

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 First State Bank, Bourbon, Indiana** prepared by the **Federal Reserve Bank of Chicago**, 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 RATING: This institution is rated **Satisfactory**.

The First State Bank promotes economic revitalization and growth consistent with its size, financial capacity, location and current economic conditions. The bank's CRA program reflects the bank's commitment to meeting the assessment area's credit needs. The bank's adequate loan-to-deposit ratio, high percentage of loans within the assessment area, and reasonable dispersion of loans among borrowers of different incomes and businesses of different sizes evidence the bank's satisfactory performance. No prohibited discriminatory lending policies or practices which would intend to discourage loan applicants were detected during the examination. Further, no analysis of the geographic distribution of loans was performed as there are no low- or moderate-income census tracts or block numbering areas (BNAs) in the bank's assessment area. No complaints were received by the institution regarding its CRA performance since the previous examination.

The following table indicates the performance of **The First State Bank, Bourbon, Indiana** with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	THE FIRST 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	THERE ARE NO LOW- OR MODERATE-INCOME CENSUS TRACTS OR BNAs IN THE BANK-S ASSESSMENT AREA		
Response to Complaints	NO COMPLAINTS HAVE BEEN RECEIVED SINCE THE PREVIOUS EXAMINATION		

DESCRIPTION OF INSTITUTION

The First State Bank (FSB), with total assets of \$75 million as of June 30, 1996 Call Report, is a predominantly family-owned bank. The bank operates its main office at 101 W. Center Street, in downtown Bourbon, and a full-service branch facility on the east side of Bourbon at 436 E. Center Street. Although the bank does not currently own any automated teller machines (ATMs), it has recently announced plans for the installation (in January of 1997) of a 24-hour ATM at the branch facility. From its main office and branch drive-up facility, the bank provides a variety of deposit and loan products/services. The bank offers consumer, real estate, commercial, and agricultural-related loans. Although loan files are maintained at the bank's main office, there is lending authority at the branch level.

The bank's primary business focus is retail banking, with real estate and agricultural-related loans being its predominant products. Based upon information contained in June 30, 1996 Consolidated Report of Condition, real estate loans comprised approximately 74% of the bank's loan portfolio; 51.07% of real estate loans were secured by one-to-four family residences. Agricultural real estate, commercial real estate, consumer, and commercial/industrial loans comprise 22.70%, 13.88%, 9.41%, and 8.45%, respectively, of the bank's loan portfolio. Mortgage loans include conventional in-house loans with 85% loan-to-value. The bank does not offer any government-insured loan programs due to lack of personnel resources and expertise to service the loans; however, student loan applications are available at the bank.

The bank's competitors are located in Etna Green and Argos, approximately four and ten miles, respectively, from Bourbon. The FSB is the only financial institution in Bourbon. A branch facility of First National Bank of Warsaw is located in Etna Green and branch facilities of First Source Bank and Lake City Bank are located in Argos. Competition is also provided by other bank branches and credit unions located in neighboring Plymouth, Rochester, Bremen, and Warsaw.

DESCRIPTION OF THE BANK-S ASSESSMENT AREA

The FSB is located in Bourbon (Marshall County), Indiana. Bourbon, a small rural community, is located approximately 30 and 120 miles southeast of South Bend, Indiana and Chicago, respectively. The bank's assessment area, a rectangularly-shaped area, includes Bourbon and Tippecanoe Townships located in Marshall County, and Etna Green Township located in Kosciusko County. Most of the assessment area is used primarily for agricultural purposes. The assessment area is comprised of two census tracts (207.02 in Tippecanoe) and (208 in Bourbon) in Marshall County, and one BNA (9612 in Etna Green) in Kosciusko County. The bank's assessment area does not include any low- or moderate-income areas. The median family income is \$32,390. Of the total families (1,988) within the assessment area, 253 or 12.7% are low-income; 371 or 18.7% are moderate-income; 537 or 27.0% are middle-income; and 827 or 41.6% are upper-income.

According to 1990 U.S. census data, the bank's assessment area has a population of 11,966. Marshall County has a population of 42,182 and Kosciusko County has a population of 65,294. The racial make-up of the population in the assessment area is: Whites - 11,785 or 98.5%; individuals of Hispanic descent - 98 or 0.8%; Asians - 61 or 0.5%; and American Indians - 17 or 0.1%. All other minorities within the assessment area account for a very small percentage of the population.

