

PUBLIC DISCLOSURE

September 30, 1996

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Central State Bank
06010460

Calera, Alabama

Federal Reserve Bank of Atlanta
104 Marietta Street, N.W.
Atlanta, Georgia 30303

NOTE: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to the institution does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the 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. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the Community Reinvestment Act (CRA) performance of Central State Bank prepared by the Federal Reserve Bank of Atlanta, the institution's supervisory agency, as of September 30, 1996. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 228.

INSTITUTION'S CRA RATING: This institution is rated Outstanding.

The bank's average loan-to-deposit ratio meets standards for satisfactory performance, given the institution's size and financial condition. The bank's lending record within its assessment area, to borrowers of different income levels, and to businesses of different sizes also exceed standards. The geographic distribution of the bank's loans reflects reasonable dispersion throughout the assessment area.

GENERAL INFORMATION (CONTINUED)

The following table indicates the performance level of Central State Bank with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	CENTRAL STATE BANK		
	PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does Not Meet Standards for Satisfactory Performance
Loan-to-deposit ratio		X	
Lending in assessment area	X		
Lending to borrowers of different incomes and to businesses of different sizes	X		
Geographic distribution of loans		X	
Response to complaints	No complaints were received since the previous examination.		

DESCRIPTION OF INSTITUTION

Central State Bank operates one office in Calera, Alabama. According to the June 30, 1996 Consolidated Reports of Condition and Income (Call Report), the bank had total assets of \$65.8 million. No legal or financial impediments exist that would hinder the bank's ability to help meet the credit needs of its assessment area.

The bank offers a wide variety of credit products. The types of credit offered, as listed in the bank's public file, include fixed- and adjustable-rate single-family dwelling loans, home improvement loans, farm loans, Small Business Administration loans, commercial real estate loans, agricultural loans, mobile home loans, consumer loans, and church loans. The composition of the loan portfolio according to the June 30, 1996 Call Report is as follows:

Loan Type	Percentage of Total Loans
Construction and development	4.9
Secured by one- to four-family dwellings	42.5
Nonfarm nonresidential	10.9
Commercial and industrial	13.1
Loans to individuals	28.5
Other	0.1
Total	100.0

As illustrated by the table above, a large portion (42.5 percent) of the bank's loan portfolio is made up of loans secured by residential real estate, followed by loans to individuals (28.5 percent). According to management, the bank is most active in originating secured and unsecured consumer loans.

DESCRIPTION OF ASSESSMENT AREA: PORTIONS OF SHELBY AND CHILTON COUNTIES

The bank's assessment area is composed of the 12 census tracts surrounding the city of Calera which the bank can most reasonably serve, based on factors such as competition, distance, and population concentrations. The 12 census tracts include no low-income tracts, one moderate-income tract, eight middle-income tracts, and three upper-income tracts. All census tracts are within a ten-mile radius of Calera or are contiguous to a tract that is located within the ten-mile radius. The assessment area does not include all of Shelby and Chilton counties. The bank could not reasonably serve these outlying areas because of the distance from the bank's office (more than 20 miles), the availability of nearby competitor branch locations, and the population concentrations around the furthest borders of certain census tracts.

The bank's office is centrally located in the assessment area one-half mile from Interstate 65, approximately 20 miles south of Birmingham, Alabama. The assessment area does not seem to arbitrarily exclude any low- or moderate-income geographies.

According to the 1990 Census, the assessment area's population totaled 45,100. The racial composition of the area was 88.8 percent white, 10.2 percent black, and 1.0 percent other. According to economic market data, 18,138 housing units were in the assessment area, of which 69.5 percent were owner-occupied, 17.9 percent were rental units, and 12.6 percent were vacant. The median housing value was \$58,262. The median family income for the assessment area was \$30,903.

The 1993 U.S. Census employment data for Shelby County business patterns showed a total of 2,171 businesses in and surrounding the bank's assessment area. Of the 2,171 businesses, 2,068 (95.3 percent) were small businesses with fewer than 50 employees. According to the 1990 Census data, the unemployment rate for the bank's assessment area was 4.2 percent, which was lower than the overall 6.0 percent unemployment rate for the Birmingham metropolitan statistical area (MSA) and the 6.8 percent unemployment rate for the state of Alabama.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio Analysis

Central State Bank's average loan-to-deposit ratio for the five quarters since the previous examination is 62.5 percent. The bank's loan-to-deposit ratio has recently increased to 64.9 percent for the quarter ended June 30, 1996. The ratio was compared with the ratios of four other financial institutions of similar asset size operating in the assessment area. The five-quarter average loan-to-deposit ratios for these institutions ranged from a low of 43.4 percent to a high of 69.6 percent. Central State Bank's loan-to-deposit ratio falls within this range and has recently shown an increasing trend. The bank's loan-to-deposit ratio meets the standards for satisfactory performance.

