

PUBLIC DISCLOSURE

August 10, 1998

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Harris Bank of Palatine, N.A.
Charter Number: 14494**

**Brockway at Bank Lane
Palatine, Illinois 60067**

**Office of the Comptroller of the Currency
Arlington Place II, Suite 340
85 West Algonquin Road
Arlington Heights, Illinois 60005**

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, when examining financial institutions subject to its supervision, to use its authority 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 the examination's conclusion, 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 of Palatine, N.A., prepared by The Office of the Comptroller of the Currency (OCC), the institution's supervisory agency, as of August 10, 1998. 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 C.F.R. part 25.

This evaluation covers the period from January 1, 1996 to June 30, 1998. The prior CRA evaluation, dated May 17, 1996, rated this institution "Satisfactory Record of Meeting Community Credit Needs."

DEFINITIONS AND COMMON ABBREVIATIONS

The following terms and abbreviations are used throughout this Performance Evaluation. The definitions are intended to provide the reader with a general understanding of the terms, not a strict legal definition.

Community Reinvestment Act (CRA) - The statute and implementing regulation that require the OCC to evaluate a bank's record of meeting the credit needs of its local community, consistent with safe and sound operation of the bank, and to take this record into account when evaluating certain corporate applications filed by the bank.

Community Development - Affordable housing (including multi-family rental housing) for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs or have gross annual revenues of \$1 million or less; or, activities that revitalize or stabilize low- or moderate-income geographies. Community development loans specifically exclude loans which have been reported under the Home Mortgage Disclosure Act or as small loans to businesses or farms, except for multi-family rental housing loans, which can be reported under both categories.

Metropolitan Statistical Area (MSA) - Area defined by the Director of the United States Office of Management and Budget. MSA's consist of one or more counties, including large population centers and nearby communities that have a high degree of interaction.

Census Tract (CT) - A small, locally defined statistical area. These areas are determined by the United States Census Bureau in an attempt to group homogenous populations. A CT has defined boundaries per ten-year census and an average population of 4,000.

Home Mortgage Disclosure Act (HMDA) - A statute that requires certain mortgage lenders that do business or have banking offices in an MSA to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applicants, the amount of loan requested, and its disposition (e.g., approved, denied, withdrawn).

Median Family Income (MFI) - The median income determined by the United States Census Bureau every ten years and used to determine the income level category of census tracts. Also, the median income determined by the Department of Housing and Urban Development annually that is used to determine the income level category of individuals. For any given area, the median is the point at which half of the families have income above it and half below it.

Low-Income - Individual income that is less than 50% of the area median income, or a median family income that is less than 50 percent, in the case of a geography.

Moderate-Income - Individual income that is at least 50% and less than 80% of the area median income, or a median family income that is at least 50% and less than 80%, in the case of a geography of the MFI.

Middle-Income - Individual income that is at least 80% and less than 120% of the area median income, or a median family income that is at least 80% and less than 120%, in the case of a geography.

Upper-Income - Individual income that is 120% or more of the area median income, or a median family income that is 120% or more, in the case of a geography.

Small Business Loans - Loans for business purposes with an original amount of \$1 million or less for which the bank is required to collect and report certain monitoring data under the CRA regulation.

Small Farm Loans - Loans to farms with an original amount of \$500 thousand or less for which the bank is required to collect and report certain monitoring data under the CRA regulation.

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

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

- Harris Bank Palatine, N.A. made loans to individuals of all different income levels. Eight percent (8%) of the bank’s loans were made to low-income individuals, and an additional 13% of the loans were made to moderate-income people.
- Overall lending levels reflect good responsiveness to assessment area credit needs. Harris Bank Palatine, N.A. made 1,534 HMDA, small business, and consumer loans in its assessment area for more than \$101 million. Affiliate lending contributed another 70 loans for \$9,760,000.
- The distribution of loans to different geographies is adequate. Although Harris Bank Palatine, N.A. has not made very many loans in the moderate-income census tract in its assessment area, many of its affiliate banks have made several loans in this area.
- Harris Bank Palatine, N.A. made a substantial amount of loans within its assessment area. More than 64% of the number of loans extended during the evaluation period were within the assessment area.
- The bank’s delivery systems are reasonably accessible to all portions of the assessment area. Services are reasonably tailored to the convenience and needs of the assessment area.
- The level of qualified investments made by the bank is adequate. Between Harris Bank Palatine, N.A. and its affiliate, \$942,364 was invested in local community development organizations.

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

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

* Note: The lending test is weighted more heavily than the investment and service test in the overall rating.

DESCRIPTION OF INSTITUTION:

Bank Profile:

Harris Bank Palatine, N.A. (HB Palatine) is a \$471 million bank whose main office is located in Palatine, Illinois. The bank primarily serves the communities of Palatine, Rolling Meadows, Arlington Heights, Schaumburg, Hoffman Estates, Barrington, South Barrington, Mount Prospect, Elk Grove Village, Buffalo Grove, Deer Park, Lake Zurich, Long Grove, Itasca, Wood Dale & Des Plaines. The bank is located in a well-established community whose economic base has historically been retail business. Economic conditions are considered good, and competition is strong. The institution has a total of eight offices and three automatic teller machines (ATM's). The main office and three other branch offices are located in Palatine. There are two branches in Rolling Meadows, and two branches in Schaumburg. Two (2) of the ATM's are in Palatine and the remaining ATM is in Rolling Meadows.

