



## **PUBLIC DISCLOSURE**

July 24, 2017

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

Union National Bank  
Charter Number 7236

101 E. Chicago Street  
Elgin, IL 60120

Office of the Comptroller of the Currency

1700 East 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 CRA RATING: This institution is rated Satisfactory.**

Union National Bank (UNB) has a satisfactory record of meeting its community needs based on the following:

- The bank's quarterly loan-to-deposit (LTD) ratio since the prior evaluation is more than reasonable.
- A majority of UNB's loans were made inside the assessment area (AA).
- The geographic distribution of commercial loans to low- and moderate-income census tracts exhibits reasonable dispersion throughout UNB's AA.

**SCOPE OF EXAMINATION**

We evaluated UNB's Community Reinvestment Act (CRA) performance using the Small Bank CRA performance criteria. This includes only the Lending Test. The Lending Test evaluates a bank's record of meeting the needs of its AA through lending activities. The Lending Test evaluation included analyzing lending data from 2015 and 2016. This evaluation period covered the time since the date of the previous CRA examination, June 23, 2014 to December 31, 2016.

We assessed UNB's lending performance by determining primary products based on the number and dollar volume of loans originated between January 1, 2015 and December 31, 2016. Based on the analysis, we determined commercial loans are the bank's primary lending product. The volume of residential real estate and consumer loans is low and primarily the result of accommodations to current commercial customers. Our Lending Test analysis focused on the bank's commercial lending, including commercial and small business loans with origination amounts less than or equal to \$1 million and to businesses with revenues less than or equal to \$1 million. The commercial loan data used in the analysis was generated by a compilation of geographic and revenue facts from the bank's commercial loan files. Our loan sample consisted of 120 non-farm commercial loans originated in 2015 and 2016 with an original amount of \$1 million or less. Our assessment of commercial loans for the Lending Test is in line with the bank's business strategy, which focuses on business lending, including small business lending.

We used call report data to determine the bank's quarterly LTD ratio and annual deposit information reported to the Federal Deposit Insurance Corporation (FDIC) to determine the bank's deposit market share. The most recent deposit information available was as of June 30, 2016.

**DESCRIPTION OF INSTITUTION**

UNB is a wholly owned subsidiary of Elgin Bancshares, Incorporated, a one-bank holding company chartered in 1981. The bank has one office location in downtown Elgin, IL. UNB had a limited service messenger office also located in Elgin, which

closed in May of 2017 as the service was no longer in demand given increased use of remote deposit capture by commercial customers. There have been no branch openings or closings since the last CRA examination. The bank does not offer ATM access at either of its two locations. UNB provides traditional banking services, including various retail and commercial bank products. The bank focuses on commercial lending with an emphasis in Small Business Administration (SBA) lending. With the emphasis in small business lending, the bank is designated as an SBA “preferred lender.” The bank is not a large residential lender and offers traditional consumer products primarily as an accommodation to existing commercial customers.

As of December 31, 2016, UNB reported approximately \$277.3 million in total assets. Loans and leases totaled approximately \$237.7 million, representing 85.7 percent of total assets, with commercial loans totaling \$217.6 million, or 91.5 percent of total loans. Commercial real estate loans, which includes construction and development and multifamily loans, comprise the majority of commercial loans at \$187.5 million, or 78.9 percent of total loans, with commercial and industrial loans representing the remaining \$30 million, or 12.6 percent of total loans. Loans secured by residential real estate and consumer loans total only \$17.3 million, or 7.3 percent of total loans.

There are no legal, financial, or other factors preventing the bank from meeting the credit needs of its community. UNB received a “Satisfactory” rating under the Intermediate Small Bank performance standards on its last CRA examination dated June 23, 2014. The current performance evaluation is being conducted using the Small Bank CRA performance standards, which is determined based on the bank’s total assets at year-end.

## **DESCRIPTION OF ASSESSMENT AREA(S)**

UNB’s AA contains portions of Cook, DuPage, Kane, and McHenry counties. These counties are located within one contiguous section of the Chicago Metropolitan Statistical Area (MSA) and two Metropolitan Divisions (MD). Since the previous evaluation in June 2014, the bank’s AA has not been adjusted; however, the U.S. Census Bureau adjusted the Chicago-Naperville-Elgin, IL–IN–WI MSA, which resulted in the creation of the Elgin, IL MD. The creation of the Elgin, MD did not cause any changes to census tracts. Kane County is located in the Elgin, IL MD and Cook, DuPage, and McHenry counties are located within the Chicago-Naperville-Arlington Heights, IL MD. The bank’s AA meets the requirements of the CRA regulation and does not arbitrarily exclude any low- or moderate-income geographies.

