



# SMALL BANK

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## PUBLIC DISCLOSURE

April 23, 2012

### COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The Lemont National Bank and Trust Company  
Charter Number 11715

1201 State Street  
Lemont, Illinois 60439

Office of the Comptroller of the Currency

**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 Needs to Improve.**

The bank's lending reflects poor responsiveness in helping to meet the credit needs of its assessment area (AA). The major factors that support The Lemont National Bank and Trust Company's (LNB) overall CRA rating include:

- The bank's loan-to-deposit ratio is less than reasonable and reflects a poor level of lending. This ratio is significantly lower than all similarly situated lenders in the area and indicates the bank is not lending at a reasonable level given the opportunities in the area.
- The bank's lending activity in its AA meets standards. A majority of loans were made within the bank's AA. LNB's loan volume is low, but reflective of its market share and the lending needs of the community.
- The bank's record of extending credit to individuals of different income levels is poor and needs to improve. Given the demographics of the AA, the distribution of loans to borrowers reflects very poor penetration among individuals of different income levels.
- The bank did not receive any written complaints about its performance in helping to meet the credit needs within its AA during this evaluation period.

## SCOPE OF EXAMINATION

This CRA Performance Evaluation is an assessment of LNB's ability to help meet the credit needs of its community. LNB was evaluated under the Small Bank examination procedures, which consist of a lending test that evaluates the bank's record of helping to meet the credit needs of its AA through its lending activities.

The lending test is based on LNB's primary loan products. LNB's primary lending product is residential real estate loans. This lending category accounts for the majority of all loan originations during the evaluation period. The table below illustrates the composition of loan originations made from January 1, 2010 through December 31, 2011. The bank reports data under the requirements of the Home Mortgage Disclosure Act (HMDA). The data was tested and found to be reliable; therefore, it was used in our lending analysis.

<b>Loan Originations by Loan Type from January 1, 2010 through December 31, 2011</b>		
<b>Loan Category</b>	<b>\$ (000)</b>	<b>%</b>
Commercial Loans	\$1,028	17
Residential Loans	\$4,934	82
Consumer Loans	\$52	1
<b>Total Originations</b>	<b>\$6,014</b>	<b>100%</b>

*Source: Bank Records from January 1, 2010 through December 31, 2011*

The evaluation period for this CRA examination is from August 14, 2006 to April 23, 2012. To evaluate the bank's lending performance we utilized residential real estate

loans originated from January 1, 2010 to December 31, 2011. The loan sampling period is representative of the evaluation period as the bank's strategic plan has not changed significantly since last examination. The bank originated 11 HMDA reportable residential real estate loans totaling approximately \$3 million during this period.

LNB's AA is comprised of ten geographies located in the Chicago-Joliet-Naperville, IL Metropolitan Division (MD). LNB is an intrastate financial institution with offices serving portions of Cook, DuPage, and Will counties. All of the counties are contiguous and located in the same MD. The lending test is based on LNB's primary loan product, residential real estate loans.

## DESCRIPTION OF INSTITUTION

LNB is a nationally chartered bank located in the Village of Lemont, Illinois, approximately 30 miles southwest of the City of Chicago. LNB is a wholly owned subsidiary of Lemont Bancorp Inc., a \$59 million, one-bank holding company also located in Lemont, Illinois. The bank's business strategy is to provide its customers with a full range of products and services consistent with the community's needs. For the period of this evaluation, the bank operated six locations, consisting of the main office and five branches. The main office is located in Lemont, Illinois. There are also three branches in Lemont and two branches in Homer Glen, Illinois. The Homer Glen offices are located in assisted-living centers and provide limited banking services to the residents. LNB owns and operates three automated teller machines, also in Lemont. As of March 31, 2012, LNB had total assets of \$58.7 million, total loans of \$9.4 million, and total deposits of \$52.8 million. As of December 31, 2011, the bank reported \$9.4 million in outstanding loans, which represents 16 percent of total assets. The loan portfolio mix was as follows:

<b>Loan Portfolio Summary by Loan Type December 31, 2011</b>		
<b>Loan Category</b>	<b>\$(000)</b>	<b>%</b>
Commercial Loans	\$1,030	11.01%
Construction & Land Development	\$0	0%
Residential Loans	\$8,264	88.30%
*Consumer & Other	\$65	0.69%
<b>Total Loans</b>	<b>\$9,359</b>	<b>100%</b>

*Source: December 31, 2011 Call Report. \*Consumer and Other Loans represent less than 1 percent of the loan portfolio.*

There are no financial constraints, legal impediments, or any other factors that would hinder the bank's ability to provide credit within the AA. As of December 31, 2011, LNB's Tier 1 Capital level was \$4.4 million, representing 7.38 percent of average assets. The bank's last CRA rating, which was as a Small Bank, was "Satisfactory" as detailed in the performance evaluation dated August 14, 2006.