HB Palatine is wholly owned by Harris Bankmont, Inc. located in Chicago, Illinois. Harris Bankmont, Inc. is a subsidiary of the Bankmont Financial Corporation, which is wholly owned by the Bank of Montreal in Toronto, Canada. Bankmont Financial Corporation also owns Harris Bankcorp, Inc. These two (2) holding companies are generally referred to as the Harris bank group. This organization includes the Harris Trust and Savings Bank (HTSB) in downtown Chicago and 25 separately chartered community banks with more than 140 branches throughout the Chicagoland area. It is one of the largest community bank networks in the Midwest. HTSB is ranked the fourth largest bank in Chicago. According to American Banker, the Harris organization is the 38th largest banking organization in the U.S. The assets of all the community banks within the Harris bank group amount to roughly \$6.5 billion with HTSB adding another approximate \$14 billion in total assets. The Bank of Montreal has assets of approximately \$208 billion Canadian and ranks as one of the 10 largest banks in North America. Harris Bank's commitment to community banking is founded on the belief that local, independent banks, allowed to appoint their own management team and board of directors have the insight to best serve their respective communities.

During fourth quarter of 1997 through the first quarter of 1998, the Harris bank group strategically decided to consolidate the permanent financing mortgage business of all 26 banks into one operation housed at HTSB. Consequently, during the first quarter of 1998 HB Palatine discontinued originating home mortgage loans. All home mortgage applications taken at the individual Harris bank locations are referred to and processed by one of HTSB's Regional Operations Centers (ROC's). Home mortgage applications that are denied by the ROC may be overridden and reported on the respective bank's books. For the purpose of the CRA evaluations, HTSB's mortgage loans were allocated to the individual banks based on where the application originated and in which bank's assessment area the loan was located. Loans allocated to HB Palatine from the ROC are reflected in the tables as "affiliate loans."

Total loans account for 61% of HB Palatine's average assets, as of June 30, 1998. The loan to deposit ratio is 62%, a decrease from 75% at year-end 1997. The primary reason the loan to deposit ratio declined was due to the growth rate of deposits. Deposits grew by more than \$40 million, as a result of an aggressive prime money market deposit account campaign. The bank's decision not to purchase loans

during this time frame also contributed to the decline of loans in relation to deposits. The bank purchased a significant number of loans during 1997 to improve its ratio of loans to deposits. The loan mix indicates the bank is largely a real estate lender. More than 71% of the loan portfolio is for real estate purposes. One-to-four (1-4) family residential loans account for 48% of average gross loans, of which 14% are home equity loans. Commercial real estate loans account for another 18%. Multi-family loans are 1% of average gross loans. Loans to individuals account for 11% of average gross loans, with 17% commercial and industrial loans rounding out the portfolio.

The institution is capable of meeting the community's credit needs based on its financial condition, size, and product offerings. There are no major constraints or legal impediments which would impact the bank's ability to fulfill the spirit of CRA.

Assessment Area Profile:

HB Palatine operates in an assessment area comprising 90 census tracts. The contiguous area surrounds the main office and seven branches and incorporates portions of northwestern Cook County, southwestern Lake County and northeastern DuPage County. All or portions of 29 different Chicago suburbs are included in this area; however, the main communities included in this area are Palatine, Schaumburg, and Rolling Meadows. The assessment area is primarily residential, retail and small business regions. All of the 90 census tracts in HB Palatine's assessment area overlap a portion of six (6) Harris Bank affiliates' assessment areas. According to the 1990 median family income of \$42,758, the community comprises one (1%) moderate-, 28 (31%) middle- and 60 (67%) upper-income census tracts. There are no low-income tracts in the assessment area. The remaining tract is not designated by income level, has only 15 residents, and is primarily Cook County forest preserve property. HB Palatine's assessment area meets the requirements of the CRA regulation and does not arbitrarily exclude low- or moderate-income areas.

The 1998 HUD adjusted median family income for the area is \$59,500. The total population of this area is 536,088 people in 144,746 families. The population of the major cities within the assessment area is Palatine - 57,066, Schaumburg - 73,745, and Rolling Meadows - 22,591. Based on this income level, there are 9,796 (7%) low-, 17,385 (12%) moderate-, 34,191 (24%) middle-, and 83,369 (57%) upper-income families in the area. The population within this area is distributed among the census tracts as follows: 1% moderate-, 32% middle-, and 67% upper-income tracts. Only 15 people reside in the tract which does not have an income designation.

There are 206,335 housing units in the area. The large majority of housing is owner-occupied units (71%). Only 24% of the housing units are occupied rental units. A large percentage of the owner-occupied units (99%) are in middle- and upper-income census tracts. Only 1% of the owner occupied units are in the moderate-income tract. Single family units account for 71% of the housing units in the assessment area. The median housing cost is \$156,825 with the average age of housing at approximately 26 years old. However, the Illinois Association of Realtors reported a median home price in the northwest suburbs at \$195,700 based on activity in the first quarter of 1998. The average monthly rent

for apartments in the assessment area range from \$600 to \$900, depending on location, number of bedrooms, security features, amenities, etc.