The bank’s AA includes 315 census tracts. The portion of the AA located in Cook, DuPage, and McHenry counties consists of 261 geographies. The total population of the 261 geographies was 1,290,223 based on the 2010 U.S. Census. The portion of the AA located in Cook, DuPage, and McHenry counties consists of one low-income (0.38 percent) and 24 moderate-income (9.20 percent) census tracts. The remainder of the census tracts are middle-income (117, or 44.83 percent) and upper income (119, or 45.59 percent). There are 78,356 businesses in the Cook, DuPage, and McHenry

counties portion of the AA, of which 76,783 or 97.99 percent are non-farm related. Please refer to the table that follows containing demographics and economic statistics of that portion of the bank's AA.

<b>Demographic and Economic Characteristics of the Portion of the AA Located in Cook, DuPage, and McHenry Counties.</b>	
Population	
Number of Families	332,645
Number of Households	490,414
% of Low-Income Families	0.54%
% of Moderate-Income Families	7.76%
% of Middle-Income Families	42.83%
% of Upper-Income Families	48.87%
Median Family Income (MFI)	
2010 Weighted Average of MFI of AA	\$87,428
2016 Weighted Average of FFIEC updated MSA MFI	\$74,700
Economic Indicators	
2016 Median Housing Value	\$292,672
% of Households Below Poverty Level	6.15%

Source: 2010 U.S. Census data with updated information when available.

The portion of the AA located in the Kane County consists of 54 geographies. The total population of the 54 geographies totaled 349,598 based on the 2010 U.S. Census. The portion of the AA located in Kane County consists of two low-income (3.70 percent) and 11 moderate-income (20.37 percent) census tracts. The remainder of the census tracts are middle-income, (21, or 38.89 percent) and upper-income (20, or 37.04 percent). There are 18,840 businesses in the Kane County portion of the AA, of which 18,318 or 97.23 percent are non-farm. Please refer to the table that follows containing demographics and economic statistics of that portion of the bank's AA.

<b>Demographic and Economic Characteristics of the Portion of the AA Located in Kane County.</b>	
Population	
Number of Families	89,281
Number of Households	122,609
% of Low-Income Families	1.14%
% of Moderate-Income Families	16.16%
% of Middle-Income Families	36.14%
% of Upper-Income Families	46.57%
Median Family Income (MFI)	
2016 Weighted Average of MFI	\$91,487
2016 Weighted Average of FFIEC updated MSA MFI	\$82,500
Economic Indicators	
2016 Median Housing Value	\$284,191
% of Households Below Poverty Level	5.71%

Source: 2010 U.S. Census data with updated information when available.

Equal weight is given to the two respective portions of the AA located in Kane County and the portion of the AA located in Cook, DuPage, and McHenry counties. These two portions are located in separate MDs, which have different and distinct economic and demographic characteristics. The two separate MDs will be analyzed separately in this report. Although the bank's AA contains more census tracts in the Cook, DuPage, and McHenry counties portion of the AA, equal weight is given to the Kane County portion of the AA as the bank's only location is in Kane County, located in downtown Elgin, IL. Additionally, of the 75 new loans originated in the amount of \$1 million or less in 2015 and 2016, 31 loans (or 41.33 percent) were originated inside Kane County.

The December 2016 unemployment rates for Cook, DuPage, Kane, and McHenry Counties were 5.7 percent, 4.4 percent, 5.8 percent, and 5.1 percent, respectively. These unemployment rates are in line with the Illinois statewide average of 5.6 percent. All except DuPage County are above the nationwide average of 4.7 percent. Since the last CRA evaluation, the unemployment rates for the state of Illinois and nationwide average have decreased 2.7 percent and 2.0 percent, respectively.

According to the Elgin Area Chamber of Commerce website, the largest employers in the Elgin, IL area are the Elgin School District, J.P. Morgan Chase, and Advocate Sherman Hospital.

Competition for financial services from other financial institutions within the AA is strong. Currently, 163 financial institutions serve Cook, DuPage, Kane, and McHenry counties. UNB ranks 79<sup>th</sup> and had a 0.07 percent deposit market share. The leaders in deposit market share are JPMorgan Chase Bank, BMO Harris Bank, and Bank of America, whom combined hold 48.25 percent of the market share. This data is based on the FDIC Deposit Market Share Report as of June 30, 2016.

During this evaluation of the bank's CRA performance, a local community organization was contacted to assess the AA's credit (and community development) needs. The contact indicated the biggest needs in the community are affordable housing and small business loans. The community has experienced significant recoveries since the recession and is reporting improvements in all areas of the economy. Local financial institutions have opportunities to lend to small businesses, finance affordable housing, and invest in community development.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

The bank's performance under the lending test is Satisfactory.

The bank's LTD ratio is more than reasonable. UNB originates a majority of its loans inside the AA. The geographic distribution of loans exhibits reasonable dispersion throughout UNB's AA. While UNB exhibited poor penetration of lending to businesses of different income sizes in its AA, commercial lending within low- and moderate-income census tracts exhibits reasonable dispersion. We found no evidence of discriminatory lending practices.

