COMMUNITY LENDING OPPORTUNITIES

FOR

THE NORTHERN TRUST BANK/LAKE FOREST

By

Jean Pogge

Research Assistance Provided

By

David Flax-Hatch

and

Josh Hoyt

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Woodstock Institute, 53 West Jackson, Chicago, IL 60604 312/427-8070

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INTRODUCTION

INTRODUCTION

At the request of The Northern Trust Bank/Lake Forest, Woodstock Institute has agreed to assist the Bank in reviewing and strengthening its compliance with the Community Reinvestment Act (CRA). The Community Reinvestment Act was passed by Congress in 1977 to establish the responsibility of banks and savings and loan associations to meet the credit needs of their local communities including the low- and moderate-income residents of those communities. Under the terms of the CRA, each bank and savings and loan association must prepare an annual statement which delineates its local community and identifies the ways in which the bank is helping to meet the credit needs of that community; it must post in its lobby a CRA Notice informing the public of its rights under CRA; and it must maintain a public file of all signed letters pertaining to the institution's CRA statement or lending performance.

Oversight of CRA compliance is the responsibility of banking regulatory agencies. These agencies regularly examine each institution to ensure compliance. In addition, any application by the bank for a deposit facility, including a branch, acquisition, merger, relocation, or establishment of a new holding company may be protested or challenged by community organizations if they feel that the action will have adverse consequences on the ability of the community to have access to credit.

During the last several years, community protests and challenges have markedly increased, reflecting the increase in merger, acquisition and interstate banking activity. In addition, Congress has demonstrated renewed concern about disinvestment and its effects on communities. As a result, many financial institutions are now reviewing their community reinvestment records to ensure that: 1) they are meeting the credit needs of their community to the greatest possible degree, consistent with sound banking practices; 2) that their CRA statements and other published materials accurately reflect their loan products and their lending performance; and 3) that their marketing efforts include the most effective methods of reaching low- and moderate-income potential borrowers.

Project Goal and Description. The goal of this project is to assess the compliance of the Northern Trust Bank/Lake Forest with both the letter and the spirit of the Community Reinvestment Act and to identify ways for the Bank to better meet community credit needs within the parameters of sound business practices.

Specifically, the Bank contracted with Woodstock Institute for a two phase project. Phase I included the following activities:

1. Assessment of the Bank's current efforts to meet the credit and deposit needs of the low- and moderate-income residents within its defined CRA service area.

2. Determination of the credit needs within neighboring communities and identification of the particular credit and deposit needs of the low- and moderate-income residents of the Bank's service area that present an opportunity for the Bank.

3. Development of a series of recommendations that will enable the Bank to better meet its responsibilities under the Community Reinvestment Act. Preparation of a report presenting the recommendations in an action format that can be used for immediate implementation.

Phase II of the project will be defined through discussions with the Bank about the recommendations in this report. However, Phase II will include two specific activities. The first will be a training workshop for appropriate Bank employees on CRA, the credit needs of the low and moderate income residents of the Bank's service area and the ways in which the Bank has determined it will service those needs. The second will be a followup consultation six to eight months after the Bank begins to implement the recommendations.

This report presents the findings and recommendations developed in Phase I of this project. It is intended to serve as an implementation tool for Bank management as the Bank continues its efforts to strengthen its CRA performance. The recommendations contained in Part Three have been discussed with Bank staff throughout the data gathering and analysis stage so that wherever possible the Bank could begin planning for implementation. The analysis of residential lending data is contained in a companion report.

PART ONE: ASSESSMENT OF THE NORTHERN TRUST BANK/LAKE FOREST CRA ACTIVITIES

PART ONE

ASSESSMENT OF THE NORTHERN TRUST BANK/LAKE FOREST CRA ACTIVITIES

The Community Reinvestment Act makes it clear that banks and savings and loan associations have an affirmative responsibility to meet the credit needs of their local community. However, the CRA does not specify in detail how depository financial institutions are to fulfill that responsibility. More guidance is provided by the CRA regulations which list twelve factors for bank examiners to use in assessing how well an institution has helped to meet the credit needs of its community. This section examines the current activities of the Bank against these twelve assessment factors.

Factor 1. Activities conducted by the institution to ascertain the credit needs of its community, including the extent of efforts to communicate with members of its community regarding the credit services offered by the institution.

