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## 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 **DeMotte State Bank, DeMotte, Indiana** prepared by the **Federal Reserve Bank of Chicago**, the institution's supervisory agency, as of **July 23, 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 **Outstanding**.

The DeMotte State Bank promotes economic revitalization and growth consistent with its size, financial capacity, location and current economic conditions. The bank's CRA program is responsive to the community's credit needs and reflects its commitment to meeting the credit needs of the assessment area. The bank's adequate loan-to-deposit (LTD) ratio and high percentage of loans within the assessment area when compared to its peers, above average dispersion of loans, both geographically and among borrowers of different income levels evidence the bank's satisfactory performance. Management is knowledgeable of antidiscrimination laws and has developed adequate policies, procedures and training programs to prevent discrimination in its lending and credit activities. No discriminatory lending practices or practices which would intend to discourage loan applicants were detected during the examination. Further no complaints were received by the institution regarding its CRA performance since the previous examination.

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

SMALL INSTITUTION ASSESSMENT CRITERIA	DEMOTTE 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 RECEIVED SINCE THE PREVIOUS EXAMINATION		

**DESCRIPTION OF INSTITUTION**

The DeMotte State Bank (DSB), with total assets of \$140 million as of June 30, 1996, is a subsidiary of DeMotte Bancorp, a one-bank holding company located in DeMotte, Indiana. The bank's main office and deposit operation center, four full-service branch offices and three mini-branch offices are in DeMotte. The bank also has two on-premise automated teller machines (ATMs). The mini-branch offices offer deposit services (i.e., deposits and withdrawals). There is lending authority at each full-service branch office, consumer and commercial loans can be closed at the branches, and each branch maintains its own loan files.

The bank's primary business focus is retail banking, with real estate being its predominant product. Based upon information contained in the June 30, 1996 Report of Condition, approximately 68.48% of the bank's loan portfolio is real estate loans, with 45.72% of real estate loans secured by one-to-four family residences. Commercial/industrial, commercial real estate, consumer and agricultural real estate loans comprise 10.49%, 10.35%, 9.31% and 3.81%, respectively, of the bank's loan portfolio. Mortgage loans include conventional in-house loans with 70% loan-to-value [80% to 95% loan-to-value with private insurance (PMI) coverage for loans sold in the secondary market], construction loans and home equity loans. Consumer loan products consist of personal automobile loans, secured and unsecured personal loans, and credit cards. The bank no longer offers student loans; however, applications are available at the bank. The bank sells real estate mortgages on the secondary market (Midwest Financial Services and Lake Mortgage Company, Incorporated) and participates in the Farmers Home Administration (FmHA) loan program.

The bank's competitors include branches of NBD Bank, N.A. (Lowell, Hebron, Cedar Lake); Pinnacle Bank (Hebron, DeMotte); Security Federal Bank (Lowell); Centier Bank (Lowell); First National Bank, Valparaiso (Hebron); and Kentland Bank (Kentland), Goodland State Bank (Goodland), and Bank One (Cedar Lake). Additional competition is provided by local savings and loan associations, and credit unions.

**DESCRIPTION OF DEMOTTE STATE BANK’S ASSESSMENT AREA**

The City of DeMotte, in Jasper County, serves as a bedroom community to Merrillville, Indiana (which is approximately 20 miles northwest of DeMotte). The bank’s assessment area is defined as a rectangularly-shaped area which includes all of Newton County and portions of Lake, Jasper, Porter and Starke Counties. The assessment area contains a total of 24 census tracts/block numbering areas (CTs/BNAs), 11 CTs and 13 BNAs. The following illustrates the percentage of total CTs/BNAs for each county that falls within the assessment area.

