



INTERMEDIATE SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

October 18, 2010

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Union National Bank
Charter Number: 7236

One Fountain Square Plaza
Elgin, IL 60120

Office of the Comptroller of the Currency

Chicago North Field Office
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.

The Lending Test is rated: Satisfactory.

The Community Development Test is rated: Satisfactory.

Union National Bank and Trust Company of Elgin (UNB) has met the community needs based on the following:

- The bank's quarterly average net loan to deposit ratio is excellent and exceeds similarly situated banks and their quarterly average ratio.
- The majority of the bank's loans are within its assessment area (AA).
- The geographic distribution of small business loans is good and the volume of commercial loans made to small businesses is adequate.
- The volume of community development loans reflects good performance. The community development loans made are responsive to the credit needs of the AA.

Scope of Examination

For the lending test the evaluation period was the years of 2008 and 2009 and through September 2010. This Community Reinvestment Act (CRA) examination included an analysis of the commercial and small business loans originated or purchased during this evaluation period. The volume of real estate mortgages, home improvement loans, residential home refinance and general consumer loans is very low. Residential real estate and consumer loans are merely offered as an accommodation to existing customers. Our lending test analysis focused on the bank's commercial lending performance.

For the community development test we considered all community development loans, investments, and services from October 23, 2006 through September 30, 2010.

Description of Institution

UNB is a wholly owned subsidiary of Elgin Bancshares, Incorporated. The bank has two offices located on the west side of downtown Elgin, Illinois. One office is a full service banking office while the second office is a limited service messenger office.

Although the bank was placed under a Consent Order with the Office of the Comptroller of the Currency effective April 22, 2010, the Consent Order does not contain any permanent restrictions that hinder UNB from meeting the credit needs of its community. While there is a temporary restriction on the origination of new commercial real estate loans; the restrictions are to be lifted when the bank's Board of Directors has complied with the restrictions outlined in the Consent Order and has received a determination of no objection from the bank's supervisory office. There are no other restraints that will hinder UNB from meeting its credit needs of its

community. The last CRA examination dated August 15, 2006, rated the bank’s CRA performance as “*Satisfactory.*”

As of September 30, 2010 UNB had total assets of \$492 million, net income year to date of \$4.1 million, and actual loan to deposit ratio of 88%. Net loans and leases represent 83% of the average assets. Commercial real estate is the primary loan type representing 88% of the average gross loans. The loan portfolio also consists of 14% in other commercial and industrial loans and only 1% in consumer loans. The primary lending focus of UNB is small business lending and the bank is designated as a SBA “preferred lender.”

Description of Assessment Area

UNB’s AA consists of portions of Cook, DuPage, Kane and McHenry counties. These counties are located within the Chicago – Joliet – Naperville IL Metropolitan Division (Chicago MD) of the Chicago – Joliet – Naperville IL – IN - WI Metropolitan Statistical Area (Chicago MSA). The bank’s assessment area also includes census tracts located in the Lake County – Kenosha County IL - WI Metropolitan Division of the Chicago MSA (Lake County MD). The bank’s assessment area contains a total of 277 census tracts.

Out of the 277 census tracts, 255 census tracts (92%) are in the Chicago MD with 84 located in Cook County, 93 in DuPage County, 42 in Kane County, and 36 census tracts in McHenry County. The remaining 22 census tracts (8%) are located in the Lake County MD. In our analysis the bank’s performance in the Chicago MD AA carried more weight as it represents a larger area, greater population, and more businesses than the Lake County MD AA.

The bank’s AA is comprised of income tract levels including ten (4%) moderate-income, 118 (43%) middle-income, and 148 (53%) upper-income. There are no low-income tracts and one census tract did not have income information available within the AA.

The bank’s AA does not arbitrarily exclude low or moderate income areas and meets regulatory requirements. The table below shows the breakdown of the bank’s census tracts by income levels within the two metropolitan divisions:

Metropolitan Division	Census Tracts									
	Low Income		Moderate Income		Middle Income		Upper Income		NA	
	#	%	#	%	#	%	#	%		
Chicago MD	0	0%	9	4%	112	44%	133	52%	1	0%
Lake County MD	0	0%	1	5%	6	27%	15	68%	0	0%
Total	0	0%	10	4%	118	43%	148	53%	1	0%

The overall local economy remains stressed. Many of the larger employers have downsized or have moved their companies out of the country. One of the larger employers is Sherman Hospital in Elgin. The hospital recently completed an expansion which will increase healthcare employment. Other major employers include Elgin School District and a national credit card issuer.

According to the Business Geodemographic data, the leading industries for the five counties are service and retail. The 2009 unemployment rates for Cook, DuPage, McHenry, Lake, and Kane counties were between eight and ten percent. These unemployment rates are on par with the State of Illinois unemployment rate of ten percent and the nation’s unemployment rate of nine percent.

UNB’s competition consists of several large financial institutions as well as smaller local banks. In total there are 274 banks servicing the AA. JP Morgan Chase is the leading deposit market share holder with 17% of the AA’s deposit market share. UNB is ranked seventy-first with a 0.17% of the AA’s deposit market share.

Among identified community needs is lending to small businesses within the AA. Small businesses are viewed as being a good source of employment for the community. Our assessment of community credit needs incorporated two community contacts that confirmed the need for small business lending.