Lending in Assessment Area

The bank is most active in the areas of residential real estate lending, consumer lending, and business lending (including loans secured by real estate). During the examination, the bank's 1995 and 1996 year-to-date Home Mortgage Disclosure Act (HMDA) data were analyzed to determine the percentage of residential loans originated in the assessment area. In 1995, more than 88 percent of the bank's residential loans were originated in the assessment area, and for the first two quarters of 1996, more than 79 percent were in the assessment area. The bank's internal analysis of loans extended in the assessment area was also reviewed for non-HMDA reportable loan products. Since the previous examination, more than 84 percent of personal loans and more than 73 percent of business loans were originated in the bank's assessment area.

As discussed in the description of the assessment area, management determined the bank may reasonably expect to serve 12 census tracts, located in Shelby and Chilton counties, which surround the bank's only location. A review of business and personal loans extended outside the assessment area indicated that approximately 40 percent of such loans were granted in census tracts outside of but contiguous to the assessment area. Many of these contiguous census tracts extend more than 25 miles from the bank's location and were excluded from the assessment area as the bank cannot reasonably serve such outlying areas on a routine basis. Due to the substantial majority of loans originated within the assessment area and the significant percentage of loans originated in census tracts contiguous to the assessment area, the extent of the bank's lending in its assessment area exceeds the standards for satisfactory performance.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA (CONTINUED)

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

Lending to borrowers of different income levels and to businesses of different sizes exceeds standards for satisfactory performance. Income levels were penetrated in a manner consistent with the mix of income levels in the population of the assessment area. For HMDA reported loans, the distribution of loans to borrowers by income level compared with population representation is detailed in the following table.

Income Level	Percentage of Median Family Income	Percentage of Families within Income Level	1995 HMDA Loans (Percentage of Total)	1996 YTD HMDA Loans (Percentage of Total)
Low-income	Less than 50	20%	13%	22%
Moderate-income	50-79	17%	25%	24%
Middle-income	80-119	21%	19%	21%
Upper-income	120 and above	42%	43%	33%
Total		100%	100%	100%

The table above shows that lending patterns to borrowers of different income levels are representative of the population. In addition, the bank has recently focused on lending to low- and moderate-income borrowers. A significant improvement in lending levels to low-income borrowers is noted in the 1996 year-to-date analysis. Additionally, 11.5 percent of the families in the assessment area have cash incomes below the poverty level. Assuming these families are either low- or moderate-income families, the bank's performance may be considered even more exemplary.

In addition, a sample of 22 business loans made within the assessment area was reviewed to assess lending to businesses of different sizes. 17 loans had annual income figures available. 11 of the 17 loans (65 percent) were to businesses with annual gross incomes less than \$100,000. The remaining 6 loans (35 percent) were to businesses with annual gross incomes between \$100,000 and \$250,000. None of the business loans were to businesses with annual gross incomes greater than \$250,000. More than 95 percent of the businesses in Shelby County have fewer than 50 employees; therefore, the level of lending to businesses of different sizes is considered to be representative of the area. A review of the two Small Business Administration loans originated by the bank since the previous examination further indicated a focus on relatively small businesses. Both businesses had gross annual incomes less than \$1 million, and one had a projected gross annual income of less than \$100,000.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA (CONTINUED)

Geographic Distribution of Loans

The geographic distribution of loans reflects reasonable dispersion throughout the assessment area. The twelve census tracts in the assessment area include no low-income tracts, one moderate-income tract, eight middle-income tracts, and three upper-income tracts. The table below illustrates the percentage of HMDA- reportable loans made in each census tract income category for 1995 and the first two quarters of 1996.

Census Tract Income Level	Percentage of Families in Census Tract Income Level	Percentage of 1995 HMDA Originations by Tract Income Level	Percentage of 1996 HMDA Originations by Tract Income Level
Moderate-income	8.7%	5.7%	6.5%
Middle-income	70.0%	92.4%	92.5%
Upper-income	21.3%	1.9%	1.0%
Total	100.0%	100.0%	100.0%

Although lending in upper-income tracts seems low, these tracts are located between numerous branches of competitors in and around the assessment area. The inconvenient location of the bank and the lack of a branch network would likely have a detrimental effect on the level of applications from these tracts.

The bank geocodes all loans originated. A summary of business lending by census tract was provided to the examiner. The following table summarizes business lending by census tract income levels since the previous examination. The percentages for the number and dollar amount of originations are reflected below.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA (CONTINUED)

Geographic Distribution of Loans (Continued)

Income Level of Census Tract	Number of Loans by Census Tract Income Level		Dollar Amount of Loans by Census Tract Income Level	
	#	%	\$	%
Moderate-income	6	5.9%	166,478	10.1%
Middle-income	86	85.2%	1,418,493	85.5%
Upper-income	9	8.9%	72,206	4.4%
Total	101	100.0%	1,657,177	100.0%

Since the previous examination, the bank originated two Small Business Administration loans totaling \$350,000. Although both loans were originated in middle-income tracts, the median family incomes for these census tracts were below the median family income in the assessment area, with median incomes of 84.9 percent and 94.1 percent of the assessment area income.

