



INTERMEDIATE SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

November 28, 2011

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The National Republic Bank of Chicago
Charter Number: 14399

1201 West Harrison Street
Chicago, IL 60607

Office of the Comptroller of the Currency
Chicago Field Office
1700 E. Golf Road, Suite 800
Schaumburg, IL 60173

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 (CRA) RATING: This institution is rated Satisfactory.

The Lending Test is rated: Satisfactory.

The Community Development Test is rated: Satisfactory.

The major factors supporting the institution's rating are as follows:

- The bank's average loan to deposit ratio is more than reasonable given the bank's size, financial condition, and assessment area (AA) credit needs.
- A majority of loans are within the bank's delineated AA.
- The distribution of borrowers reflects reasonable penetration among individuals of different income levels and businesses of different sizes.
- The geographic distribution of loans reflects excellent dispersion throughout the AA.
- The bank's community development performance demonstrates adequate responsiveness to the community development needs of its AA.
- There were no complaints related to the bank's performance during the evaluation period.

Scope of Examination

Although the bank is over \$1 billion, it has not yet met the asset size criteria for two calendar years, and as such, we evaluated the bank using intermediate small bank procedures.

The CRA evaluation period is from the last examination, October 11, 2006 to the start of the current examination, November 28, 2011. The lending test included bank performance from January 1, 2008 through December 31, 2010 while the bank's community development activities from October 11, 2006 to November 28, 2011 were considered.

The primary loan product for the bank continues to be commercial lending. The bank also extends residential real estate loans. This examination will focus on small business and residential real estate loan originations during the evaluation period.

A data integrity examination of the HMDA and small business data captured by the bank in years 2008, 2009, and 2010 was performed in August 2011. The data was deemed to be sufficiently accurate for use in the CRA analysis at that time.

Description of Institution

National Republic Bank is a \$1.3 billion minority-owned bank located in Chicago, Illinois. It is owned by NRBC, a one bank holding company of the same asset size also located in Chicago. The bank's main office is located about one mile west of the Chicago Loop and across from the University of Illinois at Chicago. It has one cash-dispensing Automated Teller Machine (ATM) in its lobby. The bank has one branch on the far north side of Chicago.

The bank has been Indian owned since 1984 and has directed its efforts to serving the financial needs of the Indian-American community nationwide. In particular, the bank has focused on providing small balance commercial loans, Small Business Administration (SBA) loans under the 504 program, and loans secured by real estate to owner-operated businesses in the franchised and independent limited-service hospitality, convenience store, gas station and restaurant industries.

As of December 31, 2010 the bank's loan portfolio totaled \$1 billion. Ninety-six percent of the bank's loans are real estate secured. Ninety-five percent of the real estate loans are commercial real estate and construction loans and five percent are one-to-four family and multifamily residential loans.

To assist in our understanding of the bank's performance context we considered the bank's balance sheet structure and the significant dollar portion of bank deposits that are either "out of area" brokered deposits or non-brokered institutional certificates of deposit (CDs) purchased online. The FDIC deposit market share report for June 30, 2010 showed that the bank held \$1.1 billion in total deposits for a market share of .47 percent and a ranking of 29th out of 200 financial institutions in its AA. However an internal tracking report showed that approximately \$670 million of these deposits are out of area brokered deposits and approximately \$323 million are non-brokered CDs brought in from national markets. The largest competitors for deposits within the bank's AA are JP Morgan Chase, Bank of America, Harris Bank, Northern Trust, and PNC, which together hold fifty percent of the deposit market share.

The bank is operating under a Formal Agreement (the agreement) between the Board of Directors of National Republic Bank and the Office of the Comptroller of the Currency (OCC) effective April 2, 2010. The agreement does not contain any permanent restrictions that hinder National Republic Bank from meeting the credit needs of its community. There are no other restrictions or legal impediments that affect the bank's ability to meet the credit needs of the community within its AA. National Republic Bank's previous CRA rating, as of October 11, 2006 was "Satisfactory" using the intermediate small bank CRA examination procedures.

