

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 **G. W. Jones Exchange Bank** prepared by the **Federal Reserve Bank of Chicago**, the institution's supervisory agency, as of **December 16, 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 capacity, location, and current economic conditions. A review of the bank's lending activities shows that the bank originates credit consistent with community credit needs. This is demonstrated by a loan portfolio mix consisting of consumer, real estate, small business and agricultural loans.

The bank's efforts are evidenced by a reasonable loan-to-deposit ratio and a high percentage of loans originated within the bank's assessment area. The bank's record of lending to borrowers of different incomes and businesses of different sizes is reasonable. The bank's geographic distribution of loans demonstrated a reasonable penetration to all segments of its local community, including low and moderate-income areas. Management has developed adequate policies and procedures supporting nondiscrimination in lending and credit activities. In addition, no CRA-related complaints were received by the bank since the previous examination.

The following table indicates the performance level of **G. W. Jones Exchange Bank** with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	G. W. JONES EXCHANGE 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 CRA-related complaints were received since the previous examination.		

DESCRIPTION OF INSTITUTION

G. W. Jones Exchange Bank, with \$26.3 million in total assets as of September 30, 1996, is a subsidiary of Jones Bancorp Inc., a one-bank holding company. The bank's main office is located in the Village of Marcellus, Michigan. The bank operates three additional full service branches located in Cassopolis, Jones and Three Rivers. The bank also operates a drive-through facility which is adjacent to the main office. The drive-through facility accepts deposits and has extended hours to accommodate customers when the main office is closed.

The bank offers traditional financial services including consumer, real estate, commercial, and agricultural credit products. The consumer loan products consist of both secured and unsecured installment, conventional owner-occupied real estate, and land purchase loans. Commercial and agricultural credit products include operating lines of credit, real estate, construction, capital purchases, and equipment purchase loans.

The bank is the only financial institution located in the Village of Marcellus and in the City of Jones. In the City of Cassopolis, the primary competitors include branches of Michigan National Bank and Old Kent Bank. In Three Rivers, the primary competitors are The First National Bank of Three Rivers, First Savings Bank, Federal Savings Bank, Old Kent Bank, and Sturgis Federal Savings Bank.

DESCRIPTION OF ASSESSMENT AREA

Management has defined the bank's assessment area as all of Cass County, Porter and Decatur Townships located in Van Buren County, the City of Three Rivers and the Townships of Flowerfield, Park, Fabius, Constantine, Mottville, White Pigeon, Lockport, and Florence located in St. Joseph County. The assessment area is comprised of census tracts 001 through 012 and 014 through 016 in Cass County; 116 in Van Buren County; and 401 through 404, 409, 411, 412, and 414 in St. Joseph County. Tract number 9 in Cass County is low income, and tract numbers 402 and 404 in St. Joseph County are moderate income. Van Buren County is in the Kalamazoo Metropolitan Statistical Area (MSA).

According to the 1990 Census, the population of the bank's assessment area is 81,376. Demographically, Blacks represent 5,242 or 6.4%; Hispanics represent 1,052 or 1.3%; and American Indian 744 or 0.9% of the assessment area's total population. No other minority group comprised more than 0.5% of the population.

According to the 1990 Census, the median family income for the bank's assessment area is \$31,681. The total number of families in the assessment area is 22,646. A total of 3,670 families or 16.2% are considered low-income; 3,779 or 16.7% are considered moderate income; 4,868 or 21.5% are considered middle income; and 10,329 or 45.6% are considered upper income.

The assessment area has a total of 36,441 housing units with 23,117 or 63.4% owner occupied

units; 6,902 or 18.9% rental units; and 6,422 or 17.6% vacant units. Approximately 30,402 or 83.4% are one-to-four family units; 1,665 or 4.6% multi-family units; and 4,050 or 11.1% are mobile homes. Of the total number of housing units, 169 or 0.5% are located in low-income census tracts; 1,778 or 4.9% moderate-income; 21,331 or 58.5% middle income; and 13,163 or 36.1% upper income. Within the low-income census tract, 86 or 50.9% (86 of 169) are owner-occupied units and 37 or 21.9% (37 of 169) are renter-occupied. Of the total number of housing units located within the moderate income census tracts, 946 or 53.2% are owner occupied and 622 or 35% are renter occupied. The median housing value for the assessment area is \$46,017 and the median housing age is 45 years.