According to the business demographic data, there is a total of 22,024 businesses in the assessment area. The distribution of businesses shows only 3% of the businesses are located in the moderate-income census tract. Middle- and upper-income tracts have 42% and 55% of the businesses, respectively. The distribution of the 13,881 small businesses (those with gross annual revenue less than \$1 million) mirrors the total business distribution except there are only 1% of the small businesses in the moderate-income census tract. Sixty-three percent (63%) of the businesses in the assessment area have gross revenue less than \$1 million, 13% greater than \$1 million, with the revenue unknown for the remaining 24% of businesses.

There are 307 farms in this area according to the 1990 Census data. Based on this data, only one of the farms is in the moderate-income census tract and 86% of the farms have revenue less than \$1 million. Since the time census data was collected, however, the area has experienced tremendous growth with both retail and housing development projects replacing many of the farms. It is reasonable that HB Palatine would not have many, if any, small farm loans.

Substantial employment is available in the bank's assessment area. Palatine has experienced tremendous retail growth over recent years, as several major retailers moved into the village including Home Depot, Target, OfficeMax and Menards. Some of the largest employers in Palatine and the surrounding areas are Motorola (employs approximately 7,600 people), Sears Roebuck (employs approximately 5,000 people), Northwest Community Healthcare (employs approximately 3,000 people), Woodfield Mall (multiple retailers employ more than 3,000 people), Northrop-Grumman Corp. (employs approximately 2,700 people), Ameritech (employs approximately 2,500 people), Alexian Brothers of Illinois, Inc. (a healthcare provider which employs approximately 2,200 people), Zurich Insurance (employs approximately 2,000 people), and the United States Post Office (employs approximately 1,950 people). The unemployment rate is extremely low in the Palatine area.

Competition in the assessment area is strong. There are several mortgage companies and large banks, including branches of multi billion dollar financial institutions located in the area. In certain portions of the assessment area, HB Palatine's assessment area overlaps with several other Harris bank affiliates. Some of the more significant competition includes branches of First National Bank of Chicago (\$62 billion in total assets) which has a strong presence throughout the assessment area. Also, Bank of Palatine, (\$59 million in total assets) and First Bank and Trust Company of Illinois (\$535 million in total assets) have a strong market presence in the Palatine area. The bank does not have any similarly situated banks. The bank is perceived to be much larger due to its affiliation with Harris Trust and Savings Bank, Chicago (HTSB).

We reviewed seven (7) community contacts performed by other examiners and us. The types of organizations included housing, small business development, and social service organizations. The contacts indicated the main credit needs in the area were affordable housing (low down payments, no closing costs, etc.) and small business loans (start-up loans, inventory financing, working capital, etc.).

During the examination, we received two letters from the Woodstock Institute regarding the performance of the Harris banks under the Community Reinvestment Act. These comments were considered during our evaluation.

CONCLUSIONS ABOUT PERFORMANCE TESTS

Overall lending performance is adequate. Community development involvement with respect to the investment and service tests is reasonable in relationship to existing opportunities. Therefore, the bank's overall performance with CRA is supported as Satisfactory.

Scope:

Our analysis included full exam procedures in the assessment area. We reviewed small business, HMDA (home purchase, home improvement, home refinance, and multi-family), and consumer loans. There was no small farm lending during the evaluation period. Affiliate lending included in this review consisted of mortgage loans made by Harris Trust & Savings Bank during the first two quarters of 1998 that were allocated to HB Palatine. The review of investments included a review of the investment portfolio and an analysis of the grants and donations provided to community service organizations. Our evaluation of services included analyzing the availability and effectiveness of the bank's branch/ATM network for delivering retail banking services. We analyzed the effect of the changes in branch locations since the previous CRA examination. We also considered the extent and innovativeness of its community development services in meeting the credit needs of the assessment area.

Under the CRA regulation, data collection is optional for consumer loans, and there are no reporting requirements. HB Palatine provided data on its consumer loans during 1996, 1997 and through June 30, 1998.

Data Integrity:

In order to determine the accuracy of data presented by the bank, we verified a sample of the HMDA, consumer, and small business loans. We reviewed HMDA reportable transactions to ensure the purpose, actions taken, race, gender, applicant income, and loan size were accurately included on the Loan Application Register (LAR). Our assessment of consumer loans included verification of the loan amount, income of the borrower, and location. A similar review was performed on small business loan files to ensure the loan amount, revenue category, and location were reported accurately. We reviewed all the grants and donations the bank made from January 1, 1996 through June 30, 1998. With assistance from bank personnel, we determined which organizations met the definition of community development and only included those under the investment test. Our review of these files noted only minor clerical errors with the HMDA-LAR and CRA Data Listing Report both substantially correct.

LENDING TEST

Major Conclusions:

- HB Palatine's lending levels reflect adequate responsiveness to assessment area credit needs.
- The bank's distribution of lending to borrowers reflects adequate penetration among retail customers of different income levels and business customers of different sizes, given the product lines offered by the bank.
- HB Palatine's geographic distribution of loans reflects adequate penetration throughout the assessment area.