Bank Activity: The Northern Trust Bank/Lake Forest has recently taken a series of steps to determine the credit needs within its community. In September, the Bank contracted with Woodstock Institute for assistance in identifying the credit needs within its local service area. In addition, during the last three months the Bank has actively sought to develop profiles of its CRA service area by collecting information on the income level of residents within its local service area, the location and characteristics of small businesses within its service area, and the activity of other lenders. The Bank has met with existing economic development organizations within the community and has made a serious attempt to identify community leaders and organizations.

Finding: There is currently a serious ongoing effort by The Northern Trust Bank/Lake Forest to ascertain the credit needs of its community. The design and implementation of these activities has already informed the Bank about credit needs within its community and its continuation will help focus that understanding and contribute to the Bank's ability to meet those credit needs.

Factor 2. The extent of the institution's marketing and special credit-related programs to make members of the community aware of the credit services offered by the institution.

Bank Activity: In the fall of 1988, the Bank initiated a market research study of the low- and moderate-income areas within its local service area. In September, the Bank placed ads in local newspapers and placed poster ads at its Great Lakes facility with information on when lending officers are available. Several types of calling programs were initiated this fall. The Bank's newly appointed community lending officer visited local schools to inform them of the Bank's interest in making student loans; Realtors within Waukegan and North Chicago have been identified and are being contacted to inform them of the Bank's interest in making real estate loans; the Bank has identified small businesses in North Chicago and in September, began a calling program to inform these businesses about the services offered by the Bank.

Finding: The Bank has not yet seen a significant increase in reinvestment lending from its marketing efforts. This appears to be due to three factors: 1) the Bank does not have well defined descriptions of its residential loan products and does not have defined small business loan products; 2) the newspaper ads are image ads rather than product ads and are designed to appeal to an upscale, affluent customer base; and 3) the marketing efforts began very recently. The Northern Trust Bank/Lake Forest and its predecessor banks are not known for doing business in North Chicago and Waukegan in the past. Developing markets in these communities will take time and repeated efforts.

Factor 3. The extent of participation by the institution's board of directors in formulating the institution's policies and reviewing its performance with respect to the purposes of the Community Reinvestment Act.

Bank Activity: The Board of Directors approved the Bank's CRA policy statement at its October 24 meeting. In September, the Board of directors had a special presentation on CRA by the CRA Officer, Compliance Officer and Senior Vice President of Credit Policy from The Northern Trust Company. The Board of Directors both individually and collectively has supported and assisted Bank staff in initiating new CRA activities. One of the Directors has participated with Bank loan officers in the small business calling program initiated in September. One of the Directors has introduced Bank staff to various community leaders.

Finding: The Bank's CRA statement compares adequately to other Bank CRA statements. The Bank has also developed for internal distribution a CRA policy statement that compares extremely favorably to other Banks' CRA statements. The CRA policy statement is a particularly good tool for management to use to create awareness of the Bank's CRA goals and objectives. The CRA policy statement has been distributed to every employer and published in the Bank's employee newsletter.
Because a serious commitment to reinvestment must originate with the board and senior management of a bank, it is a very positive sign that the board of Directors participated in a special

presentation on CRA. A better understanding of CRA will enable the board to authorize policies and programs to strengthen the Bank's CRA performance. The fact that a board member has participated in the small business calling program is also a very strong signal that the Bank is seriously interested in identifying and meeting the credit needs of its local community.

Factor 4. Any practices intended to discourage applications for types of credit set forth in the institution's CRA statement.

Bank Activity: All bank officers at or above vice president level were included in the special board meeting on CRA. In addition, staff at the Great Lakes facilities have been informed of the Bank's interest in encouraging bank ability loan applications. Recently the Bank hired a compliance officer to implement an ongoing monitoring of the Bank's compliance with CRA and Fair Lending laws.

Finding: Including senior bank staff at the special board meeting on CRA reinforces the seriousness of the Bank's commitment to fulfilling its obligations under the law. Special instructions to staff at the Great Lakes facility is also a positive step. However, in order to be sure that all bank staff understand the Bank's commitment to fulfilling its CRA responsibility and the nature of that responsibility, further training on CRA and reinvestment lending opportunities is needed.

Factor 5. The geographic distribution of the institution's credit extensions, credit applications and credit denials.

Bank Activity: The 1985 and 1986 residential lending of the three predecessor banks of The Northern Trust Bank/Lake Forest was highly concentrated in Lake Forest and Lake Bluff, two of the wealthiest suburbs in the Bank's CRA service area. (See attached data report.)