Description of Assessment Area

The bank has one designated AA. The bank had three designated AAs at the prior examination in 2006, however in July 2008 the decision was made to change the AA to encompass a smaller area. The current AA consists of all of Cook, DuPage, and Will counties in Metropolitan Division (MD) 16974 Chicago-Naperville-Joliet, Illinois. Both the bank's main office and its one branch are located in Cook County.

There are 1,572 census tracts in the AA. Nearly fifteen percent are designated as low-income and twenty-six percent are moderate-income. Four percent of businesses in the AA are located in low-income census tracts and fifteen percent are located in moderate-income geographies. Seventy four percent of the businesses have less than \$1 million in annual gross revenues and sixty five percent have 1-4 employees. The primary types of businesses are services and retail trade. Twenty-two percent of the families are low-income and eighteen percent are moderate-income. Eleven percent of the households are below the poverty level. According to the Bureau of Labor Statistics, the average unemployment rate for the Chicago-Joliet-Naperville IL-IN-WI Metropolitan Division for 2008-2010 was 8.8 percent, which matches the state and federal average unemployment rates for the same time period. The median family income in 2010 updated by HUD is \$74,700 and median housing value in 2010 is \$176,094.

During our examination we reviewed two recent community contacts from our database and conducted an interview with a community development group which serves the AA low-to-moderate-income population. The identified needs/opportunities are as follows:

- Originate home purchase loans to persons completing homebuyer education.
- Make home improvement loans.
- Defray the cost of obtaining credit reports for credit counseling clients
- Originate small business loans.
- Refer prospective borrowers to potential small business loan funds.
- Make an investment in small business loan funds.
- Provide grant funding for any of the programs.
- It was said that the most critical need in the area is for affordable housing especially now due to decreases in state funding.

Conclusions with Respect to Performance Tests

LENDING TEST

The bank's lending test rating is Satisfactory

Loan-to-Deposit Ratio

The bank's loan-to-deposit (LTD) ratio is more than reasonable given the bank's size, financial condition, and AA credit needs. The bank's average LTD ratio exceeded the average LTD ratio (86.69%) of a select group of banks with similar asset size located within the bank's AA.

Lending in Assessment Area

Table 1 shows that combined, based on number of loans originated, a majority (52.05%) of the bank's residential real estate and small business loan originations during the evaluation period were inside the bank's AA. While a significant majority (82.00%) of the bank's residential mortgage lending was within the AA, due to the bank's strategy of lending nation-wide to businesses owned by individuals of Indian-American descent, only 45.87 percent of the bank's small business lending was within the AA.

Another factor taken into consideration is the fact that only ten percent of the bank's deposits come from within its AA.

Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Residential RE	41	82.00	9	18.00	50	14,739	78.01	4,155	21.99	18,894
Small Business	111	45.87	131	54.13	242	30,295	34.72	56,971	65.28	87,266
Totals	152	52.05	140	47.95	292	45,034	42.42	61,126	57.58	106,160

Source: Data reported under HMDA and CRA

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

Overall borrower distribution shows reasonable penetration of the AA.

The distribution of loans to businesses was excellent. The bank's percentage (85.59%) of loans to small businesses (those with less than \$1 million in gross revenues) exceeded the percentage of small businesses in the AA (74.17%).

Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	74.17%	5.86%	19.97%	100%
% of Bank Loans in AA by #	85.59%	14.41%	0.00%	100%

Source: Reported CRA Data: Dun and Bradstreet demographic data.

Also supporting the bank’s reasonable performance is that 59.46 percent of the loans to businesses originated by the bank were in amounts of \$250,000 or less.

Loan Size (000’s)	Number of Loans	Percent
\$0 - \$100,000	29	26.13%
\$100,001 - \$250,000	37	33.33%
\$250,001 - \$1,000,000	45	40.54%

Source: CRAWIZ

Home mortgage lending to borrowers with different income levels was reasonable. The bank’s percentage of home purchase lending was poor as the bank made no loans to moderate-income borrowers and lending to low-income borrowers was less than the percentage of low-income families; however, 11 percent of the households in the AA are living below the poverty level.

Overall, the borrower distribution of home refinance lending was reasonable. The bank’s lending to low-income borrowers was excellent as it exceeded the percentage of low-income families. However, the percentage of home refinance lending to moderate-income borrowers was poor as it was less than the percentage of moderate-income families.