Lending Activity

HB Palatine extended a significant amount of credit in the assessment area. As reflected in Table I, "Volume of Loan Originations Inside the Assessment Area," the bank made 1,534 loans totaling \$101,503,000 in their assessment area during the evaluation period. HB Palatine's largest volume product by number of loans made in the evaluation period is consumer lending with volume of 943 loans for \$34,485,000. Both HMDA and small business lending are far behind at only 300 and 291 loans, respectively. By dollar amount, small business has the largest volume at \$39,966,000. It is reasonable that HB Palatine did not make any small farm loans during the evaluation period since there are a small number of farms in the assessment area. The significant reduction in HMDA lending for 1998 is due to the centralization of mortgage financing by the Harris bank group, as explained in the "Bank Profile" section of this evaluation. HMDA loans from affiliates added 70 loans for an additional \$9,760,000.

HB Palatine's reasonable responsiveness to assessment area credit needs is further supported by their market rank for HMDA lending. During 1997, HB Palatine's overall market share of 0.56% for HMDA lending resulted in a market rank of 44th out of 488 institutions, placing the bank in the top 9% of all HMDA reporters in the assessment area.

Table I - Volume of Loan Originations Inside the Assessment Area								
Type of Loan	YTD 6/98		1997		1996		Total YTD 6/98, 1997 & 1996 Combined	
	#	\$ (in 000's)	#	\$ (in 000's)	#	\$ (in 000's)	#	\$ (in 000's)
Home Purchase	3	\$491	53	\$7,369	33	\$4,734	89	\$12,594
Home Improvement	8	\$168	76	\$3,286	57	\$2,066	141	\$5,520
Refinance	14	\$2,448	29	\$3,971	27	\$2,519	70	\$8,938
Total HMDA	25	\$3,107	158	\$14,626	117	\$9,319	300	\$27,052
Small Business	44	\$5,136	128	\$15,993	119	\$18,837	291	\$39,966
Consumer	183	\$7,344	415	\$17,199	345	\$9,942	943	\$34,485
Total Bank Loans	252	\$15,587	701	\$47,818	581	\$38,098	1,534	\$101,503
Affiliate Loans	70	\$9,760	0	\$0	0	\$0	70	\$9,760
Grand Total Loans	322	\$25,347	701	\$47,818	581	\$38,098	1,604	\$111,263

Source: HMDA-LAR, CRA Data Listing Report, and Internal Bank Reports.

Assessment Area Concentration

A reasonable percentage of loans made by HB Palatine are concentrated inside the bank's assessment area. As illustrated in Table II, "Loans Inside the Assessment Area vs. Total Loans," HB Palatine made 64% of the number, and 52% of the dollar volume of mortgage, small business, and consumer loans inside its assessment area.

The concentration of HMDA lending inside HB Palatine's assessment area indicates their focus on meeting the housing needs of the local community. From January 1996 through June 1998, the bank originated 691 HMDA reportable loans, representing \$78,620,000. Forty-three percent (43%) of the number of HMDA loans originated, representing 300 loans, were within the bank's assessment area. Home improvement loans have the highest concentration within the assessment area at 67% of both number and dollar amount. HB Palatine's other HMDA lending by product type indicates a relatively low percentage of lending inside the assessment area. Only 29% and 40% of the number of HB Palatine's home purchase and refinance loan originations were inside its assessment area. However, these percentages are somewhat misleading. During the evaluation period, HB Palatine purchased 300 loans. Almost all of these loans (258) were outside the bank's assessment area. As previously mentioned in the "Bank Profile" section, the bank purchased loans to improve its loan to deposit ratio in 1997. See Table II, "Loans Inside the Assessment Area vs. Total Loans," for more details.

HB Palatine's commitment to meeting its assessment area's credit needs is further demonstrated by the volume of small business loans in their assessment area. A substantial majority of HB Palatine's small business lending is inside its assessment area. From January 1996 through June 1998, HB Palatine originated 453 small business loans, amounting to \$67,560,000. Sixty-four percent (64%), or 291 of those loans, were inside the bank's assessment area.

HB Palatine originates a substantial majority of its consumer loans within the assessment area. Seventy-four percent (74%), or 943 of the 1,267 consumer loans, were extended inside the assessment area. Consumer loan dollars indicate that 72% of the funds remained within the assessment area. These percentages indicate a good commitment by the bank to its local community's credit needs.

Table II - Loans Inside the Assessment Area vs. Total Loans From January 1996 through June 1998						
Type of Loan	Total Loans		Loans Inside Assessment Area			
	#	\$ (in 000's)	#	% of #	\$ (in 000's)	% of \$
Home Purchase	304	\$44,854	89	29%	\$12,594	28%
Home Improvement	211	\$8,180	141	67%	\$5,520	67%
Refinance	175	\$25,421	70	40%	\$8,938	35%
Multi-Family	1	\$165	0	0%	\$0	0%
Total HMDA Loans	691	\$78,620	300	43%	\$27,052	34%
Small Business	453	\$67,560	291	64%	\$39,966	59%
Consumer	1,267	\$48,012	943	74%	\$34,485	72%
Total Loans	2,411	\$194,192	1,534	64%	\$101,503	52%

Source: Bank reports, HMDA-LAR, and CRA Data Listing reports for 1998, 1997 and 1996.

Geographic Distribution of Loans Within the Assessment Area

HB Palatine’s distribution of loans to different income level census tracts is adequate. The bank has not made any loans for home purchase, home improvement, or refinance purposes in the moderate-income census tract in its assessment area. Table III, “Market Share and Market Rank Distribution by Income Level of the Census Tract” shows the market share and rank for these products.

