

GENERAL INFORMATION

This document is an evaluation of the Community Reinvestment Act (CRA) performance of **Chemical Bank Bay Area** prepared by the **Federal Reserve Bank of Chicago**, the institution's supervisory agency.

The evaluation represents the agency's current assessment and rating of the institution's CRA performance based on an examination conducted as of **March 25, 1996**. It does not reflect any CRA-related activities that may have been initiated or discontinued by the institution after the completion of the examination.

The purpose of the Community Reinvestment Act of 1977 (12 U. S. C. 2901), as amended, is to encourage each financial institution to help meet the credit needs of the communities in which it operates. The Act requires that in connection with its examination of a financial institution, each federal financial supervisory agency shall (1) assess the institution's record of helping to meet the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operations of the institution, and (2) take that record of performance into account when deciding whether to approve an application of the institution for a deposit facility.

The Financial Institutions Reform, Recovery and Enforcement Act of 1989, Pub. L. No. 101-73, amended the CRA to require the Agencies to make public certain portions of their CRA performance assessments of financial institutions.

Basis for the Rating

The assessment of the institution's record takes into account its financial capacity and size, legal impediments and local economic conditions and demographics, including the competitive environment in which it operates. Assessing the CRA performance is a process that does not rely on absolute standards. Institutions are not required to adopt specific activities, nor to offer specific types or amounts of credit. Each institution has considerable flexibility in determining how it can best help to meet the credit needs of its entire community. In that light, evaluations are based on a review of 12 assessment factors, which are grouped together under 5 performance categories, as detailed in the following section of this evaluation.

ASSIGNMENT OF RATING

Identification of Ratings

In connection with the assessment of each insured depository institution's CRA performance, a rating is assigned from the following groups:

Outstanding record of meeting community credit needs.

An institution in this group has an outstanding record of, and is a leader in, ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Satisfactory record of meeting community credit needs.

An institution in this group has a satisfactory record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Needs to improve record of meeting community credit needs.

An institution in this group needs to improve its overall record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Substantial noncompliance in meeting community credit needs.

An institution in this group has a substantially deficient record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

DISCUSSION OF INSTITUTION'S PERFORMANCE

Institution's Rating:

This institution is rated "**outstanding**" based on the findings presented below.

COMMUNITY PROFILE

Bay City, Michigan, the location of the bank's main office is the county seat of Bay County. Bay City, Saginaw and Midland comprise the area known as the "Tri-Cities" of Michigan. According to the 1990 U.S. census data, the combined population of the cities and their respective counties is 316,868.

The bank has defined two areas as its delineated communities; the majority of Bay County which is located in the Bay City-Saginaw-Midland Metropolitan Statistical Area (MSA) and the majority of the area known as the **AThumb** of Michigan which consists of portions of Tuscola, Huron, Sanilac and Lapeer Counties. On March 21, 1996, the bank acquired four branches and increased the size of its delineation. Since the approval of the delineation occurred after the close of the examination, the assessment of the bank's performance was based on the delineation that was in effect prior to the change.

The population of the delineated communities is 177,907. The racial makeup of the population is as follows: Whites - 169,926 (95.5%); individuals of Hispanics descent - 4,787, (2.7%); Blacks - 1,591 (0.9%); and other racial groups - 1,603 (0.9%). There are 65,418 households in the community with the breakdown of these households, by income level, being as follows: below poverty level - 9,441 (14.1%); low-income - 18,337 (28.1%); and moderate-income - 10,807 (16.5%). The median family income is \$31,770 and the median household income is \$26,488.

There are 71,753 housing units within the delineated communities; 50,996 (71.1%) are owner-occupied, 14,419 (20.1%) are rental units and 6,338 (8.8%) are vacant. The median housing cost is \$43,653 and the median gross rent is \$344. Approximately 83.6% of the total housing units are one-to-four family dwellings, 5.9% are multi-family dwellings (five units or more), 9.6% are mobile homes and 0.9% are classified as other. The median age of the housing stock is 42 years (40.7% of the homes were built prior to 1950).

The following are the largest employers in the delineated communities:

Bad Axe

U.S. Manufacturing Corporation - A manufacturer of motor vehicle parts and accessories with 140 employees.

Bay City

GM Powertrain Bay City - A manufacturer of motor vehicle parts and accessories with 1,800 employees.

RWC, Inc. - A manufacturer of special machinery with 320 employees.

Wolverine Knitting Mills, Inc. - A manufacturer of robes and dressing gowns with 290 employees.

Bay City Times - A newspaper publisher with 218 employees.

Caro

Walbro Automotive Corporation - A manufacturer of pumps and equipment with 260 employees.

Cass City

General Cable Corporation - A manufacturer of miscellaneous electronic components with 135 employees.

Essexville

Pyramid Paving, Inc. - A manufacturer of paving mixtures and asphalt with 48 employees.

Harbor Springs

Control Engineering Company - A manufacturer of electronic enclosures with 269 employees.

