



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

March 25, 2010

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Algonquin State Bank, National Association
Charter Number 23302

221 South Main Street
Algonquin, IL 60102

Office of the Comptroller of the Currency

Chicago South Field Office
2001 Butterfield Road, Suite 400
Downers Grove, IL 60515

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.

Algonquin State Bank’s lending is satisfactory and addresses the credit needs of the community. Following are the major factors supporting this rating:

- The bank’s ratio of loans-to-deposits is reasonable and the majority of loans originated during the evaluation period were to borrowers located within the assessment area.
- The bank’s geographic distribution of loans in the assessment area reflects an excellent dispersion throughout census tracts of different income levels.
- The distribution of loans reflects a reasonable penetration among individuals of different income levels and businesses of different sizes.
- We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.
- There are no adverse complaints regarding the banks CRA performance.

SCOPE OF EXAMINATION

Algonquin State Bank, National Association (ASB) was evaluated under the Community Reinvestment Act Small Bank Examination Procedures, which includes a lending test. The lending test evaluates the bank’s record of meeting the credit needs of its assessment area (AA) through its lending activities. The lending test for ASB covers performance from January 1, 2008, through February 28, 2010. This period is representative of the bank’s lending strategy since the last CRA examination dated October 4, 2004.

ASB’s primary loan products are home and business loans. The bank reports data under the requirements of the Home Mortgage Disclosure Act (HMDA). We performed data integrity testing on the bank’s HMDA data and found it to be reliable. Therefore, we used HMDA data to evaluate the bank’s home loan performance. To evaluate the bank’s business lending performance, we selected a sample of business loans made in 2008, 2009, and the first two months of 2010.

Loan Origination by Loan Type January 1, 2008 through February 28, 2010		
Loan Product	% by Dollars of Loans Originated/Purchased during evaluation period	% by Number of Loans Originated/Purchased during evaluation period
Home Loans	28.74%	33.41%
Consumer Loans	14.31%	38.30%
Business Loans	56.95%	28.29%
Farm Loans	0%	0%
Total	100%	100%

Source: Bank records on all new loans originated in 2008, 2009, and the first two months of 2010

DESCRIPTION OF INSTITUTION

ASB is an intrastate bank located 50 miles northwest of Chicago, IL. The bank is headquartered in Algonquin, IL, and is a wholly owned subsidiary of First Algonquin Company, a one-bank holding company. As of December 31, 2009, ASB had total assets of \$134 million with loans totaling \$63 million. ASB has one full service branch and two branches limited to deposit activity located in Algonquin, IL. All three branch locations have ATM services. The bank does not have any free-standing ATMs located off-site. The bank also operates a walk-up branch, open for one hour a week, at a local retirement community. No significant changes to ASB's corporate structure, including merger or acquisition activities, have occurred since the last CRA examination.

ASB's strategy is to serve the Algonquin area and surrounding communities with competitive products that best suit the banking needs of the surrounding community. ASB offers a full range of deposit and loan products as well as safe deposit boxes, land trust services, and notary services. The bank has two primary lending products, residential mortgage and business loans. These two loan types account for 86 percent of the dollar amount of all loan originations during 2008, 2009, and the first two months of 2010. Thus, these two products were used for the analysis of this evaluation.

There are no legal or financial impediments to ASB's ability to meet the credit and community development needs of its assessment area. The bank was rated Satisfactory at the last CRA examination dated October 4, 2004.

DESCRIPTION OF ASSESSMENT AREA

ANB has one assessment area (AA) that consists of 15 census tracts in McHenry County and 3 census tracts in Kane County. All tracts are in MSA 16974, Chicago-Naperville-Joliet, IL. All branches are located in Algonquin, IL. The Village of Algonquin lies in two counties, McHenry County and Kane County. The AA lies primarily in the Illinois municipalities of Algonquin and Lake in the Hills, as well as parts of Barrington Hills, Carpentersville, Cary, Crystal Lake, Fox River Grove, Grafton Township, Huntley, and Lakewood. The AA is contiguous, meets the requirements of the regulation, and does not arbitrarily exclude any low-or moderate-income areas. The table on the following page shows demographic information for the AA.