Table III - Market Share (MS) and Market Rank (MR) Distribution by Income Level of the Census Tract										
Type of Loan	Income Level of Census Tract									
	Low income		Moderate income		Middle income		Upper income		All Tracts	
	MS	MR	MS	MR	MS	MR	MS	MR	MS	MR
Home Purchase	N/A	N/A	0.00%	0	0.40%	54	0.34%	55	0.36%	57
Home Improvement	N/A	N/A	0.00%	0	2.17%	14	3.96%	7	3.44%	9
Refinance	N/A	N/A	0.00%	0	0.19%	NP	0.19%	95	0.19%	96
Total HMDA Loans*	N/A	N/A	0.00%	0	0.43%	62	0.61%	41	0.56%	44

Source: Aggregate HMDA Data for 1997.

*Excludes Multi-family loans

NP = Not Provided due to small number of lenders

The distribution of HMDA, small business, and consumer loans made by HB Palatine during the evaluation period is adequate. While the bank made less than 1% of its loans in the moderate-income census tract, a significant number of the households in this tract are living below the poverty level. In addition, only 3% of the businesses (1% of those with revenue less than \$1 million) in the assessment area are represented in this tract.

HB Palatine’s home mortgage lending in the moderate-income census tract is reasonable, compared to the level of owner-occupied housing units in this area. Only 1% of the owner-occupied units in the bank’s assessment area are located in the moderate-income census tract. HB Palatine did not originate any of its HMDA reportable loans in the moderate-income census tract. We compared the bank’s level of lending to the distribution of owner-occupied housing units because the comparison of owner-occupied units to lending levels provides a more meaningful analysis for HMDA reportable products. See Table IV, “Geographic Distribution of Loans by Census Tract Income Level Inside the Assessment Area” for additional details.

HB Palatine’s small business lending distribution is also adequate. The bank’s lending distribution is only slightly lower than the assessment area’s distribution of businesses located in the moderate-income census

tract. One percent (1%) of HB Palatine's small business loans were made to businesses located in the moderate-income census tract. According to the business demographic data for the assessment area, only 1% of the small businesses (those with gross revenue less than \$1 million) are located in the moderate-income census tract. HB Palatine's distribution of loans to businesses located in the moderate-income census tract approximates the relative opportunity of only 3% of the businesses (1% of the small businesses) located in this tract. This further supports the bank's commitment to meet their assessment area's business credit needs.

HB Palatine made only one consumer loan in the moderate-income census tract. This level of performance is considered adequate since this tract is located furthest from the bank and several Harris bank affiliates have made loans in this tract.

Table IV - Geographic Distribution of Loans by Census Tract Income Level Inside the Assessment Area From January 1996 through June 1998								
Type of Loan	Income Level of Census Tract							
	Low income		Moderate income		Middle income		Upper income	
	#	%	#	%	#	%	#	%
Home Purchase	N/A	N/A	0	0%	29	33%	60	67%
Home Improvement	N/A	N/A	0	0%	32	23%	109	77%
Refinance	N/A	N/A	0	0%	13	19%	57	81%
Total HMDA Loans	N/A	N/A	0	0%	74	25%	226	75%
Small Business	N/A	N/A	4	1%	156	54%	131	45%
Consumer	N/A	N/A	1	0%	268	28%	674	72%
Community Development	N/A	N/A	0	0%	0	0%	0	0%
Total Bank Loans	N/A	N/A	5	0%	498	33%	1,031	67%
Affiliate Loans	N/A	N/A	0	0%	20	29%	48	69%
Grand Total Loans	N/A	N/A	5	0%	518	32%	1,079	68%

Source: Bank reports, HMDA-LAR, CRA Data Listing reports, & CRA data for 1998, 1997 and 1996.

Note: Percentages may not equal 100% since the income level of the census tract is unavailable for some loans.

Distribution by Borrowers' Income Inside the Assessment Area

The distribution of loans to borrowers of different income levels reflects adequate penetration among retail customers of different income levels, given the product lines offered by the institution. Lending to businesses of different sizes is considered adequate.

HB Palatine's market share of HMDA loans is adequate at 0.59% for low-income borrowers and at 0.40% for moderate-income borrowers. The bank is ranked 44th of all lenders in loans to low-income borrowers in their assessment area. HB Palatine's market share is approximately the same for low-income borrowers as their market share for middle-income, upper-income, and all borrowers. However, market share for loans to moderate-income borrowers is slightly lower as illustrated in Table V, "Market Share and Market Rank - HMDA Loans - Distribution by Borrower's Income Level."

Table V - Market Share (MS) and Market Rank (MR) - HMDA Loans Distribution by Borrower's Income Level										
Type of Loan	Income Level of Borrower									
	Low income		Moderate income		Middle income		Upper income		All Borrowers	
	MS	MR	MS	MR	MS	MR	MS	MR	MS	MR
Home Purchase	0.00%	0	0.38%	60	0.26%	65	0.44%	46	0.36%	57
Home Improvement	3.45%	7	2.24%	14	3.49%	8	3.77%	7	3.44%	9
Refinance	0.82%	27	0.18%	96	0.31%	72	0.12%	**	0.19%	96
Total HMDA Loans*	0.59%	45	0.40%	63	0.59%	46	0.64%	36	0.56%	44

Source: Aggregate HMDA Data for 1996

*Excludes Multi-family loans

The distribution of loans made by HB Palatine based on borrower characteristics during the evaluation period is good. The bank and its affiliate made 8% of their total home mortgage and consumer loans to low-income individuals. In addition, 13% of HB Palatine's loans were made to moderate-income individuals. Considering the borrower characteristics and population living in the assessment area, this level of lending is good. Again, the make up of the assessment area shows 7% low-, 12% moderate-, 24% middle-, and 57% upper-income families in the area.

