

**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 operations 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 CRA performance of **The Onsted State Bank** prepared by the **Federal Reserve Bank of Chicago**, the institution's supervisory agency, as of **April 8, 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 RATING:** This institution is rated **Satisfactory**.

The bank encourages economic development and revitalization consistent with its size, financial capability, location, and current economic conditions. A review of the bank's lending activity indicates that the bank originates credit by general type consistent with the types of credit listed in its CRA statement, and consistent with community credit need. This is supported by a loan portfolio product mix consisting of consumer, real estate, commercial, small business and agricultural loans.

The bank's efforts to provide economic growth consistent with its size is evidenced by a more than adequate loan-to-deposit ratio. The bank has exhibited sufficient performance concerning the percentage of loans originated in its assessment area. Management has developed adequate policies, procedures, and training programs to avoid prohibited discriminatory lending practices or policies intended to discourage loan applications. In addition, no CRA-related complaints were received by the bank since the previous examination.

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

SMALL INSTITUTION ASSESSMENT CRITERIA	THE ONSTED 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**

The Onsted State Bank (OSB), with \$43 million in total assets as of December 31, 1995, is an independent community bank. The bank's main office is located in Onsted, Michigan, with two additional full service branch offices located in Brooklyn (includes the financial service center), and one branch office located in Clarklake. The bank has three automated teller machines (ATMs), one each located in Onsted, Brooklyn and Clarklake.

The Onsted State Bank is a retail community bank offering traditional financial services including commercial, consumer, real estate and farm credit products. The consumer loan products include secured installment, single-payment, personal unsecured, credit cards, overdraft protection and student loans. Real estate loans include construction, purchase money, residential first and second mortgages, land purchase and real estate improvements. Commercial and farm credit products include operating lines of credit, and loans to finance real estate, capital purchases, equipment and crop input. The Onsted State Bank also offers commercial and retail deposit services.

The Onsted State Bank has no competitors in Onsted or Clarklake. The bank's primary competitors (by asset size) is City Bank & Trust Company (391 million), Comerica Bank (33.4 billion), and Standard Federal Bank (12 billion), all located in Brooklyn.

## **DESCRIPTION OF ASSESSMENT AREA**

The Onsted State Bank's assessment area includes a portion of Lenawee County, located within the Ann Arbor Metropolitan Statistical Area (MSA) 440, and a portion of Jackson County, located in the Jackson MSA 3520. The bank has defined its assessment area as the Cambridge, Franklin, Rollin, Rome and Woodstock Townships in Lenawee County; and Columbia, Napoleon and Norvell Townships in Jackson County. This area comprises Census Tracts 62, 63, and 68 in Jackson County; and 602 through 605 in Lenawee County.

The bank's assessment area has been revised twice since the previous examination. The current assessment area was formally adopted by the bank's board of directors on January 16, 1996, based on the results of a market area analysis, and a deposit and loan geo-coded analysis.

According to 1990 U.S. Census Bureau data, the population within the bank's assessment area is 54,341. Demographically, Hispanics represent 794 or 1.46%, Blacks 280 or .52% and all other minorities represent 308 or .57% of the assessment area's total population. Low income and moderate income persons constitute 14,013 or 25.79% of the population.

The 1990 Census data reports the adjusted median family income of the assessment area as \$37,000. The total number of families in the assessment area is 15,276. A total of 3,662 or 24% are low income (less than 50% of median income); 3,630 or 23.8% are moderate income (50 - 79% of median income); 4,250 or 27.8% are middle income (80 - 120% of median income); and 3,734 or 24.4% are upper income families (121% or more of median income).

The assessment area has a total of 23,700 housing units with 16,196 or 68.3% owner-occupied and 3,108 or 13.1% renter-occupied. Of the total number of housing units 2,099 or 8.9% are mobile homes. Owner-occupied units in low income areas total 4,003. The median housing value

is \$60,927 and the median housing age is 32 years.

