271,328. Management conducted an analysis of its small business lending by reviewing all commercial loans on the bank's trial balance as of December 31, 1997. This data revealed that 538 of the 567 loans or 95% were to businesses with annual revenues of less than \$1 million.

According to the bank's June 30, 1997 Consolidated Report of Financial Condition, all or substantially all of the loans secured by nonfarm/nonresidential properties, and commercial and industrial loans had original amounts of \$100,000 or less. As of June 30, 1997, there were 59 loans (totaling \$18.9 million) secured by nonfarm/nonresidential properties and 214 (totaling \$27.4 million) commercial and industrial loans outstanding. The bank also had one Small Business Administration guaranteed loan outstanding (totaling \$310,203) as of the examination date.

Based on the bank's analysis of its business loans and the examination sample of recently originated loans, the distribution of loans reflects a reasonable penetration among borrowers of different income levels and businesses of different sizes. The bank's financial reports further indicate that all or substantially all of the business loans are in small dollar amounts.

## **GEOGRAPHIC DISTRIBUTION OF LOANS**

An analysis of the geographic distribution of loans is not applicable, as there are no low- or moderate-income geographies within the assessment area.

**RESPONSE TO COMPLAINTS**

No complaints were received concerning the bank's CRA activities.