HB Palatine's loan distribution shows that 3% of HMDA loans were made to low-income individuals, and 11% were made to moderate-income borrowers. Considering that 2% of the households in the assessment area are living below the poverty level, the opportunity to extend home mortgage credit to low-income borrowers is slightly reduced. Those households would have a limited ability to assume debt obligations. Therefore, the slightly lower level of HB Palatine's home mortgage lending to low-income

borrowers is considered adequate. See Table VI, "Distribution by Borrower's Income Level Inside the Assessment Area From January 1996 through June 1998" for more details.

HB Palatine's consumer lending to low- and moderate-income families is good. As the table reflects, 9% and 14% of the number of consumer loans were originated to low- and moderate-income borrowers, respectively. This level of performance is considered good. See Table VI, "Distribution by Borrower's Income Level Inside the Assessment Area From January 1996 Through June 1998" for more details.

Table VI - Distribution by Borrower's Income Level Inside the Assessment Area From January 1996 through June 1998								
Type of Loan	Income Level of Borrower							
	Low income		Moderate income		Middle income		Upper income	
	#	%	#	%	#	%	#	%
Home Purchase	1	1%	12	13%	15	17%	38	43%
Home Improvement	6	4%	14	10%	35	25%	86	61%
Refinance	3	4%	6	9%	19	27%	23	33%
Total HMDA Loans*	10	3%	32	11%	69	23%	147	49%
Home Equity	8	2%	42	12%	82	23%	225	63%
Motor Vehicle	25	16%	27	18%	35	23%	66	43%
Credit Card	8	42%	9	47%	2	11%	0	0%
Other Secured	13	18%	13	18%	8	11%	31	42%
Other Unsecured	32	10%	43	13%	56	17%	152	46%
Other	0	0%	0	0%	1	17%	2	33%
Total Consumer Loans	86	9%	134	14%	184	20%	476	50%
Total Bank Loans	96	8%	166	13%	253	20%	623	50%
Affiliate Loans	7	10%	7	10%	29	41%	27	39%
Grand Total Loans	103	8%	173	13%	282	21%	650	50%

Source: HB Palatine's HMDA-LAR & Consumer data for 1998, 1997 and 1996.

*Excludes Multi-family loans

Percentages may not add to 100 due to loans for which the borrower's income was not available.

As reflected in Table VII, "Distribution of Small Business Originations From January 1996 through June 1998 Inside the Assessment Area By Loan Size and Business Revenues," HB Palatine's origination of

small business loans reflects an adequate distribution. A substantial majority of the loans (65%) were for original amounts of less than \$100 thousand. In addition, 52% of HB Palatine’s small business loans were made to businesses with revenues less than \$1 million. This level of performance is considered adequate given the distribution in the size of businesses in the assessment area.

Table VII - Distribution of Small Business Originations From January 1996 Through June 1998 Inside the Assessment Area By Loan Size and Business Revenues							
Loan Size					Annual Revenues		
	less than \$100,000	\$100,000 to \$250,000	\$250,000 to \$1,000,000	Total Loans	< \$1 Million	> \$1 Million	Unknown
Number	190	55	46	291	150	129	12
% of #	65%	19%	16%	100%	52%	44%	4%
Dollars (in 000's)	\$6,686	\$10,368	\$22,912	\$39,966	\$15,118	\$21,998	\$2,850
% of \$	17%	26%	57%	100%	38%	55%	7%
Distribution of Businesses in the Assessment Area by Annual Revenues of the Business:				Revenues < \$1 Million			63%
				Revenues > \$1 Million			13%
				Revenues Unknown			24%

Source: HB Palatine’s CRA Data Listing reports for 1998, 1997 and 1996.

Community Development Lending

HB Palatine has made an adequate contribution to community development in their assessment area. HB Palatine made six loans for \$1,168,600 which met the definition of community development; however, due to the size of the loans, they are included in the bank’s HMDA loan totals.

Product Innovation and Flexibility

HB Palatine is generally responsive to credit needs by offering several flexible loan products. Through the standard product offerings, the Harris bank group offers flexible residential mortgage loan products, as well as small business loan products which serve assessment area credit needs. Each of these flexible loan products help low- and moderate-income individuals obtain credit which they might not have access to under the bank’s normal underwriting standards. Examples of these products/programs are given below:

- Illinois Housing Development Authority (IHDA) - This program is designed to assist low- and moderate-income persons with affordable housing financing. The program also targets first-time home buyers and provides reduced interest rates. The funds from this program can be used for a variety of single and multi-family initiatives. HB Palatine has not originated any loans under this program during our evaluation period.
- Community Home buyer Products (CHP) - There are three CHP programs offered at HB Palatine and its affiliates. These programs offer assistance to low- and moderate-income persons with home ownership. Designed by Fannie Mae's underwriting guidelines, these programs are targeted toward borrowers whose income is not greater than 100% of the median family income. Private Mortgage Insurance (PMI) and home ownership counseling is required. More lenient underwriting criteria are applied, including higher debt ratios. Specifics of the programs are outlined below:
 - ▶ Standard 3/2 CHP Fixed Rate Loan - This product requires a minimum of 3% down payment from applicants' own funds, with an additional 2% gift, grant, or unsecured loan from a qualifying entity.
 - ▶ Adjustable Rate CHP Loan - This product provides a 1% yearly cap, a 5% lifetime cap, and is priced at 2% above the 1-year Treasury Bill index.
 - ▶ CHP 97 Fixed Rate Loan - This product requires a minimum of 3% down payment from applicants' own funds.