Kawkawlin

Saginaw Bay Plastics, Inc. - A manufacturer of plastic products with 26 employees.

Marlette

Plasta Fiber - A manufacturer of motor vehicle parts and accessories with 300 employees.

The demographics of the two delineated communities are discussed below:

Bay County Community

The Bay County community is in the Bay City-Saginaw-Midland MSA and consists of 12 townships. There are 24 census tracts within this portion of the delineated community. Eight of the census tracts are designated as low- or moderate-income tracts (two of the eight low-or moderate-income tracts are designated as low-income census tracts, having less than 50% of the MSA median family income). There are no minority census tracts in the Bay County portion of the delineated community. The median family income is \$34,727.

The population is 98,834 and has the following racial makeup: Whites - 93,386 or 94.5%; Hispanics - 3,410 or 3.5%; Blacks - 1,128 or 1.1%; and American Indians, Asians and other racial categories - 910 or 0.9%. Low- or moderate-income persons account for 18,466 or 18.7% of the population.

The total number of housing units is 39,389, with 28,608 or 72.6% owner-occupied, 8,990 or 22.8% renter-occupied and 1,791 or 4.6% vacant. The MSA median housing cost per unit is

\$48,539 and the median gross rent is \$381. The median age of the housing stock is 35 years.

Delta Community College is constructing a planetarium in Bay City which is scheduled for completion in November, 1996. In addition to its educational value, the facility is expected to have an economic impact by attracting tourists and visitors.

Thumb Community

The delineated community in the Thumb of Michigan encompasses portions of four counties, consists of 39 townships, and includes the towns of Caro, Cass City, Harbor Beach, Bad Axe and Marlette. The Townships of Vassar, Akron and Fairgrove, all in Tuscola County, were added to the Thumb community in October 1995, based on increased lending in those areas. Except for the Lapeer County portion of the community, which is part of the Detroit MSA, the Thumb community is not located in a MSA and is mainly rural, with the local economy dependent on the agricultural industry.

The racial composition of the counties comprising the Thumb community is as follows:

Tuscola County: 96.1% - White; 2.1% - Hispanic; 0.9% - Black; and 0.9% - other.
Huron County: 98.4% - White; 1.1% - Hispanic; 0.4% - Black; and 0.1% - other.
Sanilac County: 97.0% - White; 2.3% - Hispanic; 0.5% - Black; and 0.2% - other.
Lapeer County: 96.6% - White; 2.0% - Hispanic; 1.0% - Black; and 0.4% - other.

BANK PROFILE

Chemical Bank Bay Area, with total assets of \$258.4 million as of December 31, 1995, is a subsidiary of Chemical Financial Corporation (CFC), a multi-bank holding company located in Midland, Michigan. The bank operates 15 offices; 14 full-service offices and one auto banking facility (where applications are not accepted). The bank offers consumer, commercial, agricultural, government sponsored/subsidized and other retail loan programs. According to the most recent call report, the bank's loan portfolio consists primarily of consumer loans.

The bank's main competitors and their corresponding locations are as follows:

Bad Axe - Citizens Federal Savings Bank, a branch of a Port Huron institution and Signature Bank, a state chartered bank.

Bay City - First of America Bank-Michigan, National Association (eight branches of a Kalamazoo bank); Mutual Savings Bank, FSB; Second National Bank of Bay City; and a branch of Standard Federal Bank, Troy, Michigan.

Caro - State Savings Bank of Caro and Community Bank.

Cass City - A branch office of Thumb National Bank and Trust Company.

Essexville - A branch office of Michigan National Bank of Farmington Hills.

Harbor Beach - A branch office of Signature Bank of Bad Axe.

Kawkawlin - There is no banking competition in this town.

Marlette - A branch office of NBD Bank of Detroit, a state chartered bank.

Credit unions and mortgage companies, located throughout the delineated communities, provide additional competition for consumer loans.

The bank entered into a Contractual Branch Service Agreement with the other CFC subsidiary banks. The terms of this agreement allow reciprocal branch services among CFC banks, which make it possible for bank customers to conduct routine banking transactions at any of the affiliated Chemical Bank locations throughout the state.

ASSESSMENT OF RECORD

I. ASCERTAINMENT OF COMMUNITY CREDIT NEEDS

Assessment Factor (a) - Activities conducted by the institution to ascertain the credit needs of its community, including the extent of the institution's efforts to communicate with members of its community regarding the credit services being provided by the institution.

Regulatory Expectation

The Statement of the Federal Financial Supervisory Agencies regarding the Community Reinvestment Act (Policy Statement) indicates that an effective CRA process must include methods to ascertain community credit needs on an ongoing basis through outreach efforts to local governments, businesses, and community members and organizations. This ascertainment effort should include a system that facilitates dialogue with these individuals and groups and enables them to communicate their concerns to an officer of the financial institution.

Scope and Findings

The bank's account maintenance journal for its customer call program, CRA survey questionnaires, and the board of directors and staff reports of CRA contacts and community affiliations were reviewed. Also, discussions were held with management to determine the effectiveness of the bank's credit needs ascertainment activities.

