



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

March 24, 2003

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First National Bank-Employee Owned
Charter Number 12870**

**485 Lake Street
Antioch, IL 60002**

**Comptroller of the Currency
ADC - Chicago North
Arlington Place II, Suite 340
85 West Algonquin Road
Arlington Heights, IL 60005**

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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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 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 **First National Bank-Employee Owned (FNBEO)** prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of March 24, 2003. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.

This evaluation covers the period since December 18, 1997, the date of the last CRA examination when the bank was rated "Satisfactory record of meeting community credit needs."

INSTITUTION'S CRA RATING

INSTITUTION'S CRA RATING: This institution is rated: Satisfactory Record of Meeting Community Credit Needs.

The major factors that support FNBEO's overall rating include:

- The distribution of loans to borrowers of different income levels is excellent. Lending to businesses of different sizes is excellent.
- The loan-to-deposit ratio is reasonable.
- The level of lending within FNBEO's designated assessment areas is reasonable.

DESCRIPTION OF INSTITUTION

First National Bank-Employee Owned (FNBEO) is a \$131.6 million intrastate financial institution. FNBEO is headquartered in Antioch, Illinois, approximately 60 miles northwest of Chicago.

FNBEO is a wholly owned subsidiary of Antioch Bancshares, Inc. (ABI) which is headquartered in Antioch, Illinois. As of December 31, 2002, ABI was a one-bank holding company with no other subsidiaries and approximately \$133.5 million in consolidated assets.

FNBEO has two offices and two automated teller machines (ATMs) located at each branch. The main office is located in Antioch, Illinois and has one walk-up ATM. The branch is located in Gurnee, Illinois and has one drive-up ATM.

There has been no change in FNBEO's corporate structure since the last CRA examination.

As of December 31, 2002, the bank reported approximately \$96.5 million in outstanding loans and had a net loans and leases to assets ratio of 73 percent. Tier 1 Capital was reported at \$9.8 million. The bank is primarily a residential real estate lender. Table 1 provides data on the bank's gross loan portfolio.

Table 1

Loan Portfolio Composition		
Loan Category	\$(000s)	Percent
Residential Loans	\$ 53,445	55.37%
Commercial Loans	\$ 35,376	36.65%
Individual Loans	\$ 5,965	6.18%
Agricultural Loans	\$ 1,313	1.36%
Other Loans	\$ 424	0.44%
Total	\$ 96,523	100.00%

There are no financial circumstances, legal constraints or other factors that would hinder FNBEO's ability to meet the credit needs of the community. The bank's previous CRA rating, as of December 18, 1997, was Satisfactory.

DESCRIPTION OF FNBEO'S ASSESSMENT AREAS

FNBEO has two assessment areas (AAs): a portion of **Lake County, Illinois**, which is part of the Chicago Metropolitan Statistical Area (MSA 1600); and a portion of **Kenosha County, Wisconsin**, which is part of the Kenosha Metropolitan Statistical Area (MSA 3800). Our analysis focused on the bank's performance in each of the AAs. The following provides further details regarding each AA.

Lake County, Illinois AA (MSA 1600)

Lake County is located in the northeast corner of Illinois. The AA includes 9 geographies within

the northwestern portion of the county and represents a small section of the Chicago Metropolitan Statistical Area (MSA 1600). The main office and the branch of FNBE0 are located in this AA. Based on the 1990 Census median income of \$42,758, the 9 geographies consist of 8 middle-income areas (88.89 percent) and 1 upper-income area (11.11 percent). The AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income geographies.

Major towns in the AA are Antioch, Lake Villa, and Lindenhurst. The total population in the AA is 48,225 based on 1990 Census data. The 2002 HUD adjusted median family income for the AA is \$75,400. There are 13,148 families in the AA, of which 11.97 percent are considered low-income, 16.76 percent are considered moderate-income, 27.25 percent are considered middle-income, and 44.02 percent are considered upper-income.