HB Palatine originated only one CHP loan during this evaluation period.

- Freddie Mac Fixed Rate Residential Mortgage Program - This loan program requires a 5% down payment with a total debt ratio of no more than 36%. There are no income limitations and private mortgage insurance is required for all loans that have greater than an 80% loan-to-value. Information was unavailable on whether HB Palatine has made any loans under this program.
- 80/10/10 Mortgage Product - The product allows applicants to purchase or refinance a single family home, condominium, townhouse, or two-unit primary residence or single family second home with only 10% down or equity and no private mortgage insurance coverage. The transaction includes an 80% first mortgage and 10% home equity loan. This is a new product within the Harris bank group; thus, HB Palatine has not originated any loans under this program.
- 100% Home Equity Loan - This product allows individuals with little equity in their residence to borrow against their investment. Between January 1997 and June 1998, HB Palatine originated fifteen (15) loans, totaling \$200,000, under this program.
- Harris Bank ALT 97 Program - This program was just implemented in August 1998. Although

this program is not specifically targeted toward low- and moderate-income persons, it is a desirable product because it requires as little as a 3% down payment with a total debt ratio of no more than 36%. No home buyer education is required. Private mortgage insurance is only required up to 18% of the property value. However, the borrowers must not have flawed credit. Due to the recent implementation of this product, HB Palatine has not made any loans under this program.

- Small Business Lending Rate (SBLR) - This program is designed to help small businesses grow and expand, and is available to businesses borrowing less than \$500,000. Qualified borrowers receive a rate index of one-half percent (½%) below the Wall Street Journal prime rate. During the evaluation period, HB Palatine made 60 SBLR loans for \$9,466,684.
- Credit Builder - This loan program is unique to HB Palatine within the Harris bank group. The program assists individuals with poor credit histories to reestablish credit. The borrower puts the loan proceeds into a Certificate of Deposit account. The borrower then repays the loan based on agreed upon terms. At the maturity date of the loan, the borrower has \$1,000, a nominal amount of interest, and a newly established credit history. HB Palatine has made four of these loans for \$4,000 during the evaluation period.

The Harris bank group's central processing facility for guaranteed student loans is Harris Bank Aurora, N.A.. FHA and VA loan requests are referred to HTSB. In addition, requests for Reverse Mortgage loans are referred to HB Palatine's affiliate, Harris Bank Winnetka, N.A..

Compliance with Anti-Discrimination Laws

HB Palatine has a satisfactory record of complying with the antidiscrimination laws (ECOA, FHA, and HMDA). No violations of the substantive provisions of the antidiscrimination laws and regulations were discovered during this examination.

INVESTMENT TEST

Major Conclusions:

- The institution has an adequate level of qualified community development investments. Its responsiveness to credit and community economic development needs is reasonable, given the amount of opportunity for community development in the bank's assessment area, as well as its size and resources.

HB Palatine purchased an \$800,000 Palatine Park District bond to renovate a former school building. The facility is being used as a senior center which provides several community services. Nearly 80% of the people using the services of the center are low- or moderate-income individuals. Some of the programs provided at the center include case advocacy, tax assistance including preparation, Meals on Wheels, shopping assistance' and SeniorNet (a program to familiarize seniors with computers). The bank also made an additional direct contribution of \$25,000 to assist the senior center in obtaining and renovating this building.

As part of corporate centralization, the majority of the Harris bank group's community development lending and investing activities are conducted by HTSB. The community development department of HTSB made several investments in the Chicago Equity Fund. This organization is a limited partnership which purchases Low-Income Housing Tax Credits (LIHTC's) to assist in funding housing projects in the Chicagoland area. Since the minimum amount of investment is one share which cost's \$500,000, HTSB allocated its investment in this organization to each of the community banks in the organization based on their relative asset size. HB Palatine received a \$92,000 share of this investment.

From January 1996 through June 1998, HB Palatine made several grants and donations to organizations which provide community development services within its assessment area. A total of nine community development organizations received grants and donations for \$25,364 (in addition to the \$25,000 to the senior center mentioned above) during the evaluation period. These grants went to a variety of types of organizations including community development corporations, housing development and providers of health care, shelter and food.

SERVICE TEST

Major Conclusions:

- HB Palatine's delivery systems are reasonably accessible to essentially all portions of the institution's assessment area, and provide the services and products needed by the community.
- Services, including business hours, are tailored to the convenience and needs of the assessment area, particularly low- and moderate-income geographies and individuals. Products offerings are standardized and made available in all locations.
- The institution provides an adequate level of community development services. Some of our community contacts mentioned the strong involvement of HB Palatine in the community.