Unemployment information obtained from the Michigan Employment Security Agency for the month of November, 1996 indicated that the unemployment rate for the Village of Marcellus was 5.5%, slightly above the Cass County unemployment rate of 5%, the State of Michigan unemployment rate of 4.2%, and the national unemployment rate of 5%.

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

EMPLOYER	NUMBER OF EMPLOYEES	TYPE OF BUSINESS OR INDUSTRY
K & M Machine & Fabricating Inc. - Cassopolis	140	Machinery and Equipment Metalworking
Best Plastics Inc. - Cassopolis	100	Plastic Products
SPX Corp: Contech Division - Dowagiac	999	Foundries, Nonferrous
Sundstrand Heat Transfer - Dowagiac	500	Refrigeration, Heating and Cooling
Jessup Door Co. Inc. - Dowagiac	425	Millwork, Doors, Wood, and Covered Wood
Rospatch Corp: Jessco Div. - Dowagiac	290	Furniture and Fixtures
Aluminum Casting Division - Dowagiac	180	Die Castings, Aluminum & Alloys
Georgie Boy Manufacturing Inc - Edwardsburg	450	Mobile Homes
Cree Coaches, Inc - Marcellus	56	Camping Trailers and Chassis
Creative R. V. Corp - Marcellus	49	Travel Trailers and Campers

Community contacts indicated a need for senior citizen housing. G. W. Jones Exchange Bank was mentioned as an active lender in the community and was credited with promoting social and economic growth.

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

An analysis of the bank's consolidated reports of condition throughout the six quarters in the review period disclosed an average loan-to-deposit ratio of 68.01%. This ratio is considered reasonable given the institution's size, financial condition, and assessment area credit needs.

The following charts illustrate the composition of the bank's loan portfolio, and how the bank's performance compares with its peers. A review of the bank's September 30, 1996, Consolidated Report of Condition showed a loan-to-deposit ratio of 75.13%. The distribution by loan type was as follows:

LOAN TYPE	DOLLAR AMOUNT OUTSTANDING (000's)	PERCENT OF TOTAL LOANS
REAL ESTATE		
Construction	1,219	6.73
Residential (1-4)	11,390	62.83
Commercial	78	0.43
Agricultural	499	2.75
CONSUMER		
All Other	1,970	10.87
COMMERCIAL AND INDUSTRIAL	2,281	12.58
AGRICULTURAL	530	2.92
STATE AND POLITICAL OBLIGATIONS	155	0.86
OTHER	6	0.03

A comparison of the above loan distribution with information contained in the previous report of examination (data as of the March 31, 1995, Consolidated Report of Condition) revealed that total loans have increased by \$4,224,000 or 30.77%. The overall increase in loan volume can be traced to a 464.3% increase in construction loan activity from \$216,000 to \$1,219,000 and a 40% increase in one-to-four family residential loan activity from \$8,138,000 to \$11,390,000 between examinations. This increased activity is the direct result of the bank's efforts to promote its adjustable rate mortgage (ARM) loans and home equity lines of credit.

A review of the September 30, 1996 Uniform Bank Performance Report (UBPR) data shows that the bank's loan-to-deposit ratio of 75.13% exceeds its peer ratio of 67.68%. The bank's performance compared to its peer is illustrated in the following chart.

LOAN TYPE	BANK AVERAGE LOAN MIX (%)	PEER AVERAGE LOAN MIX (%)
REAL ESTATE LOANS		
Construction/Development	7.95	1.20
1 - 4 Family Residential	61.34	26.80
Home Equity	5.91	0.03
Other Real Estate	3.11	19.20
Farmland	2.62	7.55
Multi-family	0.00	0.19
Commercial	0.48	8.71
TOTAL REAL ESTATE LOANS	72.39	50.24
LOANS TO INDIVIDUALS	11.09	15.53
CREDIT CARD LOANS	0.00	0.10
COMMERCIAL & INDUSTRIAL LOANS	12.66	13.66
AGRICULTURAL LOANS	3.00	12.88
MUNICIPAL LOANS	0.83	0.22
OTHER LOANS*	0.04	0.16
*Excludes Financial Institution Loans, Acceptances of Other Banks, Foreign Office Loans and Leases, and Lease Financing Receivables		

The bank's loan portfolio is comprised primarily of one-to-four family residential loans. As of September 30, 1996, one-to-four family residential loans comprised 61.34% of the bank's loan portfolio. The bank's one-to-four family residential lending significantly exceeds the peer group's 26.80% level of lending. The bank's loan-to-deposit ratio meets the requirements for satisfactory performance.