The bank's ascertainment efforts are varied, conducted throughout the community and include a cross section of community organizations. Management uses a formal officer call program to promote communication between the bank and members of the delineated community. The program includes calls to existing and prospective customers. Officers

contact small business owners, local government officials, realtors, private builders and individuals to identify credit needs and to determine the bank's effectiveness in meeting those needs. In the Thumb area, the call program targets the farming industry.

A review of the bank's records revealed that the bank made 2,300 (an increase of over 77%) calls since the previous examination. Approximately 1,700 (73%) calls were made on existing customers, while approximately 600 (27%) calls were made on prospects for new business. The majority (852 or 37.0%) of calls were made in Bay City and the remaining were in Cass City (413 or 18%) and Caro (398 or 17.3%). Area realtors were called once per month and provided with rate sheets detailing the bank's mortgage credit programs. Through its officer call program, the bank identified the need for low down payment mortgage loans. In response to this need, the bank began making Federal Housing Administration (FHA) and the Veterans Administration (VA) loans. Discussion of the bank's participation in government loan programs is under Assessment Factor (j).

Bank management surveyed 20 local organizations during the period September, 1994 through December, 1994. These organizations were asked to complete a questionnaire which requested information regarding the economic condition of the communities served by the organization, the availability of credit products (particularly housing-related) within the community, and how well financial institutions do in providing products and services in the community. Respondents to the survey expressed satisfaction with products and services available from banks within the community.

The bank also relies upon the personal contact of its directors, management and staff with members of the community for credit needs ascertainment. The bank's CRA public file reflected involvement in numerous organizations within the bank's community. The following is a partial list of these organizations:

- Bad Axe Chamber of Commerce
- Bay Area Chamber of Commerce
- Bay Area Housing Development Corporation
- Bay Area Housing Needs Task Force
- Bay County Realtors Association
- Bay County Growth Alliance
- Caro Building Authority
- Caro Chamber of Commerce
- Caro Downtown Task Force
- Caro Retailers Association
- Cass City Chamber of Commerce
- Cass City Business and Professional Women
- Cass City Planning Commission
- Cass City Village Council
- Harbor Beach Chamber of Commerce
- Helena Farm Bureau Community Action Group
- Huron County Farm Bureau
- Rural Development Council of Michigan

- Sanilac County Agricultural Business Council
- Tuscola County Farm Bureau
- Tuscola County Commissions and Boards
- Upper Thumb Realtors Association
- West Bay Area Merchant Association
- West Side Business Association

Conclusions

The bank's performance in this category is excellent. The bank's ascertainment activities are effective, conducted throughout the communities and include a cross-section of community organizations. The staff's organizational affiliations, surveys and officer call program enable the bank to keep abreast of local development and credit needs, as indicated by the identification of and response to the community's need for low down payment housing loans.

Assessment Factor (c) - 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.

Regulatory Expectation

The Policy Statement states that banks are encouraged to develop a CRA plan to ensure an affirmative effort on the part of the bank to comply with the Act. It further states that the duty to coordinate and monitor the CRA process should be assigned to a senior officer or a committee charged with the responsibility to report periodically to the board of directors about the bank's CRA efforts, performance, and areas for improvement, where appropriate. An employee training program should be established which addresses information about those policies of the bank designed to help meet community credit needs including the needs of low- and moderate-income areas and small businesses. Procedures should be implemented to ensure that files are maintained, as required by the regulation, for purposes of receiving public comments and for reviewing and responding to the comments.

Regardless of how the bank organizes itself to implement its CRA plan, seeing that the institution has taken the steps necessary to help meet its community's credit needs is the responsibility of the entire organization, beginning with its board of directors and continuing through its line management. To be effective, a CRA plan must include methods to incorporate findings regarding community credit needs into the development of products and services that the bank decides to offer to help meet these needs.

The Policy Statement also states that the bank's CRA statement should accurately reflect the types of lending and other services that the bank is willing to offer to the community. This statement must be reviewed at least annually to ensure its accuracy. The services that the bank chooses to offer should be clearly articulated and reasonably related to community needs.

Scope and Findings

The CRA questionnaire completed by management, CRA plan, CRA statement, CRA public file and minutes of board of directors, board CRA committee and corporate CRA operations committee meetings were reviewed. The CRA self-assessment and training materials were also reviewed and discussions were conducted with management.

The board of directors actively participates in the bank's CRA efforts. Review of the minutes of the May 23, 1995 minutes of the board of directors meeting indicates that the

bank's CRA plan is reviewed annually. The board of directors appointed a senior officer as the bank's CRA officer, who was most recently approved to act in this capacity at the January, 1996 board of directors meeting, and has been delegated sufficient authority to implement the bank's CRA Plan, which details the bank's objectives relating to the twelve assessment factors.