Demographic Information for the AA					
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #
Geographies (Census Tracts/BNAs)	18	0%	5.56%	22.22%	72.22%
Population by Geography	124,799	0%	6.16%	13.92%	79.92%
Owner-Occupied Housing by Geography	36,487	0%	4.35%	12.67%	82.98%
Businesses by Geography	8,998	0%	1.39%	16.13%	82.48%
Farms by Geography	197	0%	4.06%	19.29%	76.65%
Family Distribution by Income Level	33,425	0%	5.22%	13.60%	81.18%
Distribution of Low and Moderate Income Families throughout AA Geographies	6,999	8.10%	12.84%	24.54%	54.51%
Median Family Income (MFI)		\$76,032	Median Housing Value		\$173,572
HUD-Adjusted MFI for 2009		\$74,600	Families Below the Poverty Level		2.56%
January 2010 MSA Unemployment Rate		11.60%			

Source: 2000 U.S. Census Data

The local economy has been negatively impacted by national economic conditions. Foreclosures have increased, along with the unemployment rate. The January 2010, state unemployment rate is 12.2% compared to county unemployment rates of 11.6% for McHenry and 12.3% for Kane. The community contact from the Village of Algonquin noted bankruptcies increased for smaller businesses, particularly in the furniture industry, though bankruptcies for larger businesses have been relatively stable. The major employers in the area are school districts and two large engineering companies.

The community contact identified business financing as the primary credit need of the community. He stated that there are a number of business developments that would like to move forward but none have been able to obtain financing. He noted that the businesses in need of credit vary in size. The contact said that historically, once a big box retailer moves into the area, there are, on average, ten smaller storefront businesses that open around the larger retailer. Consumer mortgage funding needs decreased during the previous two years due to a decline in both home sales and new property development.

Competition from other financial institutions in McHenry and Kane Counties is strong. The bank's competitors include numerous branches of national and regional institutions as well as various sized local community banks. ASB holds less than 1% of the total market share based on deposit totals as of June 30, 2009.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

ASB's overall lending test rating is satisfactory. The bank's net loan-to-deposit ratio is reasonable given the bank's size, financial condition, and the AA credit needs. ASB originates a majority of their primary loan products within the bank's AA. The distribution of loans reflects a reasonable penetration among individuals of different income levels and businesses of different sizes. The bank's geographic distribution of loans reflects an excellent dispersion throughout census tracts of different income levels. We did not identify any gaps in lending and the bank did not receive any lending related complaints.

Loan-to-Deposit Ratio

ASB's average loan-to-deposit (LTD) ratio is reasonable given the bank's resources and capacity to lend, demographic and economic factors, and the lending opportunities available in the AA. ASB's quarterly average LTD ratio for the period of December 31, 2004, through December 31, 2009, was 56.72 percent. During this period, the ratio had a quarterly high of 67.24 percent and a quarterly low of 47.46 percent. The average LTD ratios of eight similarly situated banks for the same time period range from 59.06 percent to 100.64 percent. These institutions all have asset sizes less than \$200 million and operate in ASB's AA. Of these banks, ASB is the smallest in asset size and has one of the smallest deposit market shares.

The bank's quarterly LTD ratios do not include the mortgage loans sold on the secondary market. The bank sells a significant percentage of the consumer mortgage loans they originate to the Federal Home Loan Mortgage Corporation. As a result, ASB maintains capital to support additional lending.

Lending in Assessment Area

ASB originates a majority of their primary loan products inside the bank's AA. Out of the 184 loans used for this analysis, the bank originated 65 percent of the number and 55 percent of the dollar amount of loans within the AA. The following table displays details on both categories of primary loan products by number and dollar amount of loans used in our sample.