Finding: Woodstock Institute's contract with the Bank did not include an analysis of the Bank's application and denial patterns. However, the fact that the Bank's residential lending is so highly concentrated and that the Bank's past marketing efforts have been limited would indicate that the Bank does not have significant lending experience outside of Lake Forest and Lake Bluff. Interviews with Bank staff confirm this and also indicate that there is a need for additional training on how to underwrite loans in low- and moderate-income communities within the bounds of safe and prudent banking practice. Staff is unaccustomed to making loans outside of the Bank's traditional market and there is a need to develop expertise in underwriting loans in these communities. Interviews with Bank staff also raise the question of whether current staffing patterns are adequate to handle a substantial increase in loan demand.

Factor 6. Evidence of prohibited discriminatory or other illegal credit practices.

Bank Activity: The Bank has undertaken a review of its loan policies and procedures to ensure that they do not have the effect of discriminating against individuals and businesses in low income areas. In August, the Bank's Board of Directors voted to eliminate the residency requirement for single family mortgage loans.

Finding: From discussions with Bank personal it is evident that there is limited understanding of the credit needs of low income residents or communities within the Bank's defined CRA service area. Many of the Bank staff have not visited North Chicago or Waukegan and have little experience with underwriting the kind of loan products that are competitive in these communities. A complicating factor is that the cities of Lake Forest and Lake Bluff, where the Bank's main facilities are located, have a reputation for discouraging low income and minority visitors.

Factor 7. The institution's record of opening and closing offices and providing services at offices.

Bank Activity: The Bank has not recently closed any facilities. It is in the process of requesting approval to move a branch facility in Lake Forest. The Bank has two facilities at Great Lakes but no facilities in North Chicago and Waukegan.

Finding: The Bank has recently taken steps to ensure that its loan application forms are available at its Great Lakes facilities. The Bank has not examined in detail the possibility of opening a facility in North Chicago or Waukegan.

Factor 8. The institution's participation, including investments, in local community development and redevelopment projects or programs.

Bank Activity: The Bank has contacted the economic development officials in Lake County, Waukegan and North Chicago to indicate its interest in participating in community development initiatives. Within the last month, the Bank has made a real estate loan to the Lake County Urban League in Waukegan.

Finding: The Bank was successful in taking the initiative on the Urban League loan. When it was determined that the loan would not meet the Bank's underwriting criteria on its own merits, the Bank was able to successfully use a corporate loan guarantee to enhance the bank ability of the loan and provide the credit.

In many low- and moderate-income communities there is an infrastructure of community development organizations that can work in partnership with financial institutions. This network of community based organizations does not exist in Waukegan and North Chicago. The most active economic development organization is the Lake County Economic Development Commission. This lack of community based economic development presents an opportunity for the Bank to use its resources to provide leadership in pulling together other lenders, corporations, the public sector and community leaders to increase community development capacity in Waukegan and North Chicago.

Factor 9. The institution's origination of residential mortgage loans, housing rehabilitation loans, home improvement loans and small business or small farm loans within its community, or the purchase of such loans originated in its community.

Bank Activity: The Bank's lending activity has been minimal in the low income communities of North Chicago and Waukegan. The Bank recently made a commitment for one rehab loan in North Chicago.

Finding: To fulfill its CRA responsibility the Bank must service the credit needs of low income communities within its CRA service area by making loans. To do that, the Bank must develop competitive small business loan products, clarify descriptions of its residential loan products, develop the expertise of its loan officers in underwriting these loans and market its loan products aggressively.

Factor 10. The institution's participation in governmentally insured, guaranteed, or subsidized loan programs for housing, small businesses or small farms.

Bank Activity: The bank is a SBA lender but has not made a SBA loan in the past several years. The Bank is currently in the process of becoming qualified to make FHA/VA loans. At the recommendation of Woodstock Institute, the Bank's primary real estate lender and one mortgage loan originator attended a conference sponsored by the Federal Reserve Bank of Chicago that focused on Fannie Mae and FHA mortgage programs.

Finding: To effectively service the credit needs within its CRA service area, the Bank must develop its capacity to: make FHA/VA mortgages; use private mortgage insurance (PMI) to make loans with higher loan-to-value ratios; and make SBA loans. To develop this capacity, the Bank must initiate staff training programs to develop the underwriting expertise necessary to ensure that these loans meet the detailed documentation requirements of these programs.