For the two counties within the assessment area (Marshall and Kosciusko), employment is on the rise. Between 1990 and 1994, employment for Marshall and Kosciusko Counties increased 16.9% and 7.6%, respectively. Marshall County was ranked first in the state for percentage job growth in 1995. The State of Indiana average job growth was 3.3% in 1995, while during this period, Marshall County experienced a job growth rate of 17.6%. This is the result of extensive industrial and commercial development over the past two years.

The manufacturing industry, followed by services and retail business, is a major employer in the assessment area. According to the Indiana Manufacturers Directory, major employers and their approximate number of employees in Bourbon and nearby surrounding areas are: United Technologies Automotive (plastic door panels), employing 400; Reynolds Metals (replacement windows) and Wirecraft (thermoplastic insulated wire), each employing 100; and Northern Indiana Manufacturing, Inc. (screw machine products and machining), employing 60. In addition, the Triton School Corporation has approximately 100 employees in its elementary and high school programs. Shult Homes, Inc., a mobile home manufacturer with approximately 80 employees, is the main employer in Etna Green. Many of Bourbon's residents commute to Plymouth (approximately 10 miles west) and Warsaw (approximately 20 miles east) for employment.

Based upon 1990 U.S. census data, there are a total of 4,455 housing units within the bank's assessment area, of which 3,357 or 75.4% are owner-occupied units; 810 or 18.2% are rental units; and 288 or 6.5% are vacant units. One-to-four family unit homes account for the majority (3,669 or 82.4%) of the assessment area's housing, while mobile and multifamily homes comprise 665 (14.9%) and 69 (1.5%), respectively, of the remaining housing units. The median age and housing value of homes in the bank's assessment area is 41 years (2,015 or 45.2% were built before 1950) and \$45,487. According to community representatives, there is a housing shortage throughout Marshall County due to rapid business expansion. Available vacant land is limited and developers are primarily building properties that range from \$100 thousand and above on available lots. The most recent housing development, an 80 unit multi-family housing complex for low-income residents, occurred in the City of Plymouth. Housing is also scarce in Bourbon, making it difficult for families moving into the area to find housing.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

The institution is in compliance with the substantive provisions of antidiscrimination laws and regulations, including the Equal Credit Opportunity Act and Fair Housing Act.

Loan-to-Deposit Ratio Analysis

An analysis of the bank's Consolidated Reports of Condition for the six quarters since the previous examination revealed an average loan-to-deposit (LTD) ratio of 43.67%. According to the March 31, 1996 Uniform Bank Performance Report (UBPR), the bank's LTD ratio is 19.08% lower than the national peer group (Bank - 41.49% versus Peer - 60.57%). The LTD ratios of banks with branch offices located in and around the bank's assessment area, range from 70.18% to 134.38%. There are no financial institutions within the bank's assessment area of comparable asset size and financial capacity to compare the bank's LTD ratio.

Management feels that the bank's LTD ratio is adversely impacted by the following factors:

- ! The FSB does not offer indirect paper, whereas many of the financial institutions with branch offices within the assessment area offer this type of product.
- ! The bank does not participate in government-insured lending programs.
- ! Farm credit lending entities provide competition for agricultural loans which is the bank's primary business focus.
- ! The bank does not sell its real estate mortgages in the secondary market as do other banks in the community.
- ! Limited loan demand and stiff competition within the market for loans.
- ! Due to the short financing term (one year or less) of most commercial and agricultural-related loans, the bank's loan portfolio has a high volume of payoffs and/or pay downs.
- ! Deposit growth has out paced loan growth. For example, between June 30, 1995 and June 30, 1996, deposits increased by \$2,814,000 or 5.04%, while loans increased by \$450,000 or 1.81%.

With consideration to the preceding factors and comments received from community representatives, the bank's LTD ratio is considered reasonable and meets the standards for a satisfactory performance.

