



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks  
Washington, DC 20219

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## **PUBLIC DISCLOSURE**

**May 08, 2006**

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

**The First National Bank of McHenry  
Charter Number 15765**

**3814 West Elm  
McHenry, IL 60050**

**Comptroller of the Currency  
Chicago North  
85 West Algonquin Road Arlington Place, Suite 340  
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.**

## **INSTITUTION'S COMMUNITY REINVESTMENT ACT (CRA) RATING:**

### **This institution is rated Satisfactory.**

- The bank's loan-to-deposit ratio is reasonable given its size, financial condition, and assessment area credit needs.
- A majority of bank loans by number (81%) and by dollar amount (76%) are made within the bank's assessment area.
- Overall, borrower distribution is satisfactory, with the bank making loans to borrowers at all income levels. The distribution of home mortgages among borrowers of different income levels is reasonable. Borrower distribution for consumer loans is excellent.
- There have been no CRA consumer complaints against the bank.

## **DESCRIPTION OF INSTITUTION**

First National Bank of McHenry (FNBM) is a \$125 million financial institution, and a wholly owned subsidiary of First McHenry Corporation. The bank does not have any subsidiaries or affiliates. First McHenry Corporation is a one-bank holding company headquartered in McHenry, Illinois, with total assets of \$125 million as of December 31, 2005.

FNBM operates four full-service branches. The main office and one of the branches are located in McHenry with additional branches in Island Lake, and Richmond. The Richmond branch opened on December 19, 2005 and is the only corporate structure change since the last CRA examination.

The bank's lending consists primarily of residential real estate. As of December 31, 2005, the bank reported \$53 million in outstanding loans with a net loan to average assets ratio of 43 percent. Total real estate loans represent 90% of gross loans with 66% consisting of residential real estate loans. Commercial loans represent 7% and consumer loans equal 3% of gross loans. Tier 1 capital was reported at approximately \$15 million.

FNBM's primary focus is community banking, offering a variety of products and services to commercial and individual consumers. Its primary objective is to maintain public confidence and its reputation as a sound financial institution. FNBM is committed to be a leader in community development and reinvest in the areas where it obtains its deposits.

There are no legal, financial, or other factors that would hinder the bank's ability to help meet the credit needs in its assessment area. FNBM received a "Satisfactory" rating at its prior CRA examination performed on January 29, 2001.

## DESCRIPTION OF ASSESSMENT AREA

The First National Bank of McHenry's assessment area (AA) is comprised of portions of Lake and McHenry Counties in the State of Illinois and complies with regulatory requirements. The AA contains 30 census tracts located in Northern Illinois and represents a small section of the Chicago Metropolitan Statistical Area. Seventeen of the 30 census tracts are in McHenry County, with the additional 13 located in Lake County. The area is generally bounded by the Wisconsin state line on the North, all of Grant and Wauconda Township and a portion of Antioch Township (Route 83) on the East, Crystal Lake Avenue on the South, and Wonder Lake Road on the West.

Of the 30 census tracts in the bank's AA, 23 are middle-income and 7 are upper-income census tracts. The bank does not have any low- or moderate-income census tracts in its AA. The Department of Housing and Urban Development (HUD) estimates 2006 median family incomes for the metropolitan division 16974 (containing McHenry County) to be \$72,100 and metropolitan division 29404 (containing Lake County) to be \$86,000. The following table summarizes the income levels of census tracts and families located within the bank's AA:

<b>Income Distribution of Census Tracts and Families</b>												
<b>AA</b>	<b>Census Tracts (# and %)</b>							<b>Percentage of Families</b>				
	<b>Low</b>		<b>Moderate</b>		<b>Middle</b>		<b>Upper</b>	<b>Low</b>	<b>Moderate</b>	<b>Middle</b>	<b>Upper</b>	
McHenry	0	0%	0	0%	13	76%	4	24%	11%	16%	27%	46%
Lake	0	0%	0	0%	10	77%	3	23%	14%	17%	27%	41%
<b>Total</b>	<b>0</b>	<b>0%</b>	<b>0</b>	<b>0%</b>	<b>23</b>	<b>77%</b>	<b>7</b>	<b>23%</b>	<b>13%</b>	<b>17%</b>	<b>27%</b>	<b>44%</b>

Source: 2000 US Census data

For household income, in McHenry County, 13% of the households in the AA are low-income and 13% are moderate-income while in Lake County, 15% of the households within the AA are low-income and 13% are moderate-income.