Factor 11. The institution's ability to meet various community credit needs based on its financial condition and size and legal impediments, local economic conditions and other factors.

Bank Activity: The Bank has asked Woodstock Institute to develop a series of recommendations that would enhance its ability to meet local community credit needs. (See Part Three)

Finding: The Northern Trust Bank/Lake Forest has $500 million in assets. Currently, single family first mortgages total $67 million, home equity loan total $19 million and commercial real estate loans total $61 million. The Bank has significant untapped capacity to meet local credit needs.

Factor 12. Other factors that in the agency's judgment reasonably bear upon the extent to which an institution is helping to meet the credit needs of its entire community.

Bank Activity: The Bank is currently in the process of determining the restrictions on its lending activities at its Great Lakes facility under the Illinois banking law and under the terms of its lease contract with the Navy.

Finding: Until the legal restrictions on the Bank's activities at its Great Lakes facility are clarified, it is impossible to make a recommendation about CRA activities at those facilities.

PART TWO: CREDIT NEEDS WITHIN NEIGHBORING COMMUNITIES

PART TWO

CREDIT NEEDS WITHIN NEIGHBORING COMMUNITIES

The Northern Trust Bank/Lake Forest has defined its local community in its CRA statement as the area within a circle that stretches from approximately the southern portion of Waukegan on the north to Dundee Road on the south, Lake Michigan on the east and the western boundary of Libertyville on the west. It includes the communities of Bannockburn, Deerfield, Fort Sheridan, Great Lakes, Green Oaks, Half Day, Highland Park, Highwood, Lake Bluff, Lake Forest, Libertyville, Lincolnshire, Mettawa, Mundelien, North Chicago, Prairie View, Riverwoods, Vernon Hills and Waukegan.

Most of the communities within the Bank's service area contain very high median incomes and economic indicators indicate healthy community economies. Growth trend projections prepared by the Lake County Department of Planning, Zoning and Environmental Quality indicate that Lake County will have one of the greatest growth rates in the Chicago area in coming years.

Because of the relative affluence of most communities within the Bank's service area, this is an attractive area for lending and deposit collection. Information compiled and edited by Decision Research Sciences on bank branch activity shows that in 1987 Lake County contained 70 commercial bank offices, 33 savings institution facilities and 26 credit unions. This is a reasonable number of depository financial institutions for the size of the population.

An analysis of the 1980 Census data confirms that the median household income in most of the census tracts within the Bank's service area is high. The census tracts with the lowest median household incomes are all located in Waukegan and North Chicago. Only one other census tract, #8625, in Highwood was below the median income for the SMSA. There were four other census tracts in the Bank's defined CRA area that were above the SMSA median income but fell below 125% of the median SMSA income. These tracts were scattered throughout the CRA area.

The majority of the low income residents within the Bank's service area reside in Waukegan and North Chicago. Of the 21 census tracts in these two communities, only nine contained median incomes higher than the median income for the SMSA. The highest median income, $28,498, was in a tract that straddles the border between North Waukegan and Zion. Because of the concentration of low income residents in the census tracts in these two communities, Woodstock Institute focused its effort in identifying credit needs in Waukegan and North Chicago.

Despite the fact that Waukegan and North Chicago contain the highest concentration of low income residents in the Bank's service area, the median incomes within most census tracts is high enough to indicate a sizable number of credit-worthy borrowers. In many low income communities with high percentages of welfare recipients, median household incomes range far below $10,000. None of these census tracts have median household incomes below $10,000. In fact only four of the census tracts have median incomes below $15,000.

The market for residential loans in Waukegan and North Chicago is very different from the Bank's traditional market. The average conventional single family mortgage in Lake Forest was $156,233; in Lake Bluff the average conventional mortgage was $111,567. These averages are almost three times the size of average mortgages in Waukegan and North Chicago. The average conventional single family mortgage in North Chicago was $47,519; in Waukegan it was $48,807.

Another key difference between these two markets is the share of the single family mortgage market that is FHA/VA loans. In Lake Forest only 13 of the 824 mortgages made in 1985 and 86 were FHA/VA loans. This represented a mere 1.5% of the market. The percentage of FHA/VA loans in Lake Bluff was slightly higher, 5.8%. By contrast, 22% of the mortgages in North Chicago and 30% of the mortgages in Waukegan were FHA/VA loans.