**Newton County:** all BNAs within the county, 9904, 9905, 9906, 9907

**Lake County:** CTs - 429, 430, 431.01, 431.02, \*432.01, 432.02, 433, 434.01, 434.02 [9%]

**Porter County:** CTs - 510.04, 511.01 [12%]

**Jasper County:** BNAs - 9908, 9909, 9910 [50%]

**Starke County:** BNAs - 9537, 9538, 9539, 9540, 9541, 9542 [86%]

\* This census tract is designated as a low- and moderate-income tract.

The following illustration is a comparison of the assessment area population to the county’s population for each county or portions of a county located within the assessment area.

<u>County</u>	<u>Assessment Area Population</u>	<u>County Population</u>	<u>% of County Total</u>
Lake	63,631	475,594	13.38%
Starke	20,159	22,747	88.62%
Jasper	14,538	24,960	58.25%
Newton	13,551	13,551	100.00%
Porter	<u>12,153</u>	<u>128,932</u>	<u>9.43%</u>
<b>Total:</b>	<b>111,879</b>	<b>536,852</b>	<b>20.84%</b>

The Lake and Porter Counties portion of the assessment area (11 census tracts) is located within the Gary/Hammond Metropolitan Statistical Area (MSA), only a small portion of MSA is located in the assessment area. There is one census tract in Lake County designated as a low- and moderate-income tract. There are no low-income or minority census tracts within the assessment area.

According to 1990 U.S. census data, the town of Cedar Lake (population 8,885) is the most populated community in the assessment area. The racial make-up of the population is as follows: Whites - 109,149 or 97.6%; individuals of Hispanic decent - 2,016 or 1.8%; American Indians - 317 or .03%; Asians - 282 or .03%; and Blacks - 106 or .01%.

There are 286,350 workers in the bank's assessment area, of which 41,174 or 14.38% commute outside the area for employment. This work force is dominated by adults between the ages 25-44, who represents approximately 30% of the entire work force. As of May 1996, the State of Indiana unemployment rate was 4.1%.

Of the total population for the assessment area, 78,011 or 69.73%, 28,215 or 25.22% and 5,653 or 5.05% were middle, upper and low income individuals respectively. The minority population is dominated by middle-income people represented by 1,708 or 62.56% of the total minority population.

Based upon 1990 U.S. census data, there are a total of 41,644 housing units located in the bank's assessment area, of which 30,631 or 73.6% are owner-occupied units; 7,896 or 19% are rental units; and 3,117 or 7.5% are vacant units. One-to-four family unit homes account for the majority (36,973 or 88.8%) of the assessment area's housing, while mobile and multifamily homes comprise 2,821 (6.8%) and 1,567 (3.8%), respectively, of the remaining housing units. The median age of homes in the bank's assessment area is 31 years (12,178 or 29.2% were built prior to 1950). The median housing value is \$62,189, while the median family income is \$36,681.

#### **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 67.76%. According to the March 31, 1996 Uniform Bank Performance Report (UBPR) data, the bank's LTD ratio is below the national peer group by 3.89%. When the bank's LTD ratio for the period of June 30, 1995 is compared to that of local competitors of similar asset size and product offerings, bank lags behind peers by approximately 5.80%. This variance is not a concern based upon the make-up of the community. Overall, the bank's LTD ratio decreased by 2.19%, while total loans increased by \$5 million or 6.59% since the previous examination. Management attributes the loan increase to new housing development within the assessment area, and its willingness to offer construction loans, this type of financing is not available from the majority of its competitors. The LTD ratio does not reflect the \$3.8 million in mortgage loans the bank originated and sold on the secondary market. Fluctuations in agricultural lending caused the bank's LTD to surge between June and August.

Review of the bank's loan policy and discussion with senior management revealed that the bank's board of directors has set a LTD ratio cap not to exceed 70%, or fall below 60%. According to the Fall, 1995 American Financial Directory, the LTD for the bank's primary competitors ranged from 55.32% to 108.21%. At 67.76%, the bank's LTD ratio is considered reasonable given the institution's size, financial condition, competition and assessment area credit needs.