Community contacts indicate that single-family housing stock is growing rapidly in areas within Lenawee County. The growth being experienced in the area is due in part to people relocating from Detroit and Toledo in order to take advantage of lower real estate tax assessments and lower housing prices. A restraint to growth in the community has been the inability to attract major commercial employers to the area. The contacts also view the average conventional lending standards of a 20-30% down payment amount as too restrictive to serve low income individuals.

The following chart illustrates the major employers in the bank's assessment area.

EMPLOYER	NUMBER OF EMPLOYEES	TYPE OF BUSINESS OR INDUSTRY
Brooklyn Products Inc., Brooklyn	249	Automotive Parts Manufacturer
Xact Products Inc., Brooklyn	85	Automotive Stamping
Saari Assoc. Inc., Clarklake	35	Equipment Manufacturer
Brake Industries, Onsted	25	Machinery Engineering Services
The Exponent, Brooklyn	25	Newspaper Publisher
Turnin-Point Inc., Clarklake	23	Screw Machine Products
Ajax Paving Industries, Inc., Clarklake	15	Asphalts

**CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:**

The bank is in compliance with the substantive provisions of anti-discrimination laws and regulations, including the Equal Credit Opportunity Act and the Fair Housing Act.

**Loan-to-Deposit Ratio**

A review of the bank's September 30, 1995 Consolidated Report of Condition revealed a loan-to-deposit ratio of 71.67% The distribution by loan type was as follows:

LOAN TYPE	DOLLAR AMOUNT OUTSTANDING (000's)	PERCENT OF TOTAL LOANS
REAL ESTATE		
Construction	324	1.19
Home Equity	1,266	4.66

Residential (1-4)	13,887	51.17
Commercial	2,453	9.04
Agricultural	142	.52
Multi-family	0	.00
CONSUMER		
Open-end Credit	607	2.24
All Other	4,268	15.73
COMMERCIAL AND INDUSTRIAL		
AGRICULTURAL	3,568	13.15
STATE AND POLITICAL OBLIGATIONS	570	2.10
OTHER	33	.12
	22	.08

The bank's loan distribution as of June 30, 1994 (contained in the previous report of examination) was compared to September 30, 1995 loan distribution. This comparison revealed an increase in the loan-to-deposit ratio from 67.30% to 71.67%. There was a significant increase in the bank's home equity lending which increased from \$611,000 to \$1,266,000. Overall, total loans increased by \$4,496,000 or 19.86% since the previous examination.

An analysis of the bank's consolidated reports of condition for the five quarters in the review period disclosed an average loan-to-deposit ratio of 69.85%. This ratio is considered reasonable given the institution's size, financial condition and assessment area's credit needs.

According to the Uniform Bank Performance Report (UBPR), dated December 31, 1995, the bank's loan-to-deposit ratio was 69.68% compared to peer at 65.21%. The bank's performance compared to peer is illustrated in the following chart.

LOAN TYPE	BANK AVERAGE LOAN MIX (%)	PEER AVERAGE LOAN MIX (%)
REAL ESTATE LOANS		
Construction/Development		
1 - 4 Family Residential	1.02	3.52
Home Equity	57.86	29.99
Other Real Estate	5.35	.55
Farmland	9.73	21.01
Multi-family	.47	1.48
Commercial	.00	.79
TOTAL REAL ESTATE LOANS	9.26	16.02
	68.61	60.92
LOANS TO INDIVIDUALS	16.75	13.57
CREDIT CARD LOANS	2.28	.29
COMMERCIAL & INDUSTRIAL LOANS	12.36	15.67
AGRICULTURAL LOANS	2.17	1.49
MUNICIPAL LOANS	.05	.05
OTHER LOANS*	.06	.17
*Excludes Financial Institution Loans, Acceptances of Other Banks, Foreign Office Loans and Leases, and Lease Financing Receivables		

**Lending in Assessment Area**

A sample of approved loans was reviewed regarding lending activity within the bank's assessment area. The examination loan sample revealed the following geographic distribution.