A review of home improvement lending also showed dramatic differences between the two markets. The average home improvement loan in Lake Forest was $18,600; in Lake Bluff the average was $15,594. The averages in Waukegan and North Chicago were half those amounts, $7,928 in Waukegan and $7,983 in North Chicago.

There are not a substantial number of apartment buildings in Lake Forest, Lake Bluff or North Chicago. Waukegan does have multifamily buildings. The number of multifamily loans reflects this difference in the type of existing housing stock in each of the communities. There were only four multifamily loans made in Lake Forest and Lake Bluff. There were only three multifamily loans in North Chicago. But Waukegan had 23 multifamily loans totaling almost $4 million.

In summary, the residential loan markets in Lake Forest and Lake Bluff are very similar. In both communities, the average single family mortgage amounts are almost the same and much higher than other communities of similar size. The average size of home improvement loans is also very similar in both communities. There is little demand for multifamily loans. The residential loan markets in Waukegan and North Chicago are also very similar. In both communities, the average single family mortgage amounts are slightly lower than the national average. The average home improvement loan amount approximates averages in other communities with similar housing stock.

Despite the much smaller average loan amounts in Waukegan and North Chicago, there is a substantial amount of residential lending in North Chicago and Waukegan. In 1985-86 there were 256 residential loans made in North Chicago totaling $7.9 million. In the same years, there were 1,872 residential loans totaling $78.4 million in Waukegan. This loan volume demonstrates that there are a significant number of bank ability residential loans in North Chicago and Waukegan that are being made by other lenders. See the Data Analysis Report for a list of high volume lenders.) Clearly, it is possible to make market rate residential loans in North Chicago and Waukegan without incurring undue risk.

Discussion with realtors that sell houses in Waukegan and North Chicago indicate that loan demand is steady. Observation of the housing stock in these two communities indicates that while there are few if any vacant or burned-out homes, there is a need for home improvement loans. In fact discussions with realtors confirms that many houses could use home repair loans.

The North Chicago home market is reported to be a transitional market. Many single family homes are owned by older people and there is a slow but steady turnover as this population continues to age. New couples often buy their first house in North Chicago and then sell it to move up to a second house in the Round Lake area at the time children approach school age.

Information on commercial loan demand is more difficult to compile. There is no source of commercial loan data that compares to the Home Mortgage Disclosure Act data or to the data available under the Illinois Mortgage Banker Act. The Lake County Economic Development Commission has initiated a strategic planning process designed to identify the ways that the economic environment of Lake County can be improved. One of the key recommendations of their preliminary report is that there is a need to encourage additional bank participation in financing of small business.

The data that is available on job growth indicates that although the mix of jobs available has shifted within the last ten years, there has been growth in the number of jobs available in most communities in the Bank's service area. The two notable exceptions to that trend are North Chicago and Waukegan. According to the study, "Where Workers Work" published by the Illinois Department of Employment Security, there was a 3% growth in the number of jobs in Lake County between 1981 and 1986. By contrast, the number of jobs in North Chicago remained relatively constant and the number of jobs in Waukegan declined by almost 1000 jobs.

A decline in the job base is especially damaging to low income communities because low income residents have less resources to fall back on in times of unemployment. An additional factor is the ongoing shift in the job base from unionized manufacturing jobs that provide an income sufficient to support a family to service jobs that pay much less.

National studies of job creation indicate that small businesses with fewer than 25 employees are responsible for two thirds of all new jobs created. Yet these are the businesses that have the most difficulty in finding capital and credit. One reason is that there is a very high failure rate for new businesses which makes underwriting commercial loans for start up businesses very difficult. A second reason small businesses have difficulty in finding credit is that usually they do not have the amount of capital needed to make the loan bank ability. For these reasons it is especially important that government loan funds and SBA lending programs be used to complement bank loans to small businesses.

There are numerous existing small businesses in Waukegan and North Chicago. Typically there is a need for carefully developed loan programs targeted to meet the credit needs of these businesses as they expand and to meet the capital and credit needs of new businesses. Commercial loans are one piece of an overall financing strategy that must be developed.

Community Credit Needs in Waukegan and North Chicago

Housing Loans

There is active demand for single family mortgages in both Waukegan and North Chicago. Approximately one fourth of the single family mortgages in both communities are FHA or VA loans. Applications fees average between $200 and $275. Both fixed rate and adjustable rate loans are available but most borrowers prefer fixed rate loans. Realtors report that 25 or 30 year mortgages are standard and that a balloon payment would not be attractive to homebuyers in these communities.