### Lending in Assessment Area

The bank's Home Mortgage Disclosure Act (HMDA) data for 1995 and 1994 was analyzed to determine the level of lending activity within the assessment area. Results of the analysis revealed the following:

LOAN TYPE	TOTAL SAMPLED	WITHIN THE ASSESSMENT AREA	PERCENT OF TOTAL
Purchase-Money	10	10	100.00%
Refinancing	8	6	75.00%
Home Improvement	12	9	75.00%
Total	30	25	83.33%

As the preceding chart illustrates, 83.33% of the HMDA-reportable loans were made within the assessment area; a high percentage of all loan types were made within the assessment area. Additionally, analysis of the examination sample of loans recently originated revealed the following distribution:

LOAN TYPE	TOTAL SAMPLED	WITHIN THE ASSESSMENT AREA	PERCENT OF TOTAL
<b>Consumer Loans:</b>			
Real Estate	12	11	92%
Installment (Direct/Indirect)	20	16	80%
Single Payment	20	17	85%
Home Equiline (Open-End)	10	10	100%
Credit Cards	10	10	100%
Commercial and Agricultural	26	24	92%
<b>Total Applications:</b>	98	88	90%

The preceding chart illustrates that a high percentage of sampled loans, by product and in aggregate, were made within the assessment area. The bank's most recent semi-annual self-analysis of its lending activity within the assessment area (second quarter of 1996) also showed a high percentage of lending in the assessment area with 85% to 92% of consumer loans and approximately 95% of small business and agricultural loans were made to borrowers within the assessment area. A review of the bank's internal reports validated this penetration level.

### Lending Analysis Based Upon Borrower Income and Size of Business

The bank's HMDA-reportable loans for 1995 and 1994 were analyzed to determine the distribution of loans among borrowers of different income levels. Review of HMDA-reportable loans revealed the following income distribution for each real estate loan product:

LOAN TYPE	LOW-INCOME Number/\$000's	MODERATE INCOME Number/\$000's	MIDDLE INCOME Number/\$000's	UPPER-INCOME Number/\$000's
Purchase-Money	8/ \$475	2/ \$128	4/ \$302	6/ \$548
Refinancing	5/ \$431	1/ \$10	4/ \$297	7/ \$580
Home Impr.	12/ \$144	3/ \$45	6/ \$91	4/ \$209
Total	25/ \$1,050	6/ \$8,525	14/ \$690	17/ \$1,337

	Low Income	Moderate Income	Middle Income	Upper Income
Total Loans	25	6	14	17
Percentage of Total	40.32%	9.68%	22.58%	27.42%
Total (\$000's)	1,050	8,525	690	1,337
Percentage \$	9.05%	73.48%	5.95%	11.52%

The preceding charts indicate that lending activity is distributed among borrowers of different income levels with fifty percent (50%) of total loans were made to low- and moderate-income individuals.

There is one designated moderate-income tract in the assessment area (census tract 432.01 in Lake County). Lending in this tract is comparable to other areas within the assessment area. There are no designated low-income census tracts within this assessment area; however, the preceding chart indicates that the bank originated a high percentage of HMDA-reportable loans (1995 and 1994 combined loan activity) to low-income individuals. It should be noted that during April of 1996, the bank revised its assessment area to include two additional census tracts in

Porter County (census tracts 510.04 and 511.01), and BNA 9537 located in Starke County, because the revision to the assessment area did not occur until 1996, HMDA data does not reflect the mortgage lending activity for the two census tracts. The bank's most recent six-month (January to June 1996) distribution analysis for all loan types revealed one mortgage loan for \$10,750 was originated in census tract 511.01.