Based on 2002 business demographic data, there were a total of 3,333 businesses in the AA. Of these, 2,646 (79.39 percent) had revenues less than \$1 million, 165 (4.95 percent) had revenues greater than \$1 million, and 522 (15.66 percent) did not report revenue information. Eighty-nine percent of the businesses are located in the middle-income geographies and 11 percent are located in the upper-income geography.

The local housing demand is strong. The 1990 Census data shows that there are 19,531 housing units within the AA. Of these, 69.11 percent are owner-occupied units, 20.16 percent are rental-occupied units, and 10.73 percent are vacant housing units. The weighted average median housing value in the AA is \$98,954.

The local economy is considered good with a 2002 unadjusted seasonal unemployment rate of approximately 5.7 percent for Lake County versus the State of Illinois unemployment rate of 6.5 percent. The major employers in the AA are Antioch Gasket and Industries, Janis Plastics, Skach Manufacturing, Nu-Way Speakers, and Thelen Sand & Gravel. The majority of the businesses in the AA are small businesses. Approximately 82.81 percent of the businesses have less than 50 employees and 62.08 percent of the businesses have only one to four employees.

FNBE0's major competitors within its AA include State Bank of the Lakes representing 22.31 percent of the deposit market share, Northside Community Bank with 15.63 percent, and Anchor Bank with 5.83 percent. FNBE0 has 10.82 percent of the deposit market share in the AA.

We conducted two community contact interviews during our examination relating to this AA. We contacted a real estate agent and a local business owner. Both contacts indicated the major credit needs were financing for housing, small business and infrastructure. Both contacts indicated the performance of local financial institutions has been strong with management actively involved in the community.

Kenosha County, Wisconsin AA (MSA 3800)

Kenosha County is located in the southeastern corner of Wisconsin. The AA includes 3 geographies within the southwestern portion of the county and represents a section of the Kenosha Metropolitan Statistical Area (MSA 3800). FNBE0 does not have any branches located in this AA. Based on the 1990 Census median income of \$35,657, the AA consists of

three middle-income geographies (100 percent). The AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income geographies.

Major towns in the AA are Bristol and Salem. The total population in the AA is 15,554 based on 1990 Census data. The 2002 HUD adjusted median family income for the AA is \$59,700. There are 4,374 families in the AA, of which 12.5 percent are considered low-income, 18.5 percent are considered moderate-income, 29.1 percent are considered middle-income, and 39.9 percent are considered upper-income.

Based on the 2002 business demographic data, there were a total of 913 businesses in the AA. Of these, 712 (77.98 percent) had revenues less than \$1 million, 62 (6.79 percent) had revenues greater than \$1 million, and 139 (15.22 percent) did not report revenue information. All 913 businesses were located in the middle-income geographies.

The local housing demand is good. The 1990 Census data shows that there are 6,755 housing units within the AA. Of these, 67.27 percent are owner-occupied units, 15.44 percent are rental-occupied units, and 17.29 percent are vacant housing units. The weighted average median housing value in the AA is \$72,772.

The local economy is considered good with a 2002 unadjusted seasonal unemployment rate of approximately 5.4 percent for Kenosha County versus the State of Wisconsin unemployment rate of 5.5 percent. The major employers in the AA are the local school districts and the Kenosha County Highway Department. The majority of businesses in the AA are small businesses. Approximately 81.49 percent of the businesses have less than 50 employees and 58.38 percent of the businesses have only one to four employees.

FNBEO's major competitors within its AA include M&I Bank representing 63.56 percent of the deposit market share, Bank One representing 22.35 percent of the deposit market share, and Southport Bank representing 14.09 percent of the deposit market share. Since FNBEO does not have a physical presence in this AA, we were unable to determine FNBEO's market share for this AA.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The bank's average loan-to-deposit ratio is reasonable given the bank's size, financial condition, and both AA credit needs. FNBEO's quarterly average loan-to-deposit ratio for the period from December 31, 1997 to December 31, 2002 was 74.74 percent. The quarterly average loan-to-deposit ratio for other similarly situated financial institutions located within the AAs range from 64.02 percent to 110.97 percent. FNBEO ranked third of six institutions with assets in the range of \$79-389 million in the Antioch and Gurnee areas. FNBEO's net loan-to-deposit ratio has remained relatively stable.

