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Public Disclosure

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Community Reinvestment Act Performance Evaluation

HARRIS BANK HINSDALE, N.A.
Charter Number: 11308

**50 South Lincoln Street
Hinsdale, Illinois 60521**

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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 the safe and sound operation 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 **Harris Bank Hinsdale, N.A.** prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **August 29, 1997**. 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 25.

Institution's CRA Rating: This institution is rated Satisfactory.

- The lending levels indicate good responsiveness to assessment area credit needs,
- A high percentage of loans are made within the assessment area,
- The distribution of borrowers reflects good penetration among retail customers of different income levels and business customers of different size,
- The bank explores ways to offer innovative lending practices to serve assessment area credit needs,
- Management is responsive to and actively explores credit and community economic development opportunities, and,
- The retail banking services and delivery systems are accessible from essentially all portions of the bank's assessment area.

The following table indicates the performance level of **Harris Bank Hinsdale, N.A.** with respect to the lending, investment, and service tests.

Performance Levels	Harris Bank Hinsdale, N.A. Performance Tests		
	Lending Test*	Investment Test	Service Test
Outstanding			
High satisfactory	X		
Low satisfactory		X	X
Needs to improve			
Substantial noncompliance			

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

Description of Institution and Community

Harris Bank Hinsdale, N.A. (HBH) is located approximately 16 miles southwest of Chicago, Illinois. As of June 30, 1997 HBH had total assets of \$510 million. HBH is wholly owned by Harris Bankcorp, Inc. (Harris Bankcorp) headquartered in downtown Chicago. Harris Bankcorp is wholly owned by Bankmont Financial Corporation which is a subsidiary of the Bank of Montreal with headquarters in Toronto, Canada. Harris Bankcorp has over 140 community banks throughout the Chicago metropolitan area. Harris Bankcorp has one of the largest community bank networks in the Midwest and is the thirty-eighth largest U.S. banking organization, according to the *American Banker*. Assets of all the community banks within the Harris Bankcorp group total approximately \$21 billion. The Bank of Montreal has assets of approximately \$142 billion.

HBH's assessment area is a part of the Chicago, Illinois, metropolitan statistical area (MSA). The assessment area consists of 32 census tracts and includes the villages of Burr Ridge, Clarendon Hills, Darien, Downers Grove, Hinsdale, Indian Head Park, Lisle, Oak Brook, Western Springs, Westmont, Willowbrook, Willow Springs and Woodridge. The assessment area includes all of HBH's offices and automatic teller machines (ATMs) and is in compliance with the requirements of the CRA regulation. Based on 1990 census data, this area has a population of 227,322 and includes 62,927 families. There are no low- or moderate-income census tracts in this area.

Of the 32 census tracts in the assessment area, 7 are middle-income and 25 are upper-income. Within the assessment area, a majority of families are considered upper-income (59%) and are followed by middle-income families (22%), moderate-income families (12%), and low-income families (7%). Community development lending opportunities and qualified community development investments could not be evaluated within the defined assessment area due to the high income demographics of the area. However, the bank is aware of the needs of the

community and displays a willingness to offer products that would fulfill community credit needs. On an annual basis, bank management meets with the leaders of villages within the assessment area to determine if there are any credit needs. This review of HBH's CRA performance placed emphasis on the lending test and evaluated lending activity, borrower characteristics, and the geographic distribution of loans.

The demographic profile of this assessment area indicates that median incomes and median housing values are above the Chicago, Illinois, MSA averages. Median home values in the assessment area are \$163,800 which is roughly 183% of the median home values (\$89,700) in all of the Chicago, IL, MSA. The median family income in the assessment area is \$59,222 which is approximately 139% of the 1990 median family income for the Chicago MSA (\$42,758). According to the 1990 census, there are 88,475 housing units in HBH's assessment area. Of these, 65,173 (73%) are owner-occupied, 19,576 (22%) are occupied rental units, and the remaining 3,726 (5%) housing units are vacant. Census information shows that a large portion of the workforce within this assessment area is employed as executives and in administrative, managerial and professional specialty occupations. As a result of the affluence of the residents who live within the assessment area, the competition among local banks and financial service providers is robust. HBH faces competition from 11 competitor banks and 16 non-bank investment and brokerage houses.