To ensure its accuracy, an expanded CRA statement, which includes information pertaining to efforts and issues, is reviewed and approved by the board of directors at least annually, as evidenced by the minutes of the October 24, 1995 board of directors meeting

The board of directors has formed a CRA committee to oversee and monitor the bank's CRA-related activity. The CRA committee meets semi-annually; however, the CRA officer makes monthly presentations on CRA issues to the board of directors. Discussion of CRA activity is evidenced in the minutes of the board of directors meetings. The members of the committee are comprised of directors and senior officers.

The bank completed a self-assessment of its 1995 CRA activities under each of the twelve assessment factors. A review of a report covering its self assessment efforts verified that the bank evaluated its performance in each area.

Training programs, provided to all staff members, covered the objectives of CRA, updated provisions of CRA, and antidiscriminatory laws and regulations. Compliance with fair lending regulations, CRA compliance, legal requirements and community development were among the topics covered during the training sessions. Management also provides the board of directors with information addressing changes to CRA, the American Bankers Association Fair Lending Toolbox handout and related video.

The bank receives CRA-related assistance from CFC which has formed a CRA Operations Committee comprised of officers from all affiliated banks in the holding company. The CRA officer serves as the bank's representative on the committee. Meetings are held at least three times a year to discuss affiliated banks' CRA and marketing efforts. Information obtained at these meetings allows CFC to plan, standardize, improve and coordinate CRA and marketing activities among the affiliates.

Procedures have been established to ensure that the bank encourages public comment regarding its performance, and that all such comments are reviewed and addressed. A public file is maintained as required by the regulation.

Conclusions

The corporate office and board of directors provide oversight and actively direct the bank's CRA efforts. The bank's organizational structure is designed to support and promote CRA at all levels. The bank has developed a CRA plan and supports its CRA efforts by providing ongoing CRA-related training for bank staff.

II. MARKETING AND TYPES OF CREDIT OFFERED AND EXTENDED

Assessment Factor (b) - 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.

Regulatory Expectation

The Policy Statement indicates that an effective CRA plan should include marketing and advertising programs for lending products and services that are responsive to the needs of the community and that will inform and stimulate awareness of those products and services throughout the community, including low- and moderate-income areas.

Scope and Findings

Bank records and copies of advertisement and marketing-related documents were reviewed, and interviews with bank officers and members of the community were conducted to determine the extent of the bank's efforts in promoting the availability of its credit products and services throughout the local communities. The level of marketing and effectiveness of special credit programs were also reviewed.

The bank markets its products employing local newspapers, radio stations, electronic message boards, brochures, statement messages and inserts, and through personal contact with members of the community. The bank markets its products and services using the following methods/media:

Newspaper

<u>Name</u>	<u>Frequency</u>	<u>Geographical Area</u>	<u>Circulation</u>
Bay City Times	Daily	Bay City	112,000
Huron Daily Tribune	Weekly	Huron County	9,784
Marlette Leader	Weekly	Marlette	2,100
Cass City Chronicle	Weekly	Cass City	3,900
Times Plus	Weekly	Bay County	16,500
Thumb Blanket	Weekly	Thumb Area	18,563
Tuscola Advertiser	Weekly	Tuscola County	9,345
Sanilac Buyers Guide	Weekly	Sanilac County	18,924
Shoppers Guide	Weekly	Assessment Area	15,725
Harbor Beach Times	Weekly	Harbor Beach	3,000

Radio

<u>Station</u>	<u>Format</u>	<u>Coverage</u>
WIOG-FM	Adult Top 40 Thumb region	Over 36 counties in middle Michigan and the
WLEW-FM	News/Sports	Thumb area
WGER-FM	Soft Rock	Saginaw
WHNN-FM	Oldies	Tri-Cities and Flint
WSGW-AM	News/Talk Counties	Montcalm, Sanilac, Clinton and Crawford

The following chart illustrates the bank's marketing efforts since the previous examination:

ADVERTISING MEDIUM	BANK SERVICES ADVERTISED	FREQUENCY OF ADVERTISEMENTS	PERCENT OF TOTAL BY TYPE
Newspaper	Real Estate	95	21
	Money Bonanza Loans	229	50
	Deposit	42	9
	Goodwill	92	20
Radio	Real Estate	220	26
	Home Improvement	104	12
	Other Consumer	533	62

The Money Bonanza Loan Program was a low-rate offer for all new installment loans. Other consumer loans included installment loans, home improvement loans, overdraft protection loans and home equity lines of credit.

As the preceding chart illustrates, 90% of the bank's advertising promoted credit-related products. In addition to the marketing activity reflected in the preceding chart, the bank distributed approximately 145,000 statement stuffers to consumers which primarily advertised the bank's deposit services.

Since the previous examination, the bank co-sponsored and/or participated in home buyer and financial education seminars/shows to review and discuss available loan products and services. The shows are staffed by lending and deposit personnel who provide attendees with information about the bank's services and products. During the review period, staff members participated in 13 housing-related seminars/shows, seven financial education seminars/shows and sponsored one realtor reception.