Retail Services

HB Palatine makes its retail services easily accessible to all individuals in their assessment area through its branch distribution. HB Palatine operates seven full service offices and one drive-up within this assessment area. The main office is located in downtown Palatine, Illinois. The bank has extended banking hours through its walk-up and drive-through facilities.

Sixty-three percent (63%) of the bank's branches are located within middle-income geographies. The remaining 37% of the branches are in upper-income tracts. This distribution compares favorably with the distribution of the income level tracts in the assessment area.

The bank maintains three full service automated teller machines (ATM's). All of the ATM's are at branch locations. The distribution of ATM's shows that 33% of the machines are in middle-income census tracts, with the remaining 67% of the machines in upper-income census tracts.

HB Palatine also offers free deposit accounts and reduced fees for teller services and custody accounts. In conjunction with some local community development service organizations, HB Palatine offers a free checking and savings account for the organizations' participants. These individuals also benefit from reduced opening balance requirements.

In conjunction with the Illinois Department of Public Aid, the Harris bank group participates in the "Illinois Link" Electronic Benefit Transfers (EBT) program. This system allows individuals to access their public aid benefits through Cash Station ATM's. The program provides aid recipients with a low cost alternative to currency exchange transactions. The Harris group joined this program in March 1997. It is estimated that more than 150,000 households in the Chicago area have the "Illinois Link" EBT cards. The Harris bank group is doing at least 4,000 in "Illinois Link" transactions each month.

HB Palatine offers other alternative delivery services such as 24-hour telephone banking including a bill payment feature, loan-by-phone, personal computer banking, and bank-by-mail services. The bank's loan-by-phone program has allowed many people access to HP Palatine's lending products. Over the last two years, 74 loans for \$4,469,000 were originated as a result of this delivery system. HB Palatine's customers also have access to 137 other ATM's and a customer service Client Contact Center through its affiliation with the Harris bank group. The Client Contact Center provides a centralized customer service facility in addition to a centralized sales function which refers customers to a local Harris Bank for loans and other services. In addition, all of the bank's ATM's, several bank employees, and the Client Contact Center are multilingual.

The bank's service hours, including lobby hours, walk-up and drive-up hours are 9:00 a.m. to 4:30 p.m. Monday through Thursday, and 9:00 a.m. to 6:00 p.m. on Fridays. The Martingale Road and Golf Road locations are open from 8:00 a.m. to 3:00 p.m. Monday through Friday. The drive-up facilities open at 7:00 a.m. Monday through Friday (except the Perimeter Drive facility which opens at 8:00 a.m.), and 8:00 a.m. on Saturdays. Most branches are open from 9:00 a.m. to 12 noon on Saturdays. ATM's are available twenty-four hours daily. There are no differences in the types of services available at the different locations.

Community Development Services

Employees of HB Palatine are very active with organizations which provide community development related loans and services to the assessment area. Many of these organizations address the housing needs

of the low-income residents of this area. We received very positive comments about the involvement of HB Palatine during our community contacts. HB Palatine is active in some capacity with almost all the community development organizations in its assessment area. Some examples of activities and the organizations with which the bank and its employees are affiliated follow:

- HB Palatine worked with Harper College to develop an off-site location to teach its English as a Second Language program. The off-site location is at the community center in the Edgebrook area. This area is where a significant number of low- and moderate-income individuals live within the northeastern Palatine area.
- HB Palatine also works with a northwest suburban Cook county agency which provides housing, financial and budget counseling, job search assistance, subsidized day care, and emergency assistance to low-income, disadvantaged and senior residents.
- A HB Palatine employee provides technical assistance to a local community development organization targeted toward women. The organization works to assist homeless women to build a better life by providing a short-term residential program. The employee assists the women with their income tax preparation.
- Bank employees are active with an organization which works with the senior citizens in the Palatine area. They assist the organization by providing expertise regarding financing options and were instrumental in the organization receiving Community Development Block Grant funding. HB Palatine employees are also very active in fundraising activities for this organization.
- HB Palatine designed and offers a special “Problem Solver Series” to small business owners. The program consists of nine parts targeted toward assisting the small business entrepreneur in planning, starting, and maintaining a successful enterprise. The program covers general knowledge of business terminology, business cycles, cash flow, marketing, cash management, business plans, capital sources, performance measures, and banking relationships.
- In conjunction with Harper College, the bank provided a seminar entitled, “How to Buy or Sell a Closely Held Business . . . and Arrange Financing.”
- HB Palatine continues to offer several Home buyer seminars and participates in the Home buyers Fair. The bank makes educational and informational materials available to prospective home buyers.
- Seminars are conducted at the senior center to provide information on estate and retirement planning. HB Palatine is also involved in presenting “care givers” workshops at the senior center.
- Save for America - This is a standard bank-at-school program. The program provides training for children in elementary school. The program allows the children to establish a deposit account

with the Harris bank and make deposits at school. HB Palatine contributes the first dollar to each account. There are three schools participating in this program, with several hundred accounts opened. A HB Palatine employee also serves as an instructor for this program.

- A HB Palatine employee is very involved in presenting educational programs at local schools. The employee presents classes focused on banking-related issues each year. The classes are provided to two or three classrooms for eight to 10 weeks.
- Numerous bank employees are very active in fundraising activities of the local community development organizations. Without the assistance of these individuals, many of these organizations would not be capable of obtaining the necessary funding to continue their operations. HB Palatine employees many times provide advice on the most effective methods to raise the required funds.