LOAN TYPE	TOTAL SAMPLED	WITHIN THE ASSESSMENT AREA	PERCENT OF TOTAL
Direct Installment	20	14	70
Indirect Installment	10	5	50
Single Payment	20	16	80
Credit Cards	15	14	93
Commercial	10	10	100
Real Estate	10	8	80
Home Equity	10	10	100
Total Loans	95	77	81
TOTAL APPLICATIONS	146	111	76

As the preceding chart illustrates, 81% of the loans were within the assessment area. The examination loan sample supports the fact that the majority of the bank's loan activity is within the assessment area. Based upon this review, the bank meets the standards for satisfactory performance in relation to loan originations within its assessment area. Additionally, the geographic distribution of loans reflects reasonable distribution throughout the assessment area.

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

A review of the bank's 1994 HMDA data revealed that lending activity to low or moderate income individuals comprised a substantial portion of the bank's overall mortgage activity. Application and origination percentages for the bank's low-income and moderate-income areas were 20.78% (16 of 77) and 21.74% (15 of 69), respectively. The bank's origination rate for all applications received from the low-income and moderate-income census tracts was 93.75% (15 of 16) which is above the market's aggregate origination rate of 75.59% (449 or 594) and above the bank's overall origination activity of 89.61% (69 of 77).

A review of the examination loan sample based upon borrower income levels revealed the following:

<b>LOAN TYPE</b>	<b>LOW-INCOME \$000's/Number</b>	<b>MODERATE- INCOME \$000's/Number</b>	<b>MIDDLE- INCOME \$000's/Number</b>	<b>UPPER-INCOME \$000's/Number</b>
Direct Installment	\$15,523/7	\$16,523/5	\$53,884/7	\$18,000/1
Indirect Installment	\$18,596/3	\$0/0	\$16,832/4	\$26,205/3
Single Payment*	\$35,247/4	\$16,375/4	\$15,160/3	\$16,500/1
Credit Card / Overdraft Protection	\$12,000/7	\$1,000/1	\$9,000/5	\$11,000/2
Home Equity	\$15,000/1	\$130,000/2	\$110,000/4	\$74,000/3
Real Estate	\$40,000/2	\$86,000/2	\$188,000/2	\$195,000/4
Total Originations	\$136,366/24	\$249,898/14	\$392,876/25	\$340,705/14

\* Income was not reported for eight Single Payment Loan samples reviewed.

As the preceding chart illustrates, the bank's loan activity was proportionately distributed to various income levels.

A sample of commercial loans were reviewed. The sample indicated that the majority of the bank's commercial lending is to businesses with annual revenues of less than \$1,000,000. This lending activity is consistent with the types of businesses located in the bank's assessment area.

The distribution of borrowers reflects reasonable penetration among individuals of different

income levels, and businesses of different sizes.

**Geographic Distribution of Loans**

One of the census tracts in the assessment area is designated as low-income and one as moderate-income; there are no minority census tracts within the assessment area. A review of the bank's loan files and internal documents revealed the following loan activity within the assessment area since the previous examination:

<b>TOWNSHIP/ POPULATION # of FAMILIES (1990 U.S. Census)</b>	<b>CENSUS TRACT</b>	<b>NUMBER OF LOANS</b>	<b>% OF LOANS/ TOTAL</b>	<b>% OF LOANS/ POPULATION</b>
Columbia/1877*	0063.00	212	25.9%	11.3%
Napoleon/1739	0062.00	53	6.5%	3.5%
Norvell/790	0068.00	47	5.7	5.9%
Cambridge/1250*	0603.00	232	28.4%	18.6%
Franklin/736	0603.00	39	4.8%	5.3%
Rollin/951	0604.00	39	4.8%	4.1%
Rome/454	0605.00	86	10.5%	18.9%
Woodstock/874	0604.00	110	13.4%	12.59%
<b>TOTAL</b>	-----	818	100%	N/A

(\*) Indicates town with branch office(s)

As the preceding chart illustrates, the bank's loan activity was distributed throughout the assessment area.

**Response to Complaints**

No complaints were received by the institution regarding CRA performance since the previous examination