Opportunities for low- and moderate-income borrowers to purchase homes within the assessment area are very difficult due to the cost of housing. The following scenario illustrates the financial burden of a mortgage payment for low- and moderate-income borrowers who want to purchase a median valued home (\$163,800). Assuming a home value of \$163,800 with a 10% down payment (\$16,380), the mortgage amount would be \$147,420. A 30 year fixed rate mortgage at an 8% interest rate, would have a monthly principal and interest (P&I) payment of about \$1,082, not including property taxes or insurance. The annual P&I payments would be approximately \$12,984. Using the bank's debt-to-income underwriting standards for residential mortgages (33% for housing and 38% for total debt), a borrower would have to earn at least \$34,168 ($12,984 \div .38$) annually to afford the mortgage payments (P&I only). A salary of \$34,168 relates to 79.9% of the 1990 median family income of \$42,758. For a low-income borrower, the annual mortgage payments translates to nearly 61% of annual income; and, for a moderate-income borrower, the annual mortgage payment is roughly 38% of annual income. Thus, low- and moderate-income borrowers are effectively priced out of the market for median valued home purchases. Additionally, a 1996 market analysis of average home values within the assessment area indicated the following: a majority of housing values are above \$200,000; only 3 villages out of 13 had average home prices under \$200,000 (the lowest price was \$161,903), and 3 villages had average home values over \$450,000 [data was obtained from *Living In Greater Chicago, Spring/Summer 1997*].

HBH offers the following types of loan products: 1) real estate loans--fixed and variable rate, construction, multifamily, first time home buyer, bridge, home equity, reverse mortgages, FHA/VA (Federal Housing Authority/Department of Veterans Affairs), and Illinois Housing Development Authority; 2) commercial loans--commercial real estate, SBLR (Small Business Lending Rate), SBA, and letters of credit; and, 3) consumer loans-- non-HMDA (Home

Mortgage Disclosure Act) home equity, vehicle, other secured/unsecured, Visa/MasterCard, secured credit cards, and Illinois Guaranteed Student Loans. According to HBH's June 30, 1997 balance sheet, the loan portfolio was comprised of 62% real estate mortgages (including commercial real estate), 29% commercial loans, 8% installment loans, and 1% other loans. As of June 30, 1997, the loan-to-deposit ratio was 72.22%.

The bank continuously explores ways to improve its products and services for business and retail customers. Since small business lending is a primary focus of the bank's commercial lending activities, Harris Bankcorp has added a new business development team devoted to generating new small business banking leads and assessing the needs of these borrowers. As HBH recognized the growing need for home purchase, refinance and home equity loans throughout its assessment area, management hired 3 mortgage originators since late 1995 to accommodate the demand. In response to customer requests, the bank increased its advance rates on home equity loans from 80% to 85-100%. Also, to enhance customer service, the personal bankers were trained in all aspects of retail loan products to better handle customer inquiries, and to offer other retail credit products such as charge cards, overdraft protection, and personal lines of credit. HBH offers seminars and outreach meetings throughout the year to provide information on topics such as how to apply for loans to small business, first time home buyer loans, how to set up a home office, and current mortgage products and services information. The results of an interview with a community contact in Hinsdale indicated that there are no unmet credit needs within the assessment area.

There are no impediments which would hamper HBH's ability to help meet the credit needs of its community. Financial information as of June 30, 1997 indicates that the bank had a return on average assets (ROAA) of 1.86%. The bank has its main office in Hinsdale and two full service branches located in the villages of Darien and Burr Ridge. The bank has 8 proprietary ATMs, 4 of which are located in the main office and branches, and the rest located throughout the assessment area including one at Hinsdale Community Hospital.

At the last CRA evaluation, the bank received a "satisfactory" rating for meeting the community credit needs.