The bank continues to offer and promote the following special loan programs which address community credit needs:

-Money Bonanza Program - This program, which was implemented several years ago, is generally promoted each spring and markets general consumer loans with interest rates lower than market (7.83%). During 1995, the bank made 1,192 loans under this program.

-A Special Home Equity/Home Improvement Loan Program with a 8.9% interest rate. The bank made 223 loans under this program.

-Affordable Gold Mortgage Program - This program allows for a 5% down payment mortgage loan at a 30-year fixed rate of interest. Eligible properties include one unit, owner-occupied primary residences and condominiums. Since the previous examination, the bank made seven loans through this program.

-The Electronic Tax Filing Quick Refund Program - The bank offered this program during 1995 and made 42 loans.

Conclusions

The bank's marketing efforts are highly effective. Marketing efforts reach all areas of the community, the majority of advertisements are credit-related and their effectiveness are monitored by the corporate marketing department. Community representatives indicated that the community is aware of the bank's credit products and services.

Assessment Factor (i) - 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.

Scope and Findings

The Uniform Bank Performance Report (UBPR), Consolidated Report of Condition and internal lending reports were reviewed and discussions were conducted with management to determine the distribution of loans, and to assess the bank's performance relative to making real estate and small business loans.

The bank's December 31, 1995 Consolidated Report of Condition revealed a net loan-to-deposit ratio of 46.1% and a net loan-to-asset ratio of 40.7%. Both ratios remained fairly constant since the previous examination. The distribution by loan type is as follows:

LOAN TYPE	DOLLAR AMOUNT OUTSTANDING (000's)	PERCENT OF TOTAL LOANS
REAL ESTATE		
Construction	1,206	1.11%
Residential (1-4)	59,548	55.04%
Commercial	11,466	10.60%
Agricultural	1,207	1.12%
Multi-family	981	.91%
CONSUMER		
Credit Cards	311	.29%
All Other	15,858	14.66%
COMMERCIAL AND INDUSTRIAL	11,115	10.27%
AGRICULTURAL	2,772	2.56%
STATE AND POLITICAL	2,704	2.50%
OBLIGATIONS		
OTHER	1,057	.98%
Unearned Income	(32)	(.04)%

Based upon a comparison of the bank's loan distribution with information contained in the previous report of examination (Report of Condition dated December 31, 1993), total loans increased by \$2,805,000 or 2.69%. Except for commercial loans which increased by 176% (from \$4.1 million to \$11.5 million), the distribution, by loan type, remained fairly constant since the previous examination; changes are the result of normal fluctuations in loan demand and the local economy. Real estate loans comprise the largest (69%) share of the bank's loan portfolio.

According to the December 31, 1995 UBPR the bank's performance compared to peer is as follows:

LOAN TYPE	BANK AVERAGE LOAN MIX (%)	PEER AVERAGE LOAN MIX (%)
REAL ESTATE LOANS		
Construction/Development	1.44	4.57
1 - 4 Family Residential	57.69	28.86
Home Equity	1.68	2.23
Other Real Estate	11.83	26.04
Farmland	1.49	.46
Multi-family	.85	1.47
Commercial	9.48	22.28
TOTAL REAL ESTATE LOANS	70.95	65.12
LOANS TO INDIVIDUALS	13.14	11.50
CREDIT CARD LOANS	.38	.48
COMMERCIAL & INDUSTRIAL LOANS	10.49	16.55

LOAN TYPE	BANK AVERAGE LOAN MIX (%)	PEER AVERAGE LOAN MIX (%)
AGRICULTURAL LOANS	2.54	.23
MUNICIPAL LOANS	1.82	.25
OTHER LOANS*	1.06	.26
*Excludes Financial Institution Loans, Acceptances of Other Banks, Foreign Office Loans and Leases, and Lease Financing Receivables		

BANK NET LOAN/LEASE TO DEPOSIT RATIO	PEER NET LOAN/LEASE TO DEPOSIT RATIO
46.1	68.3

The bank's net loan-to-deposit ratio of 46.1% is 22.2% less than the peer's (68.3%) loan-to-deposit ratio. Similarly, the bank's net loan-to-asset ratio of 40.7% is 19.3% less than the peer's (60%). The bank's loan-to-deposit ratio is partially reflective of the fact that the bank sells its real estate mortgages to CFC, and its Farmers Home Administration (FmHA), VA, FHA, Michigan State Housing Development Authority (MSHDA) and student loans on the secondary market. During the review period, the bank sold 109 housing-related loans which totaled \$3.7 million. As the preceding charts illustrate, the bank had a higher concentration of 1-4 family residential loans than peer, while the peer group had a higher concentrations in the other real estate, commercial real estate, and commercial and industrial loan categories.

Conclusions

The distribution of the bank's loan portfolio, a comparison of the bank to peer data, and information obtained from community contacts, management and various internal reports indicate that the bank's lending and concentrations in its loan portfolio are consistent with the makeup of the community.

