

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 **Community State Bank** prepared by the **Federal Reserve Bank of Chicago**, the institution's supervisory agency, as of **January 29, 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 activities 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 needs. This is demonstrated 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 an adequate loan-to-deposit ratio. The bank has exhibited sufficient performance concerning the percentage of loans originated in its assessment area. Further analysis revealed that the bank's loan activity was proportionately distributed both geographically and to various income levels consistent with the assessment area's population and economic conditions. 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 **Community State Bank** with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	COMMUNITY 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

Community State Bank (CSB), with \$72 million in total assets as of September 30, 1995, is a subsidiary of Community Financial Corporation, a one-bank holding company. The bank's main office is located in Avilla, Indiana, with three additional full-service branch offices located in Kendallville, Wolf Lake and its newest office in Albion which officially opened August 28, 1995. Further, the bank has installed two automated teller machines (ATMs) since the previous examination. One ATM is located in Avilla, one mile east of the main office at the junction of Highways 3 and 8 and the other is located in Wolf Lake, a rural area 15 miles southwest of Avilla.

CSB 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, 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, real estate, capital purchases, equipment and crop/livestock input. Community State Bank also offers commercial and retail deposit services.

The bank's only competitor in Avilla is People's Federal Savings Bank of DeKalb County (assets of \$273 million) with one branch in Kendallville. Further competition (by asset size) in Kendallville is provided by The Campbell and Fretter Bank (\$184 million) with one branch in Albion; a branch of Society National Bank, in South Bend (\$3.8 billion); Professional Federal Credit Union (\$102 million); and Lake City Bank (\$533 million) with one branch in Cromwell. Farmers State Bank (\$181 million) in Laotto and Wolcottville is also considered a competitor.

DESCRIPTION OF COMMUNITY STATE BANK'S ASSESSMENT AREA

Community State Bank has defined its assessment area as Block Number Area (BNA) 9717.00 through 9726.00 in Noble and DeKalb Counties. The BNA encompass the towns of Albion, Avilla, Brimfield, Cromwell, Kendallville, Kimmell, Laotto, Rome City, Wolcottville and Wolf Lake in Noble County, and Auburn, Corunna, Garrett, South Milford and Waterloo in DeKalb County. The majority of the assessment area is in Noble County.

According to the 1990 Census, the population of Noble County is 37,877. Demographically, Hispanics represent 625 or 1.65% of the county's total population; no other minority group comprised more than 0.25%. The greatest minority concentration is in the City of Ligionier where 321 or 9.32% of the community's 3,443 population is Hispanic.

The 1990 U.S. Census Bureau data reports the adjusted median family income of the assessment area is \$34,180. The total number of families in the assessment area is 17,121. A total of 2,759 families or 16.1% are low income (less than 50% of median income); 3,835 or 22.4% are moderate income (50 - 79% of median income); 5,299 or 31% are middle income (80 - 120% of median income); and 5,228 or 30.5% are upper income families (121% or more of median income).

The assessment area has a total of 24,984 housing units with 17,781 or 71.2% owner occupied and 4,503 or 18% renter occupied. Of the total number of housing units, 3,449 or 13.8% are mobile homes. Owner-occupied units in low income areas total 966 or 3.8%. The median housing value is \$50,402 and the median housing age is 35 years.

The single-family housing stock in the community is growing rapidly in areas like Avilla, Albion, and Kendallville while growth is reportedly strained by a lack of municipal water and sewer lines in some more rural areas such as Wolf Lake. The first 12-lot phase of a proposed 52-lot expansion began at the Avilla Mobil Home Park in 1995. Two new residential housing subdivisions are also planned for 1996 in Avilla. Kendallville has already begun planning a 350-home development project with homes in the \$100,000 to \$250,000 price range.

New State Route 3, which passes by Avilla and ties Kendallville with Fort Wayne, and increased access to other major interstates has increased the growth in the area. New housing permits are said to be 50 or more per year in several local communities, and new subdivisions of single family homes are becoming commonplace.

The growth being experienced in the area is due in part to people moving from Fort Wayne and the result of a high concentration of manufacturing businesses which have relocated to northeast Indiana from Michigan in order to take advantage of the lower tax structure. A restraint to growth has been the relative unavailability of housing for blue collar workers. Community contacts indicate that local governments are often unable (due to debt rate caps) to issue bonds for new sewer and water improvements for new developments and are dependent on area financial institutions to underwrite local bond issues. The contacts also view conventional lending standards of 20% down as too restrictive to serve lower income individuals such as single parents.

The Community State Bank of Avilla was mentioned as an active lender in the community and was credited with attracting valuable manufacturing facilities to the area, helping to improve and expand local schools, and developing new affordable housing opportunities in the \$80,000 range for moderate income families.