Lending in the AA										
Loan Type	Number of Loans					Dollars of Loans (000)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home	110	67.07	54	32.93	162	15,297	57.61	11,255	42.39	26,552
Business	9	45.00	11	55.00	20	883	28.56	2,208	71.44	3,091
Totals	119	65.38	63	34.62	182	16,180	54.58	13,463	45.42	29,643

Source: HMDA data and a sample of business loans originated during the evaluation period

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

The distribution of loans reflects a reasonable penetration among individuals of different income levels and businesses of different sizes given the bank’s size and product offerings as well as local economic conditions.

Home Loans

The distribution of home loans to borrowers reflects excellent penetration among borrowers of different income levels. ASB originated 110 home loans during the evaluation period to borrowers located in the bank’s AA. Of these loans, the bank made 12 to low income individuals and 23 loans to moderate income individuals. This performance represents a percentage that substantially exceeds the percentage of low- and moderate-income households located within the AA. The following table shows the distribution of families of different income levels in the AA compared to the distribution of home loans originated by ASB.

Borrower Distribution of Residential Real Estate Loans in the AA								
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	8.10	0	12.84	22.22	24.54	22.22	54.51	33.33
Home Refinance	8.10	10.23	12.84	22.73	24.54	26.14	54.51	38.64
Home Improvement	8.10	23.08	12.84	7.69	24.54	38.46	54.51	30.77

Source: HMDA data and U.S. Census data

*22.22% of purchase loans and 2.27% of refinance loans did not report income

Business Loans

The distribution of loans to businesses reflects reasonable penetration among businesses of different sizes. Of the business loans included in the sample that we used, ASB originated or purchased 75 percent to small business borrowers. Small businesses are businesses with gross annual revenues of one million dollars or less. This is reasonable compared to demographic data that show 80 percent of the area’s businesses are considered small businesses. The following table shows the distribution of commercial loans among different sized businesses in the AA.

Borrower Distribution of Loans to Businesses in the AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	79.91	4.38	15.71	100%
% of Bank Loans in AA by #	75.00	25.00	0	100%
% of Bank Loans in AA by \$	65.16	34.84	0	100%

Source: Loan sample and 2009 Business Geodemographic Data

Geographic Distribution of Loans

The bank’s geographic distribution of loans reflects an excellent dispersion throughout census tracts of different income levels. We did not identify any gaps in lending throughout the bank’s AA.

Home Loans

The bank’s geographic distribution of home loans in the AA reflects an excellent dispersion throughout census tracts of different income levels, including the moderate-income census tract. In particular, the percentage of home refinance loans originated in the moderate-income census tract is excellent. While the level of home purchase and home improvement loans originated in the moderate-income census tract is poor, this received very little weight, as home refinance loans were the primary product type in the AA. Of the home loans originated within the AA during the evaluation period, 80 percent were home refinance loans.

Following is a table that details the bank’s performance as compared to the percentage of owner-occupied housing units in each census tract income level.

Geographic Distribution of Residential Real Estate Loans in ASB’s AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Purchase	0	0	4.35	0	12.67	11.11	82.97	88.89
Home Refinance	0	0	4.35	6.82	12.67	7.95	82.97	85.23
Home Improvement	0	0	4.35	0	12.67	0	82.97	100.00

Source: HMDA data and U.S. Census data

Business Loans

The bank’s geographic distribution of business loans reflects excellent dispersion throughout census tracts of different income levels. The bank does not have any low-income census tracts in the AA and the bank exceeds standards for geographic distribution in the moderate-income tract. The following table details the bank’s performance as compared to the percentage of businesses in each census tract income level.

Geographic Distribution of Loans to Businesses in ASB's AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses/ Farms	% of Number of Loans	% of AA Businesses/ Farms	% of Number of Loans	% of AA Businesses/ Farms	% of Number of Loans	% of AA Businesses/ Farms	% of Number of Loans
Business	0	0	1.39	5	16.13	10	82.48	85

Source: Loan sample and 2009 Business Geodemographic Data.

Responses to Complaints

ASB received no consumer complaints relating to CRA performance since the previous CRA examination.

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.