Lending in Assessment Area

Analysis of the examination loan sample revealed the following distribution:

LOAN TYPE	TOTAL SAMPLED	WITHIN THE ASSESSMENT AREA	PERCENT OF TOTAL
Consumer Loans:			
Real Estate	* 10	7	70%
Installment (Direct/Indirect)	21	15	71%
Single-Payment	* 15	13	87%
Commercial and Agricultural	20	14	70%
Total Loans:	66	49	74%

* Represents total loan activity for these credit products during three months period.

The preceding chart illustrates that a reasonable percentage of sampled loans, by product and in aggregate, were made within the assessment area. Further, according to loan reports obtained from the bank, an estimated 777 or 75% of the total 1,036 loans (commercial and agricultural included) originated since the previous examination were made to borrowers within the assessment area.

The level of lending within the assessment area, as evidenced by the examination loan sample and loans made since the previous examination, is considered reasonable and meets the standards for satisfactory performance.

Lending Analysis Based Upon Borrower Income and Size of Business

An analysis of the examination consumer loan sample, conducted to determine the distribution of loans among borrowers of different income levels, revealed the following distribution:

LOAN TYPE	LOW-INCOME BORROWERS Number/\$000's	MODERATE-INCOME BORROWERS Number/\$000's	MIDDLE-INCOME BORROWERS Number/\$000's	UPPER-INCOME BORROWERS Number/\$000's
Real Estate ¹	0/ \$0	2/ \$32	4/ \$204	2/ \$167
Installment ²	0/ \$0	4/ \$15	5/ \$30	1/ \$18
Single Payment ³	0/ \$0	0/ \$0	1/ \$2	1/ \$3
Total	0/ \$0	6/ \$47	10/ \$236	4/ \$188

¹ For 2 applicants, income was not available

² For 11 applicants, income was not available

³ For 12 applicants, income was not available

The preceding chart illustrates that loans (with income information available) are primarily

distributed among borrowers who fall within the moderate- and middle-income categories. This lending activity is considered adequate given the assessment area's market demographics; however, this distribution is skewed because a large number (25 of 45, or 55.6%) of all consumer applications sampled did not have income information available.

Management stated that since the previous examination, commercial loan requests have been in amounts ranging from \$2,500 to \$300,000. A review of five community development loans (totaling \$838,000) revealed that most of these loans were to small entrepreneurs (commercial and retail shops); three of the five loans provided financing for low-income rental housing, one of which was for a senior citizen housing complex.

A review of the bank's 1994, 1995 and 1996 Consolidated Reports of Condition (as of June 30) revealed the following loan distribution to small businesses and small farms:

LOANS TO SMALL BUSINESSES	1996		1995		1994	
	#	\$ (000)	#	\$ (000)	#	\$ (000)
Loan Category:						
Nonfarm/ Nonresidential Real Estate						
\$100,000 or less	62	3,503	69	3,204	44	2,280
Commercial and Industrial						
\$100,000 or less	150	2,133	207	2,000	162	1,946
TOTAL	212	5,636	276	5,204	206	4,226

LOANS TO SMALL FARMS	1996		1995		1994	
	#	\$ (000)	#	\$ (000)	#	\$ (000)
Loan Category:						
Farmland						
\$100 or less	75	5,729	101	5,669	88	5,155
Agricultural Production						
\$100 or less	100	1,975	330	2,304	388	3,366
TOTAL	175	7,704	431	7,973	476	8,521

The bank made no loans over \$1 million to a commercial borrower during three-year period.

The preceding charts indicate that between 1994 and 1996, loan volume (by dollar amount) increased by 33.37% to small businesses and decreased by 9.59% to small farms. According to management, the number of outstanding small farm loans decreased during the three-year period due to a large volume of payoffs and many agricultural borrowers converting their agricultural operating/production loans into real estate (farmland) secured loans; the outstanding loans (by dollar) shifted to the category of loans secured by farmland.

The loan distribution reflects a reasonable penetration among individuals of different income levels (including low- and moderate-income) and businesses and farms of different sizes and is consistent with the assessment area's demographics.

Geographic Distribution of Loans

An analysis of the bank's geographic distribution of loans is not applicable as there are no low- or moderate-income census tracts or BNAs within the assessment area.

Response to Substantiated Complaints

The institution received no complaints regarding its CRA performance since the previous examination.