Conclusions with Respect to Performance Tests

LENDING TEST

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

Loan-to-Deposit Ratio

UNBs average loan to deposit ratio is excellent when compared to similarly situated banks. The bank’s quarterly loan to deposit ratio averaged 103 percent over 19 quarters from March 31, 2006 through September 30, 2010. This was a 2 percent increase from the 101 percent average quarterly loan to deposit ratio from the August 15, 2006 Public Evaluation.

UNB ranks first when compared to four other institutions of similar size and similarly situated within the AA. The quarterly average loan to deposit ratios for the other peer banks range from 82 percent to 93 percent. The bank’s net loan to deposit ratio has historically been above peer average.

Lending in Assessment Area

UNB’s record of lending within its AA is reasonable as a clear majority of the loans sampled during our examination were originated within the delineated AA. See the breakdown by number and amount of loans in Table 1 below:

	In Assessment Areas				Out of Assessment Areas				Totals	
	#	% of	\$\$ (000s)	% of \$\$	#	% of	\$\$ (000s)	% of \$\$	#	\$
Commercial Loans *	29	83%	15,498	70%	6	17%	6,532	31%	35	22,030

Source: Bank records sampled for years 2008, 2009, and year to date 2010 (verified by examiners)

*Commercial & Industrial U.S. including commercial and industrial secured with real estate

Lending to Businesses of Different Sizes

Overall the bank’s level of lending to small businesses with its AA is reasonable. The bank’s lending performance to businesses with revenues of \$1 million or less for the Chicago MD is good. The percent of bank loans to businesses with \$1 million or less in the AA is close to the percent of businesses in the AA with revenues of \$1 million or less. The bank’s lending performance to businesses with revenues of \$1 million or less in Lake County MD is poor. The percent of loans made to businesses with revenues of \$1 million or less is significantly less than the percentage of businesses in the AA with revenues of \$1 million or less. Please see Tables 2 and 3 below:

Table 2: Borrower Distribution of Commercial Loans - Chicago MD					
Gross Annual Revenue	#	% of #	\$ (000s)	% of \$ (000s)	Business Data
<= \$1 million	11	58%	9,581	67%	75%
> \$1 million	8	42%	4,662	33%	7%
Revenue unavailable	0	0%	0	0%	18%
Total	19	100%	14,243	100%	100%

Source: Bank records (verified by examiners) and Business Geodemographics

Table 3: Borrower Distribution of Commercial Loans – Lake County MD					
Gross Annual Revenue	#	% of #	\$ (000s)	% of \$ (000s)	Business Data
<= \$1 million	3	30%	1,942	16%	80%
>= \$1 million	7	70%	9,933	84%	6%
Revenue unavailable	0	0%	0	0%	14%
Total	10	100%	11,875	100%	100%

Source: Bank records (verified by examiners) and Business Geodemographics

Geographic Distribution of Loans

Overall UNB’s level of lending in moderate-income areas is reasonable. The business lending in moderate-income areas of the Chicago MD is excellent. The volume of loans made in the moderate-income census tracts of the Chicago MD significantly exceeds the percentage of businesses in the AA’s moderate-income census tracts. Please see Table 4 below for details.

Table 5 below shows poor, but reasonable geographic distribution of business lending to the moderate-income tract in the Lake County MD. This poor performance is mitigated by the limited opportunities the bank actually has within the one census tract with only four percent of the AA’s businesses located there.

Tract Income Level	Bank Performance		Demographics
	% of #	% of \$ (000's)	% of Business
Low	Not Applicable	Not Applicable	Not Applicable
Moderate	11.00%	15.00%	3.00%
Middle	32.00%	20.00%	42.00%
Upper	58.00%	65.00%	54.00%
Not Available	0.00%	0.00%	0.01%
Total	100.00%	100.00%	100.00%

Source: Bank records (verified by examiners) and Business GeoDemographics (2010)

Tract Income Level	Bank Performance		Demographics
	% of #	% of \$ (000's)	% of Business
Low	Not Applicable	Not Applicable	Not Applicable
Moderate	0.00%	0.00%	4.00%
Middle	50.00%	72.00%	28.00%
Upper	50.00%	28.00%	68.00%
Not Available	Not applicable	Not applicable	Not applicable
Total	100.00%	100.00%	100.00%

Source: Bank records (verified by examiners) and Business GeoDemographics (2010)

Responses to Complaints

UNB has not received any written comments or complaints regarding its performance in its efforts to help meet the credit needs of its delineated 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.

COMMUNITY DEVELOPMENT TEST

The bank’s performance under the community development test is Satisfactory.

Number and Amount of Community Development Loans

UNB is a very successful preferred SBA lender. During this evaluation period the bank made qualified (504 SBA loans) community development loans in their delineated community totaling \$21 million or 49% of the bank’s capital. These loans supported the needed economic development in the bank’s community primarily through qualified job creation. This volume of community development lending reflects good performance.

Number and Amount of Qualified Investments

The bank did not make any qualified community development investments during this evaluation period.

Extent to Which the Bank Provides Community Development Services

Retail services are reasonable and are readily accessible to individuals of various income levels. Full deposit services are available at both UNB's locations. Loan services are available where the loan officers are located. Retail services offered include:

- Automated Teller Machines (ATMs) located at the main branch. The bank ATM services are through an outside vendor called Cirrus which provides a broader region of access to the bank's customers.
- UNB offers 24 hour, seven days per week access to customer account information through a personal computer banking and bank by phone. These services allow customers to perform various transactions such as transferring funds between bank accounts and verifying balances, etc.

No specific community development services are performed by the bank.

Responsiveness to Community Development Needs

The bank has positively responded to helping meet its delineated communities community development needs through its successful SBA loan program.

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.