The bank sells mortgage loans to the secondary market, which is not reflected in the bank's quarterly average loan-to-deposit ratio. The bank sold 655 loans totaling \$83.736 million during the evaluation period from 1998 through 2002. The bank's mortgage sales to the secondary

market represents 48.41 percent of the number of mortgage originations and 56.26 percent of the dollar volume of mortgage originations during the evaluation period from 1998 through 2002.

In 1997, FNBEO provided \$10,000 to a loan pool for the Lake County Integrated Financing Program, which provides small loans to new and expanding small businesses in Lake County, Illinois.

Lending in Assessment Area

FNBEO's record of lending within its AAs is considered reasonable. The majority of the bank's loans are made within its AAs. Our review included all Home Mortgage Disclosure Act (HMDA) reportable loans for the years 1998, 1999, 2000, 2001, and 2002. For small business lending, the sample consisted of 20 loans originated during the evaluation period. Table 2 details the bank's lending within both AAs by number of loan originations and dollar volume during the evaluation period.

Table 2

Loans Originated in Assessment Areas						
Loan Type	# in AAs	\$ in AAs (000s)	Total #	Total \$ (000s)	Percent # in AAs	Percent \$ in AAs
Home Purchase *	200	21,960	335	38,558	59.70	56.95
Home Refinance *	561	66,689	825	101,542	68.00	65.68
Home Improvement *	131	4,221	189	6,930	69.31	60.91
Multifamily *	2	721	4	1,796	50.00	40.14
Total HMDA *	894	93,591	1,353	148,826	66.08	62.89
Commercial **	14	1,330	20	2,384	70.00	55.79

* Represents loans originated 1998 through 2002 under the Home Mortgage Disclosure Act.

** Represents a sample of 20 loans.

Lending to Borrowers of Different Incomes and to Businesses of Different Sizes

The overall rating for FNBEO's lending to borrowers of different incomes and to businesses of different sizes is excellent. The bank's record of extending credit to individuals of different income levels reflects excellent lending to low- and moderate-income borrowers within the AAs. The bank's record of lending to small businesses reflects an excellent level of lending to businesses of different sizes.

FNBEO's primary loan types are residential real estate and commercial loans. Both of these loan types constitute a significant volume of FNBEO's lending mix. Residential real estate loans comprise 55.37 percent of FNBEO's entire loan portfolio and have historically been FNBEO's primary loan product. The commercial loan portfolio currently represents 36.65 percent of total loans.

FNBEO's residential HMDA reportable loans consist of home purchase, home refinance, home improvement loans, and multifamily. Performance in home mortgage products were weighted more heavily than that in small business loans, as mortgage lending represents a larger portion (55.37 percent) of FNBEO's loan portfolio.

Performance in the Lake County, Illinois AA (MSA 1600) was weighted more heavily than performance in the Kenosha County, Wisconsin AA (MSA 3800), as the distribution of opportunities in the Lake County, Illinois (MSA 1600) AA is much greater. The population in the Lake County, Illinois (MSA 1600) AA is over 3 times as large as the population of the Kenosha County, Wisconsin (MSA 3800) AA. The distribution of businesses, both large and small, is over 3 times as large in the Lake County, Illinois (MSA 1600) AA as the Kenosha County, Wisconsin (MSA 3800) AA. Approximately 53.51 percent of the number and 52.24 percent of the dollar volume of FNBE0's mortgage loans were made in the Lake County, Illinois (MSA 1600) AA as opposed to 12.56 percent of the number and 10.64 percent of the dollar volume of mortgage loans made in the Kenosha County, Wisconsin (MSA 3800) AA during the evaluation period of 1998 through 2002.

Lake County, Illinois AA (MSA 1600)

The rating for FNBE0's lending to borrowers of different incomes and to businesses of different sizes in Lake County, Illinois AA is excellent. The bank's record of extending credit to individuals of different income levels reflects excellent lending to low- and moderate-income borrowers within the Lake County, Illinois AA. The bank's record of lending to small businesses reflects an excellent level of lending to businesses of different sizes.