Conclusions with Respect to Performance Tests

Lending Test

HBH's lending activity demonstrates:

- good responsiveness to assessment area credit needs,
- a high percentage of loans made in the bank's assessment area,
- good loan penetration among retail customers of different income levels and business customers of different size, and,
- flexible lending practices in order to serve assessment area credit needs

Performance Criteria:

Lending Activity

Overall, HBH's lending level reflects good responsiveness to credit needs within the assessment area. Home purchase, refinance, and home equity loans fulfill a primary community credit need. As shown in Table #1, the bank originates a majority of its loans within the assessment area. Home equity loans for home improvement purposes and consumer loans show the highest level of originations inside the assessment area, followed by single family and small loans to business.

Table #1: HMDA Reportable, Consumer, and Small Business Loan Analysis

Loan Type	Loans Originated Inside Assessment Area				Total Loans	
	#	% of Tot.	\$ (000)	% of Tot.	#	\$ (000)
1996 & 1997 YTD						
Single Family *	241	59.51	53,467	67.39	405	79,341
Home Improv.	158	83.16	5,851	87.19	190	6,711
Consumer	708	74.29	75,573	91.73	953	82,382
Small Business	222	54.95	25,905	50.47	404	51,331
Overall Totals	1,329	68.08	160,796	73.17	1,952	219,765

* Single Family loans include home purchase and refinance loans

The bank's record of originating small loans to businesses is adequate. As indicated in Table #2, a majority of the number of loans are being originated for amounts under \$100,000. Except for loans between \$100,000 - \$250,000, a majority of small loans to businesses are originated inside the assessment area.

Table # 2: Small Loans to Businesses with Gross Revenues Under \$1 Million

Loan Amounts	Loans Inside the Assessment Area				Total Loans	
	#	% of Tot.	\$ (000)	% of Tot.	#	\$ (000)
1996 & 1997 YTD Data						
0-99,999	66	65.35	2,037	67.52	101	3,017
100,000-249,999	10	43.48	1,373	44.51	23	3,085
250,000 & Up	12	54.55	5,084	53.57	22	9,491
Overall Totals	88	60.27	8,494	54.47	146	15,593

The level of small business lending satisfactorily reflects the bank's responsiveness to assessment area credit needs. The primary loan products for small business are SBA loans, and the SBLR (Small Business Lending Rate) loans which are offered to businesses borrowing \$500,000 or less and priced at ½% under the *Wall Street Journal* Prime rate. As of June 30, 1997, HBH had \$7.7 million outstanding in SBLR loans. In July 1997, the bank used a direct mail campaign to promote the SBLR product. Also, the bank has sponsored and participated in SBA information seminars in the community.

Geographic Distribution of Loans

As previously noted, there are no low- or moderate-income census tracts in HBH's assessment area. So, an analysis of the geographic distribution of loans would not be meaningful.

Borrower Characteristics

The distribution of borrowers reflects good penetration among retail customers of different income levels. Tables #3 and #4 show that the bank originates loans to borrowers of all income levels with respect to HMDA and consumer loans. As indicated in the "Description of Institution and Community", HMDA loans to low- and moderate-income borrowers for home purchases are very limited due to the high housing values and associated costs within the assessment area. As such, Table #3 shows low penetration to low- and moderate-income borrowers for HMDA reportable loans. However, as shown in Table #4, consumer loans compare similarly to the percentage of families within the assessment area by income level and reflect the bank's efforts to originate loans to low- and moderate-income borrowers.

Table # 3: HMDA Reportable Loans

Income Level	1996				1997 YTD			
	#	%	\$ (000)	%	#	%	\$ (000)	%
Low	8	2.94	442	1.00	4	2.22	146	.60
Moderate	13	4.78	630	1.42	12	6.67	754	3.10
Middle	41	15.07	2,364	5.34	27	15.00	1,692	6.95
Upper	210	77.21	40,868	92.24	137	76.11	21,737	89.35
Totals:	272	100.00	44,304	100.00	180	100.00	24,329	100.00

Table # 4: Consumer Loans*

Income Level	1996				1997 YTD			
	#	%	\$ (000)	%	#	%	\$ (000)	%
Low	34	8.21	215	.95	10	4.18	99	.63
Moderate	37	8.94	680	3.01	27	11.30	493	3.16
Middle	64	15.46	2,283	10.12	36	15.06	1,511	9.68
Upper	279	67.39	19,387	85.92	166	69.46	13,509	86.53
Totals:	414	100.00	22,565	100.00	239	100.00	15,612	100.00

* Consumer loans include non-HMDA reportable home equity loans, vehicle loans, and secured and unsecured loans.