Like most older homes, the houses in Waukegan and North Chicago require regular maintenance and periodic improvements. Some sections show shabbiness and the need for more substantial repairs. Increased home improvement lending would help to improve the housing stock and enhance real estate values.

Older residents could use home equity loans to finance home repairs. The newer homeowners that have not yet built equity in their homes would not qualify for home equity loans or second mortgages. These potential borrowers would need smaller unsecured rehab loans for maintenance repairs like a new roof or a new furnace. For more substantial repairs or remodeling, the new homeowners would need purchase/rehab mortgage loans that would allow longer term amortization of the cost of rehab.

Because the North Chicago and Waukegan communities are attractive to first time homebuyers there may be demand for a combination savings and mortgage program that would provide an incentive for borrowers to initiate a savings relationship prior to requesting a mortgage loan.

Commercial Loans

There is a growing understanding of the need to monitor and nurture small retail businesses. Because of the unsophisticated level of many local store owners, an essential part of a successful lending program is ensuring that the counseling, training and technical assistance that these businesses need is available and utilized.

The role of a Bank in this situation is twofold: 1) to act as a catalyst for the creation or expansion of the necessary commercial development support systems; and 2) to offer smaller, more labor intensive loans and where appropriate, to work with government programs to find ways of stretching to meet the credit needs of business within the limits of sound and prudent banking practices.

The income level of the residents of Waukegan and North Chicago indicates that there is a need for job creation to strengthen the local economies of these communities. There are a number of small manufacturing companies in and around these communities in addition to the large employers, Abbott Labs, Baxter Travenol, Cherry Electric and Outboard Marine. Small manufacturers generally need smaller loans than are standard in the marketplace. Lines of credit in the $10,000 to $100,000 range are difficult to find but often exactly the kind of credit that can help a small manufacturer expand his business. Another common credit need among small manufacturers is for loans to buy new equipment. Faced with increased competition, these businesses need to retool and need to finance that investment. Equipment loans at rates 2-4% above prime are needed to assist in this retooling.

PART THREE: RECOMMENDATIONS

PART THREE

RECOMMENDATIONS

To ensure the effectiveness of the steps taken by the Northern Trust Bank/Lake Forest to improve its compliance with CRA, there is a need for a bold and innovative break with the traditional practices and image of the Bank. The message that the Northern Trust Bank/Lake Forest is interested in making loans in new markets will only be effective if it is coupled with well thought out loan products, increased underwriting capacity and an ongoing commitment to maintaining an aggressive marketing effort.

This section describes a series of recommendations that, if implemented, would help The Northern Trust Bank/Lake Forest to strengthen its CRA performance.

1. **Define loan products.** In order to increase the amount of residential and commercial loans made within the Bank's CRA area, it will be necessary to develop loan products that are competitive within the marketplace, attractive to borrowers and conducive to marketing efforts in target markets. Specifically, the minimum range of products for the Bank should include long term single family mortgage loans, home improvement loans, SBA loans and commercial real estate loans for small businesses. Currently, the Bank does offer a range of residential mortgage loans, home equity loans and home improvement loans. However, Bank staff need to become better informed about the range of these loan products. A brochure for each loan product should be developed that explains to potential borrowers exactly what the loan can be used for and how and where to make an application.

2. **Develop the capacity to use public sector programs.** In order to stretch to better serve the credit needs of low- and moderate-income residents and small businesses while staying within prudent levels of risk, the Bank needs to develop the capacity to make FHA/VA mortgages, secure private mortgage insurance (PMI) for borrowers that do not have 20% downpayments, and make SBA loans. It may be helpful for the Bank's asset/liability management for it to develop the ability to sell single family mortgages on the secondary market.

   The first step in developing this capacity would be to research the capacity of other subsidiaries of The Northern Trust to make these types of loans. It may make sense for the corporation to plan to have various subsidiary banks specialize in particular types of lending and share that expertise with sister banks. The second step in developing this capacity would be to train staff in the details of how to use these programs.