HMDA Loan Originations

The overall rating for mortgage lending is excellent. FNBE0's performance in home refinance lending was given more weight since FNBE0's volume for home refinance lending significantly exceeded the volume of home purchase, multifamily, and home improvement loans originated during the evaluation period. Table 3 details HMDA lending within Lake County, Illinois AA (MSA 1600).

The distribution of home refinance loans among borrowers of different income levels is excellent. Home refinance loans made to low-income borrowers (8.39 percent) is below the percentage of low-income families (11.97 percent) in the AA. This is reasonable considering 4.87 percent of households in the AA are below the poverty level, based on 1990 Census data. Home refinance loans made to moderate-income borrowers (21.38 percent) significantly exceeded the percentage of moderate-income families (16.76 percent) within the AA. FNBE0 made 477 home refinance loans within the AA during 1998 through 2002. Forty loans totaling \$3.177 million were made to low-income borrowers and 102 loans totaling \$9.361 million were made to moderate-income borrowers.

The distribution of home purchase loans among borrowers of different income levels is excellent. Home purchase loans made to low- and moderate-income borrowers (18.49 and 17.12 percent, respectively) exceeded the percentage of low- and moderate-income families (11.97 and 16.76 percent, respectively) within the AA. The bank made 146 home purchase loans within the AA during 1998 through 2002. Twenty-seven loans totaling \$2.333 million were made to low-income borrowers and 25 loans totaling \$2.302 million were made to moderate-income borrowers.

The distribution of home improvement loans among borrowers of different income levels is excellent. Home improvement loans made to low- and moderate-income borrowers (12.12 and

21.21 percent, respectively) exceeded the percentage of low- and moderate-income families (11.97 and 16.76 percent, respectively) within the AA. The bank made 99 home improvement loans within the AA during 1998 through 2002. Twelve loans totaling \$289 thousand were made to low-income borrowers and 21 loans totaling \$691 thousand were made to moderate-income borrowers.

Table 3

Percentage of Residential Real Estate Loans – Lake County, Illinois AA (MSA 1600)									
Borrower Income Level	Home Refinance		Home Purchase		Home Improvement		All Mortgage Loans		Percent of Families in AA
	# of Loans	\$ of Loans	# of Loans	\$ of Loans	# of Loans	\$ of Loans	# of Loans	\$ of Loans	
Low	8.39	5.59	18.49	13.68	12.12	9.14	10.9	7.46	11.97
Moderate	21.38	16.48	17.12	13.49	21.21	21.84	20.4	15.89	16.76
Middle	31.87	31.65	28.77	28.24	37.38	31.87	31.9	30.61	27.25
Upper	38.36	46.28	35.62	44.59	29.29	37.15	36.5	45.11	44.02

Commercial Loan Originations

The borrower distribution of commercial loans is excellent. Loans made to businesses with annual revenues of less than \$1 million (88.24 percent) exceeded the percentage of businesses with annual revenues of less than \$1 million (79.39 percent) within the AA. Of the 17 loans in our sample, 15 loans totaling \$916 thousand were made to businesses with annual revenues of less than \$1 million. Table 4 details the commercial lending sampled within the Lake County, Illinois AA (MSA 1600).

Table 4

Commercial Loan Originations in Lake County, Illinois AA (MSA 1600)						
Revenue Ranges	Lending to Businesses of Different Sizes				Businesses within AA	
	#	Percent	\$ (000s)	Percent	#	Percent
\$1 Million or Less	15	88.24	916	79.63	2,646	79.39
Greater than \$1 Million	2	11.76	234	20.37	165	4.95
Revenue not Reported	0	0.00	0	0.00	522	15.66

Kenosha County, Wisconsin AA (MSA 3800)

The rating for FNBEO's lending to borrowers of different incomes and to businesses of different sizes in Kenosha County, Wisconsin AA is reasonable. The bank's record of extending credit to individuals of different income levels reflects reasonable lending to low- and moderate-income borrowers within the Kenosha County, Wisconsin AA. The bank's record of lending to small businesses was not analyzed, as the number of commercial loans in this AA is small.