Assessment Factor (j) - The institution's participation in governmentally insured, guaranteed or subsidized loan programs for housing, small business or small farms.

Scope and Findings

The bank's level of participation and lending in government loan programs was reviewed and discussions were held with management to determine the bank's effectiveness in meeting the need for this type of credit in the community. The bank made loans in eight programs since the previous examination. The following chart summarizes the bank's activity in these loan programs:

PROGRAM	OUTSTANDING		SINCE PREVIOUS EXAMINATION	
	NUMBER	DOLLAR AMOUNT	NUMBER	AMOUNT
FHA	0	0	1	82,500
FmHA	0	0	3	108,000
Small Business Administration	7	1,717,528	5	1,228,000
VA	0	0	1	82,500
Student Loans	0	0	16	24,012
Affordable Gold	0	0	7	335,405
FmHA Business	2	74,855	2	79,855
MSHDA Home Improvement	0	0	30	272,683

A review of the bank's survey results and comments made by members of the community indicate that the type of government guaranteed loan program offered by the bank are generally consistent with those needed within the community. The bank's available credit products are responsive to the local community's credit needs. In June, 1995, the bank received an award from MSHDA for making over \$100,000 in loans.

Conclusions

The bank's performance in available programs is consistent with the need for these types of products in the community.

III. GEOGRAPHIC DISTRIBUTION AND RECORD OF OPENING AND CLOSING OFFICES

Regulatory Expectation

Reasonableness of Community Delineation

The regulation requires state member banks to prepare, and at least annually review, a delineation of the local community or communities that comprise its entire community, without excluding low- and moderate-income neighborhoods. Maps are required to be used to portray community delineations. The regulation requires Federal Reserve System examiners to review the reasonableness of the delineations.

The regulation states that a local community shall consist of the contiguous areas surrounding each office or groups of offices, including any low- and moderate-income neighborhoods in those areas. In preparing its delineation, a bank may use any one of the three methods, as stipulated in the regulation: (1) existing boundaries, such as those of a Metropolitan Statistical Area or counties in which the bank's office or offices are located; (2) the bank's effective lending territory, which is defined as that local area or areas where it makes a substantial portion of its loans and all other areas equidistant from its offices; or (3) any other reasonably delineated local area that meets the purposes of CRA and does not exclude low- and moderate-income areas.

Scope and Findings

The geographic distribution of the bank's lending was reviewed and discussions were conducted with management to assess the reasonableness of the delineated community.

The bank continues to delineate two communities; the Bay County community which is located in the Bay City-Saginaw-Midland MSA and consists of 12 townships in Bay County and the Thumb community which consists of 39 townships in Tuscola, Huron, Sanilac and Lapeer Counties. The Townships of Vassar, Akron and Fairgrove, all in Tuscola County, were added to the Thumb community in October 1995, based on increased lending in those areas. This method of delineation is consistent with method number one (1) described above. The bank reviews its delineation of community at least annually, as evidenced by the minutes of the October 24, 1995 board of directors meeting.

On March 21, 1996, the bank acquired four new branches and increased the size of its delineation. Since the approval of the delineation occurred after the close of the examination, the assessment of the bank's performance will be based on the delineation that was in effect prior to the change.

There are 24 census tracts within the Bay County Community, eight of which are low- and moderate-income census tracts. There are no minority census tracts in the community. Except for the Lapeer County portion of the community which is part of the Detroit MSA, the Thumb community is not located in a MSA. The Thumb Community is mainly rural, with the local economy dependent on agriculture.

An analysis of recent direct credits and denied applications indicates the majority of the bank's credit applicants reside within the community. The irregular shape of the communities and the exclusion of the southeast portion of Bay County and the southeast portion of the Thumb region result from the bank's parent company, Chemical Financial Corporation, attempt to prevent competition between its subsidiaries by ensuring that their communities do not overlap. The exclusion of the three townships (Wisner, Gilford and Denmark) between the delineated communities is due to the fact that there is very little loan activity in these areas; however, loan and/or deposit activity is monitored to determine whether these areas should be included in the community.

Conclusions

The bank's delineated community is reasonable, based upon the geographic distribution of credit originated within the delineated communities. The results of the analysis of the geographic distribution of the examination sample of loans and rejected applications is discussed further under Assessment Factor (e).

Assessment Factor (e) - The geographic distribution of the institution's credit extensions, credit applications and credit denials.

Regulatory Expectation

The Policy Statement states that the services that the bank chooses to offer should be distributed within the bank's community in a fair and nondiscriminatory manner, in keeping with the bank's general approach to its business.

Scope and Findings

The Home Mortgage Disclosure Act (HMDA) Statements, the bank's analysis of the geographic distribution of loans, and the geographic distribution of sampled loans and rejected credit applications were reviewed to determine whether the bank was receiving applications from and originating loans within and throughout the delineated communities.