3. **Train staff.** The current lending staff has developed a very high degree of skill in underwriting loans in the Lake Forest and Lake Bluff markets. In addition, there is a high degree of skill in underwriting loans to housing developers. On the other hand, the staff has very little familiarity with underwriting loans in low- and moderate-income areas. Across the country, the success of special lending programs developed to enhance CRA performance has demonstrated that reinvestment loans do not necessarily carry higher risk or substantially lower profits. However, underwriting reinvestment loans must be done with care and attention to documentation and detail. Because these loans are often to less sophisticated borrowers and combine bank credit with government credit enhancement programs, they take more time and different skills that loans in high income areas. Staff training is critical to success.

4. **Market aggressively.** The mere offering of a loan product is not enough to ensure its use. Marketing and advertising is especially important when the targeted market is latent and there is either little knowledge of the Bank or a negative perception of the Bank. The public and Realtors must be convinced that the Bank is serious about making loans. This will involve standard marketing techniques like targeted mailings, well designed product ads in local newspapers, relationships with realtors, and some incentive loss leaders to convince potential borrowers in new markets to try The Northern Trust Bank/Lake Forest. It will also involve creative approaches like utilizing church bulletins for special ads and making presentations to community meetings. Every opportunity to present the Bank's lending initiatives in the press should be sought. An overall press strategy should be developed and press releases should be sent for every ribbon cutting, new product announcement or other newsworthy event.

5. **Use corporate resources.** In cooperation with corporate personnel, an inventory should be taken of the resources of The Northern Trust Company that may be helpful to the Bank in meeting its CRA responsibility. This could include special lending programs like the first mortgage program for employees of Abbott Labs and specific lending facilities like the corporate mortgage banking subsidiary.

6. **Identify target low income communities.** The low income census tracts within the Bank's defined CRA community are concentrated in Waukegan and North Chicago, the Bank should target these communities for a special reinvestment loan

initiative. Bank personnel should be notified of the target communities and encouraged to look for opportunities to better serve the credit needs in those communities.

7. **Create a Reinvestment Loan Portfolio.** In order to reinforce the Bank's commitment to lending in the target communities, create a Reinvestment Loan Portfolio for loans made in the target communities. Establish a dollar goal for the total portfolio, hire and train a loan officer to underwrite the loans, identify a special loan committee to approve loans, and monitor the performance of the loan portfolio.

   The Reinvestment Loan Portfolio should be targeted to Waukegan and North Chicago. The initial commitment should at minimum be a five year commitment of $5 million for single family mortgages, home improvement loans and small business loans. If loan experience is good, the commitment will be extended beyond the initial five years. Specific objectives for loan volume in each year should be established and met. The loan officer must be well trained and have the opportunity to be financially rewarded and be eligible for career advancements equal to loan officers serving higher income markets. Key to the success of the Reinvestment Loan Portfolio is the establishment of an ongoing monitoring process for evaluating the performance of loans within the portfolio and the progress towards achieving the loan origination goals.

8. **Design special deposit programs.** In order to overcome the barriers to making loans in the target communities, it will be necessary to develop deposit relationships within the target communities. Traditionally, the Bank and its predecessor banks have been very orientated to customer service and loans were an extension of that service. To enhance the ability of the Bank to serve the credit needs of its defined CRA area, special deposit programs would help to develop a customer base in new markets. One possible special program could be a Homebuyers Club that could combine a club savings account for potential first-time home buyers with preapproved mortgage commitments. (See Appendix I for a preliminary program design.) Other possibilities might be an enhanced lifeline account for senior citizens. The Bank could develop a special incentive for the senior lifeline accounts required by Illinois banking law so that they could be better marketed to older homeowners in the target communities.

9. **Exert leadership.** Work with existing county and city officials to develop a consortium of lenders willing to participate in economic development lending in the target communities. Take the initiative to pull together other lenders, corporations, community leaders and government

officials to develop an economic development strategy for the target communities.

10. **Create an economic development partnership with Abbott Labs.** As the single largest employer in the target communities, Abbott labs has an interest in the vitality of the economy of these communities. As a large corporation, Abbott Labs has the resources to work with the Bank to design an economic development initiative that could diversify the job base, create additional much needed employment and strengthen the local economy in both communities.

In order to implement these recommendations, the Bank will need to utilize the resources of the Northern Trust Company for training and additional staff support. Phase II of the Bank's contract with Woodstock Institute should focus on staff training, program design and developing an economic development partnership with Abbott Labs. To provide specific loan underwriting training and to assist in developing the economic development partnership, Woodstock Institute would enlist the services of Shorebank Advisory Services, the consulting subsidiary of South Shore Bank.