HMDA Loan Originations

The overall rating for mortgage lending is reasonable. FNBEO's performance in home refinance lending was given more weight since FNBEO's volume for home refinance lending significantly exceeded the volume of home purchase and home improvement loans originated in the AA during the evaluation period. Table 5 details the HMDA lending within Kenosha County, Wisconsin AA (MSA 3800).

The distribution of home refinance loans among borrowers of different income levels is

reasonable. Home refinance loans made to low-income borrowers (3.57 percent) is significantly below the percentage of low-income families (12.5 percent) in the AA. This is reasonable considering 4.84 percent of households in the AA are below poverty level, based on 1990 Census data. Home refinance loans made to moderate-income borrowers (16.67 percent) is below the percentage of moderate-income families (18.5 percent) within the AA. Three loans totaling \$226 thousand were made to low-income borrowers and 14 loans totaling \$1.414 million were made to moderate-income borrowers.

The distribution of home purchase loans among borrowers of different income levels is excellent. Home purchase loans made to low-income borrowers (9.26 percent) was less than the percentage of low-income families (12.5 percent) in the AA. This is considered reasonable since 4.84 percent of households in the AA are below poverty level. Home purchase loans made to moderate-income borrowers (35.19 percent) significantly exceeded the percentage of moderate-income families (18.5 percent) in the AA. Five loans totaling \$119 thousand were made to low-income borrowers and 19 loans totaling \$1.413 million were made to moderate-income borrowers.

The distribution of home improvement loans among borrowers of different income levels is reasonable. Home improvement loans made to low-income borrowers (9.38 percent) was less than the percentage of low-income families (12.5 percent) in the AA. This is considered reasonable since 4.84 percent of households in the AA are below poverty level. Home improvement loans made to moderate-income borrowers (15.63 percent) is below the percentage of moderate-income families (18.5 percent) in the AA. Three loans totaling \$78 thousand were made to low-income borrowers and 5 loans totaling \$70 thousand were made to moderate-income borrowers.

Table 5

Percentage of Residential Real Estate Loans – Kenosha County, Wisconsin AA (MSA 3800)									
Borrower Income Level	Home Refinance		Home Purchase		Home Improvement		All Mortgage Loans		Percent of Families in AA
	# of Loans	\$ of Loans	# of Loans	\$ of Loans	# of Loans	\$ of Loans	# of Loans	\$ of Loans	
Low	3.57	2.29	9.26	2.43	9.38	7.37	6.5	2.67	12.5
Moderate	16.67	14.31	35.19	28.83	15.63	6.62	22.4	18.29	18.5
Middle	27.38	25.00	16.67	10.63	34.38	32.51	25.3	21.05	29.1
Upper	52.38	58.41	38.89	58.11	40.63	53.50	45.9	57.99	39.9

Commercial Loan Originations

The number of commercial loans in this AA is small. Given the low number, an analysis of the borrower distribution is not meaningful.

Geographic Distribution of Loans

There are no low- or moderate-income census tracts in FNBEQ's AAs. Therefore, an analysis of the geographic distribution of loans was not performed, as it would not be meaningful.

Community Development Investments

FNBEQ made one grant of \$7,500 over the course of three years to the Lake County Integrated Financing Program. The Lake County Integrated Financing Program provides small loans to

new and expanding small businesses in Lake County, Illinois. The grant provided for operating expenses of the program.

Responses to Complaints

FNBEA has not received any complaints about its performance in helping to meet the credit needs within its assessment areas during this evaluation period.

Fair Lending Review

An analysis of Home Mortgage Disclosure Act (HMDA) lending data, commercial loans, recent public comments, and consumer complaint information was performed according to the OCC's risk based fair lending approach. Based on its analysis of the information, the OCC decided that a comprehensive fair lending examination would not need to be conducted in connection with the CRA evaluation this year. The latest fair lending examination performed in December of 1997 found no evidence of illegal discrimination.