The examination sample of loans and denied applications was reviewed for geographic distribution of credit. The sample of 123 loans and 50 denied applications revealed that 90% of approved and 88% of denied applications were from applicants residing within the bank's assessment area. A review of the loan sample revealed the following geographic distribution:

LOAN TYPE	TOTAL SAMPLED	WITHIN THE LOCAL DELINEATED COMMUNITY	PERCENT OF TOTAL
Direct Installment	11	10	91
Indirect Installment	20	16	80
Single Payment	20	18	90
Overdraft Protection	20	18	90
Home Equity Lines	12	11	92
Real Estate	20	19	95
Commercial	20	19	95
Denied Applications	50	44	88
Total Applications	173	155	90

The bank's geographic distribution of approved and denied applications has improved since the previous examination, with 90% of total applications within the community compared to 86% at the previous examination.

The bank has its own internal tracking system for both HMDA and non-HMDA reportable real estate loans by each township. This system monitors the number of applications received and loans originated, and applications denied and withdrawn for each township in Bay, Tuscola, Huron, Sanilac, Lapeer and other counties in which the bank accepted

applications and/or originated loans. According to its 1994 year-end analysis, the bank received a total of 4,732 applications of which it originated 3,741 or 79%. During 1995, the bank accepted 3,486 applications and originated 2,636 or 76%. The analysis indicated that the bank received applications and originated loans in every census tract within the delineated community, and loans were made in 95% of the area within the delineated communities during 1994 and 1995. No irregular lending patterns were detected, and no particular area was excluded from lending activity.

The analysis of the 1994 HMDA information indicated that the bank originated 42.9% of all applications within the MSA portion of its local communities. This ratio is reasonable, considering that the bank's assessment area includes large areas that are outside of the MSA, and that the bank is an active participant in the indirect installment loan market. The bank reported activity in all 24 census tracts in the delineated communities.

The bank's origination rate in low- and moderate-income census tracts was 83.3%, compared to 76.7% for the market aggregate. The bank's denial rate in low- and moderate-income tracts was significantly below that of the aggregate at 9.7% compared to 19.6% for the market aggregate.

Conclusions

The geographic distribution of the bank's credit applications demonstrate that the bank is receiving applications and originating credit primarily from within the local community.

Assessment Factor (g) - The institution's record of opening and closing offices and providing services at offices.

Scope and Findings

The bank's branch closing policy, record of opening and closing offices, business hours, office locations and services were reviewed, and discussions were conducted to determine the accessibility of bank services to the residents and businesses within the delineated communities.

The bank closed one of its two Cass City offices during the fourth quarter 1995. The two offices were two blocks apart, and the bank enhanced the facilities at the remaining office by adding an additional drive-up facility, increasing the number to four and installing an ATM.

The bank has a formal branch closing policy, and review of the document disclosed that it outlines the criteria management will use to make decisions regarding the closing or opening of branch offices; these procedures were followed in closing the Cass City office.

The bank has 19 offices; 18 full service offices and one auto banking facility. Five offices are in Bay City, three are in Caro and there is one office in Essexville, Kawkawlin, Bad Axe, Harbor Beach, Marlette, Cass City, AuGres, Standish, Pinconning and Prescott; the auto bank is in Bay City. Nine of the offices are located in low- and moderate-income areas. There are no minority communities located within the assessment area.

The bank has a network of twelve ATMs; two are in Bay City and there is one ATM in Essexville, Kawkawlin, Caro, Cass City, Marlette, Harbor Beach, Bad Axe, AuGres, Standish and Pinconning. The Harbor Beach ATM was opened in December 1995.

Conclusions

The bank's facilities and hours of operations are exceptional for an institution of its size, given the nature of the communities in which it operates. The bank has continually attempted to enhance accessibility and services to its customers.

IV. DISCRIMINATION OR OTHER ILLEGAL CREDIT PRACTICES

Assessment Factor (d) - Any practices intended to discourage applications for types of credit set forth in the institution's CRA Statement(s).

Scope and Findings

The types of credit offered and lending policies were reviewed, and discussions were held with management to determine if the bank's products are consistent with the credit needs of the community.

The bank's CRA Statement indicates that the following types of credit are available to members of its community:

Consumer Loans

- Automobile and other consumer product loans
- Personal Loans - secured and unsecured
- Home Improvement Loans
- Credit Cards and other revolving credit loans
- Home Equity Loans
- Federal Income Tax Refund Anticipation Loans

Real Estate Mortgage Loans

- Conventional Mortgage Loans
- Construction Loans

Commercial Loans

- Commercial, Industrial Loans
- Small Business Loans
- Commercial Real Estate Construction Loans
- Farm Loans
- Community Development Loans (direct, EDC and DDA)
- Letters of Credit
- Local Government and Public School Financing

Special Loan Programs

- Michigan Higher Education Loans
- Bay Medical Center Student Loans
- Michigan State Housing Development Authority Home Improvement Loans for low- and moderate-income people
 - Affordable Gold Loans
 - Federal Housing Administration Loans
 - Veteran Administration Loans
- MGIC Insured Mortgages
- Michigan State Housing Development Authority Credit Certificate Loans and Regular Mortgage Loans with special rates and terms
- Small Business Administration (SBA) Loans with preferred and Certified lender status and including **ALow-Doc@Quick and Easy Lending Program**
- Federal Home Administration Loans(FMHA)
- FmHA - with approved lender status
- Michigan Underground Storage Tank Removal Loans

Review of the bank's loan policy, procedures for evaluating an applicant's credit-worthiness and a sample of loans and rejected credit applications indicate that the bank extends credit, by general type, consistent with the types of credit listed in its CRA statement.