**Loan-to-Deposit Ratio**

UNB’s LTD ratio is more than reasonable given the bank’s resources, capacity to lend, demographic and economic factors, and lending opportunities available in the AA. UNB’s quarterly LTD ratio averaged 89.74 percent over the period of June 30, 2014 through December 31, 2016. The bank’s quarterly average LTD ratio is above the peer quarterly average. During the period, the bank’s LTD ratio showed a quarterly high of 97.95 percent (December 2016) and a quarterly low of 83.99 percent (September 2014). We compared UNB’s LTD ratio to seven institutions located in Kane County and 22 similarly sized institutions located within the entire AA. The quarterly average LTD for the peer banks located in Kane Country was 74.94 percent and ranged from 37.76 percent to 105.03 percent. The quarterly average LTD for the peer banks of similar size in the AA was 79.36 percent and ranged from 43.78 percent to 114.67 percent.

**Lending in Assessment Area**

UNB originates the majority of its loans inside the AA. The analysis included all sampled commercial loans originated in the amount of \$1 million or less in 2015 and 2016, which totaled 120 loans. Of the 120 loans, 62.50 percent of the number of loans and 70.79 percent based on dollar amount were inside the AA, as illustrated by Table 1 below.

<b>Table 1: Lending in Assessment Area</b>										
<b>Loan Type</b>	<b>Number of Loans</b>					<b>Dollars of Loans</b>				
	<b>Inside</b>		<b>Outside</b>		<b>Total</b>	<b>Inside</b>		<b>Outside</b>		<b>Total</b>
	<b>#</b>	<b>% of #</b>	<b>#</b>	<b>% of #</b>		<b>\$(000s)</b>	<b>% of \$</b>	<b>\$(000s)</b>	<b>% of \$</b>	
Commercial Loans	75	62.50%	45	37.50%	120	\$27,504	70.79%	\$11,351	29.21%	\$38,855
<b>Totals</b>	75	62.50%	45	37.50%	120	\$27,504	70.79%	\$11,351	29.21%	\$38,855

Source: OCC sample of 120 business loans originated in years 2015 and 2016 (verified through sample testing).

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

The bank’s lending to businesses of different sizes demonstrates poor penetration. The bank’s lending activity within its designated AA reflects poor penetration of lending to businesses of different income sizes. The bank exhibited poor penetration of lending to businesses of different income sizes in the portion of the AA located in Cook, DuPage, and McHenry counties and the portion of the AA located in Kane County. Equal weight was given to the portion of the AA located in Cook, DuPage, and McHenry counties and the portion of the AA located in Kane County.

**Chicago-Naperville-Arlington Heights, IL MD**

UNB reflects poor penetration of lending within the AA to businesses with annual revenues less than or equal to \$1 million. The sample included 21 commercial loans that the bank originated within its AA in 2015 and 2016. The bank’s lending to businesses with annual revenues less than or equal to \$1 million is significantly below

the AA business demographics. Five of the loans in the sample or 23.81 percent were to businesses with annual revenues less than or equal to \$1 million. In the assessment area, 79.11 percent of non-farm businesses had annual revenues less than or equal to \$1 million. Please see Table 2A below for further details.

<b>Table 2A: Borrower Distribution of Loans to Businesses</b>				
<b>Chicago-Naperville-Arlington Heights, IL MD</b>				
<b>Business Revenues</b>	<b>≤ \$1,000,000</b>	<b>&gt; \$1,000,000</b>	<b>Unavailable/ Unknown</b>	<b>Total</b>
% of AA Businesses	79.11%	9.90%	10.98%	100.00%
% of Bank Loans in AA by #	23.81%	74.43%	4.76%	100.00%
% of Bank Loans in AA by \$	20.26%	78.44%	1.30%	100.00%

Source: OCC sample of 21 business loans originated in years 2015 and 2016 (revenues verified through sample testing); Dunn and Bradstreet Data 2016.

### **Elgin, IL MD**

UNB reflects poor penetration of lending within the AA to businesses with annual revenues less than or equal to \$1 million. The sample included 20 commercial loans that the bank originated within its AA in 2015 and 2016. The bank's lending to businesses with annual revenues less than or equal to \$1 million is significantly below the AA business demographics. Seven of the loans in the sample or 35 percent were to businesses with annual revenues less than or equal to \$1 million. In the assessment area 79.67 percent of non-farm businesses had annual revenues less than or equal to \$1 million. Please see Table 2B below for details.