APPENDIX I: THE NORTHERN TRUST BANK/LAKE FOREST HOMEBUYERS CLUB

APPENDIX I

THE NORTHERN TRUST BANK/LAKE FOREST HOMEBUYERS CLUB

The Northern Trust Bank/Lake Forest Homebuyers Club is a unique savings and loan program designed to enable first time homebuyers to more easily save and borrow for their first house. By establishing an account with first time homebuyers for saving a downpayment, the program allows for a banking relationship to be developed that parallels mortgage payments and streamlines the applications process for a mortgage once the downpayment is saved.

Definition of Program

The First Time Homebuyers Club will be a combination club savings account and preapproved mortgage commitment. At the time of application, potential Club account members will complete an application for a mortgage as well as a savings account application. The Bank will work with the potential Club account member to develop a savings plan that is consistent with the downpayment and mortgage payments for the estimated price of a first home. At the time the savings account is opened, the Bank will make a commitment for a mortgage loan subject to the saver's continued participation in the savings program, no negative changes in credit history or employment and an appraisal of the house.

Definition of Savings Account

The First Time Homebuyers Club will be a savings account that pays an interest rate equivalent to the Bank's rate for 90 day Certificates of Deposit. The interest rate will be established on the first day of each quarter. The account will be established like a "club" account with predetermined payments due at scheduled monthly intervals. A maximum of six extra payments per year will be allowed. No withdrawals prior to the mortgage commitment will be allowed. Interest will be recalculated at the regular savings rate on all accounts that are closed without exercising the mortgage commitment. All savings and accumulated interest will be paid to the saver.

Definition of Mortgage Commitment

The Northern Trust Bank/Lake Forest will commit to making a single family mortgage loan to each First Time Homebuyers Club saver that fulfills the conditions of the savings plan and buys a house within the Bank's service area as defined in its CRA statement. Two types of mortgages will be offered. The first will be a 30-year fixed rate mortgage for a maximum of 80% of appraised value. FNMA underwriting standards will be used. The interest rate on the mortgage will be the market rate charged for similar mortgages at the time the house is purchased.

The second will be an adjustable rate 30-year mortgage for a maximum of 80% of appraised value. FNMA underwriting standards will be used. The interest rate on the mortgage will be the market rate charged for similar mortgages at the time the home is purchased.

At the time the potential borrower joins the First Time Homebuyers Club, the Bank will evaluate the potential borrower's credit history and income. All application fees and points for the mortgage will be waived. However, the borrower will pay title insurance appraisal fees and other out of pocket expenses.The commitment to make a mortgage will be contingent on: 1) the appraised value of the house; 2) no negative changes in the potential borrower's credit history or income; and 3) successful completion of the savings plan established. Because the goal of the program is to encourage home ownership, potential borrowers with insufficient income to support mortgage payments will be accepted. In these cases, the level of income necessary to support the mortgage will be determined by the Bank and made a condition of the mortgage commitment.

Eligible Savers/Borrowers

Any employed person who wishes to buy a house within the service area of The Northern Trust Bank/Lake Forest is eligible to join the First Time Homebuyers Club.

All savers that successfully complete the savings plan established for saving the downpayment for a first house are eligible for a mortgage subject to the contingencies noted above.

Eligible Houses

First Time Homebuyers mortgages are limited to houses within the service area of The Northern Trust Bank/Lake Forest as defined in its CRA statement. Only year round residents are eligible and all mortgages are subject to appraisal.

Homebuyers Counseling

At the time a potential Homebuyers Club participant makes an application for the saving program, the Bank will provide budget counseling to establish the price of the house, the amount of the downpayment, the size of mortgage, and the amount of monthly payments required to pay the mortgage. Through this counseling, agreement will be reached on the level of savings needed to accumulate the downpayment within a 12 month period. In some cases, the savings plan will be longer than 12 months but there will be a maximum of 24 months allowed to accumulate the down payment.

Example:

A family entering the program has a family income of $30,000, and is eligible to purchase a home costing up to $60,000. The family wants to save for a $55,000 home.

Downpayment required: $5,500

Monthly savings required to meet downpayment*:

12 month plan: $458.33
18 month plan: $305.55
24 month plan: $229.16

* Payments do not include accumulated interest. It is assumed that interest would be used to meet other out-of-pocket purchase costs.