Complaints

No complaints relating to CRA have been filed since the previous examination.

Compliance with Antidiscrimination Laws

The bank is in compliance with the substantive provisions of the antidiscrimination laws and regulations. No evidence of discrimination or illegal credit practices was noted during the review of bank policies and procedures. No practices have the intent or the effect of discouraging applicants.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA (CONTINUED)

Qualified Investments

The bank has a total of \$225,000 invested in the Guilford Alabama Affordable Housing Fund VII, Ltd. The bank serves as a limited partner and receives low-income housing tax credits on its investment. The fund invests in affordable multi-family housing projects in Alabama based on market need as determined by the Alabama Housing Finance Authority. The bank made an initial investment of \$150,000 in February 1994. Additional investments totaling \$75,000 have been made in the last 18 months for a total investment of \$225,000. This investment is considered to be highly innovative and complex for a bank of this size. This investment is also highly responsive to affordable housing needs in the state of Alabama and in areas benefitting the bank's assessment area.

TO THE INSTITUTION EXAMINED:

THIS COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION WAS PREPARED BY THE FEDERAL RESERVE BANK OF ATLANTA. THE FOLLOWING ACTIONS MUST BE TAKEN TO FULFILL THE CRA'S REQUIREMENTS.

- C AT A MINIMUM, PLACE THE EVALUATION IN YOUR CRA PUBLIC FILE LOCATED AT YOUR HEAD OFFICE NO LATER THAN 30 BUSINESS DAYS AFTER RECEIVING THE EVALUATION.
- C PROVIDE A COPY OF THE EVALUATION TO THE PUBLIC UPON REQUEST (YOU ARE PERMITTED TO CHARGE A FEE NOT TO EXCEED THE COST OF REPRODUCTION AND MAILING IF APPLICABLE) NO LATER THAN 30 BUSINESS DAYS AFTER RECEIVING THIS LETTER.

FEDERAL RESERVE BANK OF ATLANTA

ASSISTANT VICE PRESIDENT

(Date)

CYNTHIA C. GOODWIN

(Title)

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COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

19

TO THE FEDERAL RESERVE BANK OF ATLANTA

A COPY OF THE COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION PREPARED AS OF THE CLOSE OF BUSINESS SEPTEMBER 30, 1996, BY AN EXAMINER FOR THE FEDERAL RESERVE BANK OF ATLANTA HAS BEEN RECEIVED AND WILL BE MADE AVAILABLE TO THE PUBLIC IN THE MANNER STATED IN THE LETTER WHICH ACCOMPANIED THE EVALUATION.

(Signature of Authorized Officer)

(Title)

CENTRAL STATE BANK

(Name of Bank)

CALERA, ALABAMA

(Location)

FEDERAL RESERVE BANK OF ATLANTA

Cynthia C. Goodwin
ASSISTANT VICE PRESIDENT

Board of Directors
Central State Bank
Post Office Box 180
Calera, Alabama 35040

Dear Board Members:

Enclosed is the bank's Community Reinvestment Act Performance Evaluation prepared by Federal Reserve Examiner Joan M. Harroff using the guidelines established by the Federal Financial Institutions Examination Council. This evaluation was prepared in accordance with the Community Reinvestment Act (CRA), as amended by the Financial Institutions Reform, Recovery, and Enforcement Act of 1989, and must be made available to the public. The following actions must be taken to fulfill the CRA's requirements.

- C At a minimum, place the evaluation in your CRA public file located at your head office no later than 30 business days after receiving this letter.
- C Provide a copy of the evaluation to the public upon request (you are permitted to charge a fee not to exceed the cost of reproduction and mailing if applicable) no later than 30 business days after receiving this letter.

Please acknowledge receipt of this evaluation by signing and returning the attached blue form. The format and content of the evaluation should not be altered or abridged in any manner. You may wish to comment on this information detailing actions the bank has taken since the examination to meet its obligations under the CRA. Any written comments concerning the evaluation placed in the public file should also be forwarded to this office. If you believe any of the information included in the public evaluation is proprietary, please contact this Reserve Bank so that the appropriate action can be taken.

Our Community Affairs staff is available to assist you in determining and responding to community credit needs. Please feel free to contact Mr. Courtney Dufries at (404) 589-7226. If you have any questions concerning this report or any other compliance matter, contact Ms. Gale Williams at (404) 589-7223.

Very truly yours,

Cynthia C. Goodwin

Enclosures

PUBLIC DISCLOSURE

**COMMUNITY REINVESTMENT ACT
PERFORMANCE EVALUATION**

NAME OF BANK: CENTRAL STATE BANK

CITY AND STATE: CALERA, ALABAMA

DATE OF EXAMINATION: SEPTEMBER 30, 1996

FEDERAL RESERVE BANK OF ATLANTA