Innovative and Flexible Lending Practices

The bank uses, either by itself or through affiliates, innovative and flexible lending practices in order to serve assessment area credit needs. HBH offers a 3% down payment, fixed rate home mortgage loan product to help renters purchase homes within the assessment area. In May 1997, the bank mailed 6,000 letters which explained this product to apartment dwellers in the villages of Darien and Woodridge. A 5% downpayment mortgage product with an adjustable rate is also available. Five of these loans were originated in 1997. The bank participates in other housing loan programs such as the Illinois Housing Development Authority mortgage program which targets low- and moderate-income borrowers in certain census tracts and offers flexible underwriting standards; FHA/VA loans are referred to the affiliated Harris Trust and Savings Bank; and, the bank refers customers interested in the reverse mortgage loan product to the affiliated Harris Bank Winnetka. For consumer loans, the bank offers home equity lines of credit with advance rates from 85% to 100%, as well as certificate of deposit secured loans and secured

credit cards. HBH also offers the SBLR (Small Business Lending Rate) loan which is designed to help small businesses grow and expand while making credit available at affordable pricing.

Fair Lending Review

No violations of the substantive provisions of the antidiscrimination laws and regulations (ECOA, FHA, or HMDA) were identified. HBH's policies, procedures, training programs, and internal assessments have been effective in promoting the spirit and intent of fair lending.

Investment Test

HBH does not have opportunities to hold qualified community development investments from its defined assessment area due to the high income demographics of the assessment area.

Responsiveness To Credit and Community Development Needs

While no qualified investment opportunities exist within the bank's assessment area, the management team remains responsive to credit and community economic development needs. Since the beginning of the year, HBH has made over \$10,000 in donations to the following organizations: The Hinsdale Community House to provide counseling services for low- and moderate-income individuals, the American Association of University Women to provide scholarships to low- and moderate-income women, and the DuPage Housing Authority for a job training program to benefit low-income people. The bank has also joined the West Cook County Community Development Corporation (CDC) which aims to foster economic development and maintain affordable housing in the western suburbs of Chicago.

Service Test

The level of retail banking services provided by HBH is good. The bank's delivery systems provide access from essentially all parts of the assessment area. Business hours and services are reasonable in meeting the needs of the assessment area.

Accessibility of Delivery Systems

The delivery systems are accessible from essentially all portions of the institution's assessment area. The main office is located in downtown Hinsdale, the two branches are located on main thoroughfares in Burr Ridge and Darien, and eight ATM machines are located at the main office and branches as well as in other parts of the assessment area. ATMs, PC banking software, and a telephone banking system are available to meet customers' needs. Finally, customers can use any of the more than 140 Harris Bankcorp community banks located throughout the Chicago and

suburban area for banking services.

Reasonableness of Business Hours and Services in Meeting Assessment Area Needs

Services do not vary in a way that inconveniences certain portions of the assessment area. The main office and branches maintain lobby hours from 8:30am to 5:00pm (Mon - Wed), 8:30am to 6:00pm (Thur - Fri), and from 8:30am to 2:30pm on Saturdays. Drive-up/Walk-up hours are slightly longer than lobby hours: 6:30am to 7:00pm (Mon - Fri) and 7:30am - 4:00pm on Saturdays.

Changes in Branch Locations

Since the last CRA evaluation, HBH opened one branch in the village of Darien, IL.

Appendix: Scope of Examination

The scope of the examination included a review of home mortgage, home equity and loans to small businesses originated from 1/1/96 to 8/29/97. The bank's assessment area includes the villages of Burr Ridge, Clarendon Hills, Darien, Downers Grove, Hinsdale, Indian Head Park, Lisle, Oak Brook, Western Springs, Westmont, Willowbrook, Willow Springs and Woodridge. The lending test was the primary performance test used in assessing the overall rating because the bank's assessment area does not contain any low- or moderate-income census tracts and because there are limited opportunities for qualified investments.