Conclusions

No practices to discourage the types of credit products listed in the CRA statement were detected.

Assessment Factor (f) - Evidence of prohibited discriminatory or other illegal credit practices.

Scope and Findings

Recently approved installment, single-payment, overdraft protection, real estate, commercial loans and home equity lines of credit, as well as rejected credit applications were reviewed for compliance with the applicable fair housing and fair lending laws

and regulations. The bank's loan forms, policy and procedures were reviewed, and loan officers were interviewed. The bank is in compliance with the substantive provisions of the fair housing and fair lending laws.

Low- and moderate-income applicants represented a higher percentage of applications and originations than that portion of the population which they represent. They represent 18.8% of the market population, 32.1% of applications and 31.2% of originations.

Based on the 1993 and 1994 HMDA data, the bank's lending to minorities improved its during 1994 when compared to 1993. In 1994, 15 applications were received and 10 loans were made; during 1993, 10 applications were received and eight loans were originated. There are no minority census tracts within the delineated communities. The origination rate for the aggregate was 74% as 89 applications were accepted and 66 loans were granted. However, the aggregate numbers represents the entire MSA, while the bank's numbers reflect activity from a portion of the MSA. Approximately 96% of HMDA-related applications were accepted from White applicants which reasonably reflects the racial make-up of the population. The 1995 data was not available for review.

The bank's denial rate in low- and moderate-income census tracts was significantly below the aggregate in 1994, 9.7% versus 19.6%, and slightly below in 1993 when the bank's rate was 14.5% and the aggregate was 15.0%. The bank's internal analysis revealed that "delinquent credit history" and "insufficient income" were the most frequent reasons for denial. The examination sample of denied loans revealed no instances in which these reason(s) for denial were inappropriate. Due to the low number of applications from minorities, we were unable to analyze denials for this group.

Since the previous examination, the bank has started a second review of all denied applications. The review committee meets on a weekly basis to review denials for possible alternative ways to make the loan. Management stated that loans have been approved after second review; however, the bank has not documented this information.

The bank continues to educate its staff regarding CRA and fair lending. In December 1995, the bank conducted CRA training for all staff. Several times during 1995, lenders and staff were required to view a video tape about fair lending issues. As mentioned in Assessment Factor (c), the board was presented with information on the Fair Lending Tool Box. A brochure, Types of Lending Discrimination, is distributed on an annual basis to lending staff. Inter-office letters discussing issues such as redlining and spousal signature rules are distributed regularly to the staff.

Conclusions

The bank's procedures for ensuring that its practices do not result in prohibited discriminatory credit practices are effective. The examination revealed no evidence of prohibited discriminatory credit practices. Management has demonstrated its commitment to the bank's antidiscriminatory policies by increasing employee awareness through fair lending training, and the implementation of a second review of all rejected loan applications.

V. COMMUNITY DEVELOPMENT

Assessment Factor (h) - The institution's participation, including investments, in local community development or redevelopment projects or programs.

Scope and Findings

Community development-related investments, loans and donations were reviewed, and discussions were conducted with management to determine the bank's level of participation in the community.

Since the previous examination, the bank originated 405 community development-related loans which totaled \$20,935,816. Following are examples of this lending activity:

Type of Loan	Number of Loans	Dollar Amount
Small Business Loan	236	18,238,560
Minority Business Loans	22	277,946
Farm Loans	147	2,329,310
Total	405	20,935,816

In addition, the bank made 11 loans to local municipalities totaling \$1,271,900. Since the previous examination, the bank increased its community development lending and investments by approximately 28%.

During the review period, the bank made donations to 34 local affordable housing and economic development organizations totaling \$11,297.

Conclusions

The bank is active in community development projects, has increased lending and investments since the previous examination and is continually seeking new projects for investment. The bank's level of participation in community development efforts is excellent.

Assessment Factor (k) - The institution's ability to meet various community credit needs based on

its financial condition and size, legal impediments, local economic conditions and other factors.

There are no apparent factors relating to the bank's financial condition and size, or local economic conditions that would prevent the bank from meeting community credit needs.

Assessment Factor (I) - Any other factors that, in the regulatory authority's judgement, reasonably bear upon the credit needs of its entire community.

The bank introduced ChemConnect Electronic Home Banking in December 1995. This is a free automated system which allows customers to access their accounts via telephone. The service is available 24 hours a day and provides for free phone calls.