The local economy is considered strong and growing. Per the U.S. Census Bureau's 2005 Population Estimates for Illinois Counties, both McHenry and Lake Counties are listed as one of the 10 fastest growing Illinois Counties between 2004 and 2005, with McHenry County ranked number five with a 2.6% increase in populations and Lake County listed number ten with a 1.4% increase. Local housing demand is strong. The City of McHenry's housing over 24 years has more than doubled, with total housing units in the year 1980 equaling 4,115 compared to year 2004 at 9,417. In the year 2004, the leading industries in McHenry County were manufacturing (15%), and educational, health, and social services (14%). For Lake County, leading industries also included manufacturing (17%), and educational, health, and social services (16%). For the year 2005, McHenry County's unemployment rate was 5.1%, below the State of Illinois unemployment rate of 5.7% and in line with the nation's rate of 5.1%. In comparison, Lake County's unemployment rate was below all three areas at 4.5%.

Competition within the bank's AA is strong. Including FNBM, there are 20 financial institutions serving the bank's AA. The largest share of the deposits in a single bank holds 20% of the deposit market share. FNBM holds approximately 9% of the market shares of deposits, ranking fourth in its AA.

We conducted one community contact during our examination. Our contact was the McHenry Chamber of Commerce. The contact indicated the major credit needs in the local market include financing for housing, redevelopment, and small business start-ups.

## CONCLUSIONS ABOUT PERFORMANCE CRITERIA

### Loan-to-Deposit Ratio

Overall, FNBM's quarterly average loan to deposit ratio is reasonable given the bank's size, financial condition, and AA credit needs. The bank's quarterly loan-to-deposit ratio averaged 51.01% over the 21 quarters from March 31, 2001 to March 31, 2006. The quarterly average loan-to-deposit ratios for four other community banks of similar size range from 70.43% to 95.40 percent. The four similar peer banks have total assets ranging from \$265 - \$658 million. FNBM's loan to deposit ratio ranks last when compared to the four institutions. It has historically been lower than local community banks of similar asset size, due to strong competition for loans and deposits in the area. FNBM's net loan-to-deposit ratio has remained stable over the last 21 quarters, at 49.82% on March 31, 2006 compared to 49.03% on March 31, 2001.

### Lending in Assessment Area

FNBM originates the majority of its loans to borrowers inside its AA. Our review included a sample of the bank's primary loan types, 49 home mortgages and 34 consumer loans that originated during the evaluation period (the years of 2004, 2005, and year-to-date 2006). The dollar total of the 49 home mortgages sampled represented 43% of the home mortgage loans that originated during the evaluation period. The dollar total of the 34 consumer loans reviewed comprised 14% of the consumer loans that originated during the same timeframe.

The bank's record of lending within its AA is considerable reasonable. Approximately 81% by total number and 76% by total dollar volume of loans were made to borrowers located within the bank's AA. The table below summarizes the bank's lending in its AA.

TOTAL LOANS REVIEWED								
Loan Type	In Assessment Areas				Out of Assessment Areas			
	#	% of #	\$\$ (000s)	% of \$\$	#	% of #	\$\$ (000s)	% of \$\$
<b>HOME MORTGAGES</b>								
Purchase	10	76.92%	879	76.90%	3	23.08%	264	23.10%
Improvement	10	90.91%	411	97.62%	1	9.09%	10	2.38%
Refinance	19	76.00%	2,385	71.84%	6	24.00%	935	28.16%
<b>TOTALS</b>	<b>39</b>	<b>79.59%</b>	<b>3,675</b>	<b>75.25%</b>	<b>10</b>	<b>20.41%</b>	<b>1,209</b>	<b>24.75%</b>
<b>CONSUMER LOANS</b>								
I/L Auto	12	75.00%	113	64.94%	4	25.00%	61	35.06%
I/L Home Equity	10	90.91%	445	80.62%	1	9.09%	107	19.38%
I/L Other	6	85.71%	181	91.41%	1	14.29%	17	8.59%
<b>TOTALS</b>	<b>28</b>	<b>82.35%</b>	<b>739</b>	<b>79.98%</b>	<b>6</b>	<b>17.65%</b>	<b>185</b>	<b>20.02%</b>
<b>GRAND TOTALS</b>	<b>67</b>	<b>80.72%</b>	<b>4,414</b>	<b>76.00%</b>	<b>16</b>	<b>19.28%</b>	<b>1,394</b>	<b>24.00%</b>