## DESCRIPTION OF ASSESSMENT AREA(S)

LNB is an intrastate financial institution with offices serving portions of Cook, DuPage, and Will Counties. All of the counties are contiguous and located in the Chicago-Joliet-Naperville, IL-IN-WI Metropolitan Statistical Area (MSA), which, according to 2010 census data, is the third largest MSA in the United States. This MSA includes the Chicago-Joliet-Naperville MD. LNB has a 0.02 percent share of total deposits in the MSA market area. The bank's AA is comprised of ten geographies - two middle-income and eight upper-income. There are no low- or moderate-income geographies in the AA. LNB's AA has not changed from the prior evaluation. It is consistent with regulatory requirements and does not arbitrarily exclude low- or moderate-income geographies. The table below provides basic demographic information based on the income level of geographies and families within the assessment area.

Demographic Information for Full Scope Area: Lemont AA 2012						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	10	0.00	0.00	20.00	80.00	0.00
Population by Geography	56,090	0.00	0.00	18.30	81.70	0.00
Owner-Occupied Housing by Geography	16,074	0.00	0.00	15.79	84.21	0.00
Business by Geography	4,096	0.00	0.00	15.23	84.77	0.00
Farms by Geography	78	0.00	0.00	21.79	78.21	0.00
Family Distribution by Income Level	15,071	7.29	11.37	20.53	60.82	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	2,811	0.00	0.00	27.00	73.00	0.00
Median Family Income		60,166	Median Housing Value	241,220		
HUD Adjusted Median Family Income for 2010		74,700	Unemployment Rate	9.8%		
Households Below Poverty Level		3%	(2000 US Census)			

(\* ) The NA category consists of geographies that have not been assigned an income classification.

Source: 2000 US Census and 2011 HUD updated MFI.

During the evaluation, we conducted community contact interviews with a local government official and a local realtor. Based on discussions with our community contacts, there were two major credit needs of the community: small business loans and home improvement loans for household repairs and personal needs. The contacts indicated that most of the banks were doing a good job of meeting the credit needs in the area. According to the community contacts, major economic activities are service and education related. Our contacts also stated that current economic conditions and unemployment did have a negative impact on the local economy, but the area was not as badly impacted as other communities in the area and has slowly rebounded in the past year. According to the Bureau of Labor Statistics, the 2011 state unemployment rate was 9.8 percent; the average unemployment rate for the majority of the bank's AA was 9.9 percent.

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

### **Loan-to-Deposit Ratio**

The loan-to-deposit ratio is evaluated to determine if the bank is making loans. LNB's average loan-to-deposit (LTD) ratio is less than reasonable given the bank's size, financial condition, and AA credit needs. In addition, the bank's LTD ratio is the lowest among its peer group and banks of similar asset size. The bank does not sell loans to the secondary market and has not originated any community development loans during the review period for consideration.

LNB's quarterly average LTD ratio for the period of September 30, 2006 to December 31, 2011 was 22.09 percent, the lowest among institutions headquartered in Cook, Du Page and Will counties. During this period, the bank's ratio had a quarterly high of 26.37 percent and a quarterly low of 17.56 percent (December 31, 2011). In contrast, the average quarterly LTD ratio during the review period for 17 similarly situated banks was 51.22 percent. These financial institutions are also small community banks located in Cook, DuPage and Will Counties. These institutions have total assets ranging from \$9 million to \$95 million. The six banks closest in asset size (+/- \$10 million) each have only one office, compared to LNB's six offices, yet their LTD ratios are at least nearly double LNB's. Although there is strong competition among lenders in the AA, there are clearly ample lending opportunities for institutions of this size.

We also reviewed the bank's loan growth as a part of the performance context. The bank has experienced a decline in loans every year since the previous evaluation. While economic conditions have contributed to an industry-wide slowdown in lending, LNB's loan growth has ranked well below their peer group throughout this time period. According to the Consolidated Reports of Condition, total loans decreased from \$12.9 million at December 31, 2007 to \$9.4 million at December 31, 2011.

LNB's primary loan product is residential real estate loans. In 2010, more than 275,000 home mortgage loans were originated within the Chicago-Joliet-Naperville, IL-IN-WI MSA. LNB originated only 6 mortgage loans in 2010. This level of originations is weak and not even commensurate with the bank's nominal deposit market share (0.02 percent).