<b>Table 2B: Borrower Distribution of Loans to Businesses</b>				
<b>Elgin, IL MD</b>				
<b>Business Revenues</b>	<b>≤ \$1,000,000</b>	<b>&gt; \$1,000,000</b>	<b>Unavailable/ Unknown</b>	<b>Total</b>
% of AA Businesses	79.67%	8.60%	11.73%	100.00%
% of Bank Loans in AA by #	35.00%	65.00%	0.00%	100.00%
% of Bank Loans in AA by \$	23.18%	76.82%	0.00%	100.00%

Source: OCC sample of 20 business loans originated in years 2015 and 2016 (revenues verified through sample testing); Dunn and Bradstreet Data 2016.

### **Geographic Distribution of Loans**

UNB's commercial lending within low- and moderate-income census tracts exhibits reasonable dispersion. The bank exhibited excellent dispersion of commercial lending within the AA to low- and moderate-income census tracts in the portion of the AA in Cook, DuPage, and McHenry counties. The bank exhibited reasonable dispersion of commercial lending within the AA to low- and moderate-income census tracts in the portion of the AA located in Kane County. Equal weight was given to the portion of the AA located in Cook, DuPage, and McHenry counties and the portion of the AA located in Kane County.

**Chicago-Naperville-Arlington Heights, IL MD**

The geographic distribution of commercial loans to businesses within low- and moderate-income census tracts reflects excellent dispersion. The analysis consisted of 21 commercial loans the bank originated in the AA in 2015 and 2016. The bank did not originate any loans to businesses in low-income census tracts in the AA; however, this is reasonable considering that only 0.29 percent of businesses are located in low-income census tracts in the AA. The distribution of commercial loans to businesses located in moderate-income census tracts in the AA significantly exceeds, at 28.57 percent, the percentage of businesses located in moderate-income census tracts in the AA. See Table 3A below for details.

<b>Table 3A: Geographic Distribution of Loans to Businesses Chicago-Naperville-Arlington Heights, IL MD</b>								
<b>Borrower Income Level</b>	<b>Low</b>		<b>Moderate</b>		<b>Middle</b>		<b>Upper</b>	
Loan Type	% of AA Businesses	% of # of Loans	% of AA Businesses	% of # of Loans	% of AA Businesses	% of # of Loans	% of AA Businesses	% of # of Loans
Non-farm Commercial	0.29%	0.00%	12.74%	28.57%	40.28%	33.33%	46.69%	38.10%

Source: OCC sample of 21 business loans originated in years 2015 and 2016 (census tracts verified through sample testing); Dunn and Bradstreet Data 2016.

**Elgin, IL MD**

The geographic distribution of commercial loans to businesses within low- and moderate-income census tracts reflects reasonable dispersion. The analysis consisted of 20 commercial loans the bank originated in the AA in 2015 and 2016. The distribution of commercial loans to business in low-income census tracts in the AA, at 10 percent of the sample, exceeds the demographic of businesses in low-income census tracts in the AA. The distribution of commercial loans to businesses located in moderate-income census tracts in the AA meets or exceeds, at 10 percent, the percentage of businesses located in moderate-income census tracts in the AA. See Table 3B below for details.

<b>Table 3B: Geographic Distribution of Loans to Businesses Elgin, IL MD</b>								
<b>Borrower Income Level</b>	<b>Low</b>		<b>Moderate</b>		<b>Middle</b>		<b>Upper</b>	
Loan Type	% of AA Businesses	% of # of Loans	% of AA Businesses	% of # of Loans	% of AA Businesses	% of # of Loans	% of AA Businesses	% of # of Loans
Non-farm Commercial	2.74%	10.00%	8.83%	10.00%	42.72%	45.00%	45.72%	35.00%

Source: OCC sample of 20 business loans originated in years 2015 and 2016 (census tracts verified through sample testing); Dunn and Bradstreet Data 2016.

## **Responses to Complaints**

UNB has not received any written complaints about its performance in helping to meet the credit needs within its AA during this evaluation period. The OCC has not received any written comments, complaints, or inquiries concerning UNB and its efforts to comply with the spirit and intent of the CRA.

## **Discriminatory or Other Illegal Credit Practices Review**

Pursuant to 12 C.F.R. §25.28(c) or §195.28(c), respectively, in determining a national bank's or federal savings association's (collectively, bank) CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank, or in any assessment area by an affiliate whose loans have been considered as part of the bank's lending performance. As part of this evaluation process, the OCC consults with other federal agencies with responsibility for compliance with the relevant laws and regulations, including the U.S. Department of Justice, the U.S. Department of Housing and Urban Development, and the Consumer Financial Protection Bureau, as applicable.

The OCC has not identified evidence that this institution has engaged in discriminatory or other illegal credit practices.

The OCC will consider any evidence of discriminatory or other illegal credit practices relative to this institution that other regulators may provide to the OCC before the end of the institution's next performance evaluation in that subsequent evaluation, even if the information provided concerns activities that occurred during the evaluation period addressed in this performance evaluation.