The distribution of home improvement lending was excellent as bank’s lending to both low- and moderate-income borrowers exceeded demographics.

Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Purchase	21.85	6.25	17.79	0.00	21.65	12.50	38.70	81.25
Refinance	21.85	40.00	17.79	10.00	21.65	20.00	38.70	30.00
Hm Improvement	21.85	33.33	17.79	33.33	21.65	0.00	38.70	33.33

Source: Data reported under HMDA; U.S. Census data.

Geographic Distribution of Loans

The bank’s overall geographic distribution shows excellent dispersion throughout the AA. Although the majority of bank loans are made in the bank’s AA, there are several gaps inside of the bank’s AA without any lending penetration. There are 1,572 census tracts in the AA. The bank made small loans to businesses and home mortgage loans in only 146 of them, or nine percent; however, loans were made in all four census tract income categories. The relatively small size of the bank coupled with the niche lending make it very difficult for the financial institution to penetrate most of the census tracts in the AA.

The bank's geographic distribution of business loans in its AA was excellent. The bank originated 111 small business loans in the AA during the review period, with 7.21 percent to businesses in low-income geographies and 26.13 percent to businesses in moderate-income geographies. This performance exceeded the demographics, which show that 4.03 percent of the businesses in the AA are in low-income geographies and 14.99 percent are in moderate-income geographies.

Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Small Business	4.03	7.21	14.99	26.13	36.50	24.32	44.17	42.34

The geographic distribution of home mortgage loans in the AA was also excellent.

Home purchase and home improvement lending within the bank's AA was excellent as the percentage of bank originations in low- and moderate-income geographies exceeded the percentage of owner occupied housing units (OOHUs) in both areas.

Overall home refinancing lending within the AA was reasonable. Although no loans were originated in low-income geographies, the percentage of bank home refinance lending in moderate-income geographies greatly exceeds the percentage of OOHUs.

Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Purchase	2.95	5.26	16.42	21.05	44.19	36.84	36.44	36.84
Refinance	2.95	0.00	16.42	45.45	44.19	27.27	36.44	27.27
Hm Improvement	2.95	20.00	16.42	20.00	44.19	40.00	36.44	20.00

Source: data reported under HMDA; U.S. Census data.

COMMUNITY DEVELOPMENT TEST

The bank's community development performance demonstrates adequate responsiveness to the community development needs of its AA through community development loans, qualified investments, and community development services.

Number and Amount of Community Development Loans

The bank made two qualified community development loans totaling \$8.5 million within its AA during the evaluation period. Both of the loans are SBA 504 loans that create or maintain job retention for low-and-moderate-income individuals. Both also are for economic development and revitalization. Both loans are located in low-or-moderate-income geographies and are for minority owned hotel businesses.

Number and Amount of Qualified Investments

The bank made \$3.2 million in investments during the review period in a Qualified CRA Fund. The fund is composed of Ginnie Mae Pools of mortgage loans. The properties are in the bank's AA and provide affordable housing for low-and-moderate-income individuals. In addition, the bank provided \$102 thousand in qualified community development donations during the evaluation period and had three deposits at CDFIs totaling \$535 thousand.

Extent to Which the Bank Provides Community Development Services

The bank operates a branch in a moderate-income geography. Almost fifteen percent of the population in the geography is below the poverty level. To serve retail and commercial customers, the branch is open six days a week (every day except Wednesday).

The bank offers 24-hour a day internet banking to view account balances and transaction history; direct deposit of social security and other government payments; telephone banking to review checking, savings and loan accounts; and ATM cards that access the nationwide STAR ATM network.

Responsiveness to Community Development Needs

The President is a director and member of the loan committee at SomerCor 504, Inc. SomerCor 504, Inc. is a non-profit development company certified by the U.S. SBA to originate SBA 504 loans within the state of Illinois. During the evaluation period, a number of SBA 504 loans have been granted with assistance from SomerCor 504, Inc.

A Vice President of Loans is a member of the loan committee of ACCION Chicago, an alternative lending organization dedicated to providing credit and other business services to small business owners who do not have access to traditional sources of financing.

Responses to Complaints

National Republic Bank received no complaints regarding the bank's CRA performance during the evaluation period.

Fair Lending or Other Illegal Credit Practices Review

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