### **Lending in Assessment Area**

LNB's record of lending within its AA is satisfactory. In order to determine the bank's in/out ratio, we typically pull a minimum sample of 20 loans from the bank's primary loan product. However, LNB's level of lending was so low during the evaluation period that we were unable to achieve the minimum sample size. Instead, we used 100 percent of the bank's home mortgage originations during the evaluation period, which was a total of 11.

A majority of the number and dollar amount of home mortgage loans were originated within the bank's AA, 82 percent by number and 79 percent by dollar. Although LNB is

maintaining most of its current residential customers, they are not attracting new customers. LNB management indicates they are constantly striving to meet AA credit needs with competitive pricing and expanded product offerings.

Given the limited size of our sample, we also analyzed the bank's AA lending performance compared to their deposit market share. In 2010, LNB originated 5 home mortgage loans within their AA. A total of nearly 2,500 home mortgage loans were originated within the bank's AA in 2010. This 0.2 percent market share of mortgage originations compares favorably to LNB's 0.02 percent market share of deposits, further supporting a satisfactory record of lending within the AA.

The following table details the bank's lending within the AA by number of loan originations and dollar volume as reported on the bank's 2010 and 2011 HMDA loan application register.

<b>LNB's Residential Real Estate Lending in Assessment Area</b>										
Loan Type	Number of Loans					Dollars of Loans (000 omitted)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
<b>Home Purchase*</b>	1	50.00	1	50.00	2	335	47.52	370	52.48	705
<b>Home Refinance*</b>	5	83.33	1	16.67	6	1,771	87.03	264	12.97	2,035
<b>Home Improvement*</b>	3	100	0	0	3	210	100	0	0	210
<b>Total HMDA*</b>	9	81.82	2	18.18	11	2,316	78.51	634	21.49	2,950

\*Represents loans originated between January 1, 2010 and December 31, 2011 as reported under HMDA.

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

LNB's borrower distribution of residential real estate loans reflects poor penetration among borrowers of different income levels. The bank's assessment area consists of approximately 2,800 low-moderate income families, or 18.7 percent of the total population, residing in the banks middle- and upper- income geographies. The bank did not make any home mortgage loans (home purchase, home improvement, or home mortgage refinance) loans to low- or moderate-income individuals during the evaluation period. Although, LNB's deposit market share is minimal in the heavily populated Chicago-Joliet-Naperville MSA, their market share of home mortgage lending is still not commensurate with it.

The overall volume of residential loans extended is low and does not appear to be reflective of the opportunities for lending in the assessment area. There are 177 financial institutions in the bank's AA that originated loans during the evaluation period, and 43 percent of these are similar in asset size to LNB. Despite the strong competition, there are lending opportunities in the AA.

The bank extended only nine HMDA reportable residential loans within the assessment area during the evaluation period. Concern is warranted as the loan originations made during this evaluation period were either renewals or refinances of existing loans, and there was only two loans extended to new customers.

<b>Borrower Distribution of Residential Real Estate Loans in LNB's AA</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% 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	7.29	0	11.37	0	20.53	0	60.82	100.00
Home Improvement	7.29	0	11.37	0	20.53	33.33	60.82	66.67
Home Refinance	7.29	0	11.37	0	20.53	0	60.82	100

*Source: Data reported under 2010 and 2011 HMDA; 2000 U.S. Census data \*as a percentage of loans with borrower income information available.*

Based solely on the volume of lending (none) to low- and moderate-income borrowers, the bank's performance would be very poor. However, some mitigating factors exist which helped derive a conclusion of poor penetration.

Traditionally the bank has had a lending philosophy with traditional down-payment requirements (generally 20 percent of property value) and repayment terms that may limit some borrowers from seeking loans. The median housing value is \$241 thousand dollars; therefore, home prices in the area may exceed the amount for which low-income individuals can qualify to borrow. According to the 2000 census, three percent of families are at or below the poverty level. The 2011 state unemployment rate was 9.8 percent; and the average unemployment rate for the majority of the bank's AA was 9.9 percent. These factors may hamper the bank's performance in lending to low- or moderate-income borrowers, but it should not eliminate all lending opportunities.

In an effort to meet the needs of the community in the future, LNB recently became a participating lender for the Federal Home Loan Bank of Chicago Affordable Housing Program, known as the *2012 Down-payment Plus Program*, and have formed an advisory committee for developing opportunities in for small business lending. These actions may prove beneficial to the institution's lending performance going forward.

### **Geographic Distribution of Loans**

An analysis of the geographic distribution of home mortgage loans would not be meaningful. The bank does not have any low- or moderate- income geographies in its AA.

### **Responses to Complaints**

LNB did not receive any consumer complaints related to its CRA performance during this 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.