Source: Bank records (verified by examiners)

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

Overall, borrower distribution is satisfactory, with the bank making loans to borrowers at all income levels. Distribution of home mortgages, the bank's primary loan type, is reasonable. The bank's lending by both number and dollar volume is adequate, however it does a better job in McHenry County than in Lake County. In Lake County, the bank falls below community demographics, but in McHenry County exceeds moderate-income levels in both number and dollar volume.

Borrower Distribution of Home Mortgages										
Borrower Income Levels	McHenry					Lake				
	# of Loans	% of Total Number	\$(000's) of Loans	% of Total \$ (000's)	% of Families by Income	# of Loans	% of Total Number	\$(000's) of Loans	% of Total \$ (000's)	% of Families by Income
Low	3	10.00%	179	7.65%	11.34%	1	5.00%	35	1.39%	14.45%
Moderate	7	23.33%	461	19.70%	15.53%	3	15.00%	343	13.59%	17.35%
Middle	14	46.67%	1249	53.38%	27.48%	9	45.00%	793	31.43%	27.45%
Upper	6	20.00%	451	19.27%	45.65%	7	35.00%	1,352	53.59%	40.75%
<b>GRAND TOTAL</b>	<b>30</b>	<b>100.00%</b>	<b>2340</b>	<b>100.00%</b>	<b>100.00%</b>	<b>20</b>	<b>100.00%</b>	<b>2523</b>	<b>100.00%</b>	<b>100.00%</b>

Source: Bank records (verified by examiners) and U.S. Census Data (2000) Sampled 30 home mortgage loans originated in McHenry County and 20 home mortgage loans originated in Lake County since 2004.

Distribution of consumer loans, in both McHenry and Lake Counties, is excellent. The bank's lending by both number and dollar volume to low- and moderate-income borrowers is notable when considering that 10% of Lake County households and 6.5% of McHenry County households in the bank's AA are living below poverty.

Borrower Distribution of Consumer Loans										
Borrower Income Levels	McHenry					Lake				
	# of Loans	% of Total Number	\$(000's) of Loans	% of Total \$ (000's)	% of Households by Income	# of Loans	% of Total Number	\$(000's) of Loans	% of Total \$ (000's)	% of Households by Income
Low	7	33.33%	91	21.21%	12.85%	8	40.00%	71	15.20%	15.29%
Moderate	5	23.81%	37	8.62%	12.57%	3	15.00%	121	25.91%	13.22%
Middle	6	28.57%	154	35.90%	20.51%	5	25.00%	113	24.20%	19.63%
Upper	3	14.29%	147	34.27%	54.07%	4	20.00%	162	34.69%	51.47%
<b>GRAND TOTAL</b>	<b>21</b>	<b>100.00%</b>	<b>429</b>	<b>100.00%</b>	<b>100.00%</b>	<b>20</b>	<b>100.00%</b>	<b>467</b>	<b>100.00%</b>	<b>100.00%</b>

Source: Bank records (verified by examiners) and U.S. Census Data (2000) Sampled 21 consumer loans originated in McHenry County and 20 consumer loans originated in Lake County since 2004.

## Geographic Distribution of Loans

The bank's AA contains no low- or moderate-income geographies. Therefore, an assessment of the geographic distribution is not meaningful and was not performed.

### **Responses to Complaints**

First National Bank of McHenry has not received any written complaints about its performance in helping to meet the credit needs within its AA during this evaluation period.

### **Fair Lending or Other Illegal Credit Practices Review**

We found no evidence of illegal discrimination or other illegal credit practices inconsistent with helping to meet community credit needs.