The main commercial hub in the assessment area is Kendallville, which has a population of 7,773 according to the 1990 census, and is home to Kraft General Foods employing 1,000; Eaton Corporation employing 750; and Newman Manufacturing employing 650.

Unemployment information obtained from the Indiana Department of Work Force Development for the month of November, 1995 (the most recent available data) indicated that Noble County's unemployment rate was 4.5% and DeKalb County's unemployment rate was 3.7%, compared to the State of Indiana's unemployment rate at 4.2% and the national unemployment rate of 5.3%.

In conclusion, the local economy remains strong with employment levels remaining high in Noble county and the surrounding area. The local agricultural economy is prospering with livestock sales and grain prices up from previous years.

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 66.37%. The distribution by loan type was as follows:

LOAN TYPE	DOLLAR AMOUNT OUTSTANDING (000's)	PERCENT OF TOTAL LOANS
REAL ESTATE		
Construction		1.67
Residential (1-4)	734	46.76
Commercial	20,551	14.90
Agricultural	6,549	5.08
Multi-family	2,231	.00
CONSUMER	0	
Open-end Credit		.00
All Other	0	15.75
COMMERCIAL AND INDUSTRIAL	6,920	11.50
AGRICULTURAL	5,054	4.06

STATE AND POLITICAL OBLIGATIONS	1,783	.00
OTHER	0	.28
	121	

The bank's loan distribution as of March 31, 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 60.33% to 66.17%. There was a significant increase in the bank's commercial real estate lending which increased 132% from \$2,821,000 to \$6,549,000. Overall, total loans increased by \$9,321,000 or 26.92%, since the previous examination.

An analysis of the bank's Consolidated Reports of Condition throughout the four quarters in the review period disclosed an average loan-to-deposit ratio of 71.33%. This ratio is considered reasonable given the institution's size, financial condition and assessment area credit needs.

Lending in Assessment Area

A sample of approved loans and denied/withdrawn applications were 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 LOCAL DELINEATED COMMUNITY	PERCENT OF TOTAL
Direct Installment	20	18	90
Single Payment	20	19	95
Commercial	20	19	95
Real Estate	13	9	75
Overdraft Protection	10	10	100
Total Approved Loans	83	75	91
Denied Applications	50	43	86
TOTAL APPLICATIONS	133	118	89

As the preceding chart illustrates, 91% of the loans were within the assessment area.

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

The following chart illustrates the distribution of the loan sample, according to income levels.

LOAN TYPE	LOW-INCOME \$000's/Number	MODERATE- INCOME \$000's/Number	MIDDLE- INCOME \$000's/Number	UPPER-INCOME \$000's/Number
Direct Installment	\$14,900/7	\$22,368/4	\$17,375/4	\$42,111/5
Single Payment	\$0/0	\$0/0	\$0/0	\$0/0
Real Estate	\$23,000/1	\$186,000/4	\$212,000/4	\$189,000/3
Overdraft Protection	\$0/0	\$0/0	\$0/0	\$0/0
Total Originations	\$37,900/8	\$208,368/8	\$229,375/8	\$231,111/8

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 activity is to businesses and farms with annual revenues less than \$500,000. 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 and farms of different sizes.

Geographic Distribution of Loans

A review of the banks loan files and internal documents revealed the following loan activity since the last examination:

TOWN/ POPULATION (1990 U.S. Census)	NUMBER OF LOANS	% OF LOANS/ TOTAL	PRINCIPAL DOLLAR AMOUNT	AVERAGE LOAN AMOUNT	% OF LOANS/ POPULATION
Albion/1823*	555	17.4%	\$8,884,193	\$16,007	30.4%
Avilla/1366*	848	26.6%	\$9,765,119	\$11,515	62.1%
Auburn/9379	107	3.3%	\$1,526,212	\$14,264	1.1%
Brimfield/153	3	0.1%	\$204,465	\$68,155	2.0%
Corunna/241	69	2.2%	\$562,507	\$8,152	28.6%
Cromwell/520	27	0.8%	\$228,821	\$8,474	5.2%
Garrett/5349	159	5.0%	\$2,221,004	\$13,969	3.0%

Kendallville/ 7773*	975	30.6%	\$11,083,844	\$11,368	12.5%
Kimmel/350	59	1.8%	\$503,091	\$8,527	16.8%
Laotto/500	167	5.2%	\$2,084,327	\$12,481	33.4%
Rome City/1138	43	1.3%	\$526,544	\$12,245	3.8%
South Milford	13	0.4%	\$206,796	\$15,907	Not Available
Waterloo/2040	38	1.2%	\$1,475,932	\$38,840	1.9%
Wolcottville/ 879	85	2.7%	\$765,822	\$9,010	9.7%
Wolf Lake/115	43	1.3%	\$318,176	\$7,399	37.3%
TOTAL	3191	N/A	\$40,356,853	\$12,647	N/A

(*)Indicates town with branch office

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

Response to Substantiated Complaints

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