A six-month sample of commercial and agricultural loans was also reviewed. All loans in the sample were in amounts less than \$1 million. The sample included 306 agricultural loans (totaling \$12.5 million) and 704 commercial loans (totaling \$17.1 million). These loan amounts range from to \$3,000 to \$180,000. For this same period, a sample of 25 commercial construction loans (totaling \$2.6 million) in amounts ranging from \$74,200 to \$458,500 was reviewed. Management stated that many of these loans were originated to small entrepreneurs (building contractors) with borrowing needs far less than a million dollars. These loan proceeds provided financing for numerous small business ventures and several single-family housing developments in the area. One project in particular, was the \$1.1 million line of credit to finance the development of the Ironwood Estates Development subdivision in the downtown DeMotte area. In the spring of 1996, seventeen buildings, forty-nine condominium units were completed as result of the bank's financing. This community development project created job opportunities for many of the local tradesman and contractors in the assessment area. As a result of its contributions to economic development in Indiana communities, in May of 1996, the bank received the AAward of Merit@ Community Service Award.

With the absence of annual revenue information in the credit files of the businesses or farms, loan size was used as a proxy to determine if the distribution of lending to businesses of different sizes is reasonable.

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:

Loan \$ Category (000's)	1996 #	\$	%	1995 #	\$	%	1994 #	\$	%
<b>Small Business</b>									
\$100 or less	139	4,342	51.09%	133	4,885	47.46%	111	4,286	48.64%
\$100 - \$250	22	3,334	39.23%	36	4,558	44.29%	36	4,525	51.36%
\$250 - \$1 million	2	823	9.68%	2	849	8.25%	0	0	0.00%
TOTAL	163	8,499		171	10,292		147	8,811	
<b>Commercial Real Estate</b>									
\$100 or less	523	5,833	67.73%	450	5,882	84.63%	433	4,972	82.58%
\$100 - \$250	16	2,124	24.66%	8	593	8.53%	9	761	12.64%
\$250 - \$1 million	2	655	7.61%	2	475	6.84%	1	288	4.78%

TOTAL	541	8,612		460	6,950		443	6,021	
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Loan \$ Category (000's)	1996 #	\$	%	1995 #	\$	%	1994 #	\$	%
<b>Farmland</b>									
\$100 or less	36	1,189	38.01%	28	1,061	27.67%	24	844	23.86%
\$100 - \$250	12	1,939	61.99%	16	2,211	57.67%	16	2,330	65.86%
\$250 - \$1 million	0	0	0.00%	3	562	14.66%	2	364	10.28%
TOTAL	48	3,128		47	3,834		42	3,538	
<b>Small Agricultural</b>									
\$100 or less	231	4,227	45.02%	174	3,531	62.58%	203	4,107	67.05%
\$100 - \$250	22	3,230	34.40%	17	1,548	27.44%	16	1,471	24.02%
\$250 - \$1 million	5	1,932	20.58%	2	563	9.98%	2	547	8.93%
TOTAL	258	9,389		193	5,642		221	6,125	

The preceding charts revealed that the number and size of loans increased each year for small business, commercial and agricultural loans. In these categories, loan amounts of \$100,000 or less had the highest loan volume. This is in line with the borrowing needs of the businesses within the assessment area, according to comments by members of the business community.

Management attributes the increases in loan volume and dollar amount for each category to the bank's business development officer's recognition of the credit needs of the small businesses in the area.

In addition to the lending activity discussed previously, the bank participates in Farmers Home Administration (FmHA) loan program. Since the previous examination, the bank originated 22 FmHA loans totaling \$2,574,450. Under the guidelines for this government-insured lending program, qualified applicants are generally new farmers.

### Geographic Distribution of Loans

The bank's recent six-month geographic loan distribution revealed that the bank originated a total of 120 mortgage loans, of which 112 or 93% were within the assessment area. The bank's data reflects that the bank originated loans in all tracts and/or BNAs with the exception of tract 510.04. Management stated that the lack of lending activity in this area is due to competition from other lenders and the fact that there are no DSB branch facilities in this area. The bank's performance in making loans throughout the assessment area is reasonable. Lending activity is dispersed throughout the assessment area. No evidence of irregular lending patterns were detected.

### Response to Substantiated Complaints

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