Lending in Assessment Area

A sample of loans was reviewed regarding lending activity within the bank's assessment area. An analysis of the examination loan sample revealed the following distribution:

LOAN TYPE	TOTAL SAMPLED	WITHIN THE ASSESSMENT AREA	PERCENT OF TOTAL
Direct Installment	21	21	100%
Single Payment	12	12	100%
Real Estate	10	9	90%
Home Equity	10	10	100%
Commercial	10	8	80%
Total Approved Applications	63	60	95%

Review of the examination loan sample disclosed that 95% of approved applications were originated within the bank’s assessment area. The bank’s level of lending within its assessment area exceeds standards for satisfactory performance.

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

A sample of loans was reviewed to determine the level of lending to borrowers of different income levels and to businesses of different sizes. The following chart illustrates the distribution of the loan sample according to income levels.

LOAN TYPE	LOW-INCOME \$/Number	MODERATE- INCOME \$/Number	MIDDLE- INCOME \$/Number	UPPER-INCOME \$/Number
Direct Installment	\$5,794/3	\$43,168/4	\$44,476/6	\$22,119/5
Single Payment	\$785/1	\$14,458/4	\$3,705/3	\$13,708/4
Real Estate	\$0/0	\$21,000/1	\$67,400/2	\$422,000/6
Home Equity	\$10,920/1	\$0/0	\$55,000/3	\$85,000/5
Total Originations	\$17,499/5	\$78,626/9	\$170,581/14	\$542,827/20

Of 48 loans containing income information, 5 or 10.42% were to low-income applicants and 9 or 18.75% were to moderate-income applicants. Further, the loan sample revealed that 89% of the real estate and home equity loans were granted to middle and upper income applicants. There were no real estate loan originations to low-income applicants, and no home equity loan originations to moderate-income applicants during the loan sample period.

The preceding chart further illustrates that 67% (\$542,827 of \$809,533) of the bank’s total loan

volume for the sample period went to upper-income applicants; 2.16% (\$17,499 of \$809,533) to low-income applicants; and 9.71% (\$78,626 of \$809,533) to moderate-income applicants.

A review of the bank's June 30, 1996 Consolidated Report of Condition revealed the following loan distribution to small businesses and small farms:

COMMERCIAL LOANS TO SMALL BUSINESSES				
LOAN ORIGINATION CATEGORY (000's)	NUMBER OF LOANS	DOLLAR AMOUNT OUTSTANDING	% OF TOTAL LOANS	% OF TOTAL OUTSTANDING
\$100 OR LESS	175	\$1,779	98.31%	81.87%
\$100 - \$250	3	\$394	1.69%	18.13%
TOTAL	178	\$2,173	100%	100%

AGRICULTURAL LOANS TO SMALL FARMS				
LOAN ORIGINATION CATEGORY (000's)	NUMBER OF LOANS	DOLLAR AMOUNT OUTSTANDING	% OF TOTAL LOANS	% OF TOTAL OUTSTANDING
\$100 OR LESS	43	\$776	97.73%	79.51%
\$100 - \$250	1	\$200	2.27%	20.49%
TOTAL	44	\$976	100%	100%

The preceding chart illustrates that 98.31% of the total number of small business loans and 97.73% of small farm loans approved had origination amounts of \$100,000 or less. With the loan size used as a proxy, the chart further indicates that the total loans are proportionately distributed to businesses of different sizes.

The distribution of borrowers reflects reasonable penetration among individuals of different income levels (including low- or moderate-income levels) and businesses and farms of different sizes.

Geographic Distribution of Loans

The bank's internal geographic analysis dated, November, 1996, was reviewed. The following chart illustrates a portion of the bank's distribution of loans since the previous examination:

TOWN/ POPULATION (1990 U.S. Census)	CENSUS TRACT	NUMBER OF LOANS	PERCENT BY NUMBER	PERCENT OF LOANS BY POPULATION	PRINCIPAL LOAN AMOUNT	PERCENT OF TOTAL LOAN AMOUNT

TOWN/ POPULATION (1990 U.S. Census)	CENSUS TRACT	NUMBER OF LOANS	PERCENT BY NUMBER	PERCENT OF LOANS BY POPULATION	PRINCIPAL LOAN AMOUNT	PERCENT OF TOTAL LOAN AMOUNT
Newburg, Volina, Jones, Marcellus/ 4,035 (+)	0001.00	246	31.50%	6.10%	\$4,235,892	29.43%
Marcellus Village/ 1,193 (+)	0002.00	108	13.83%	9.05%	\$1,416,816	9.85%
Wayne, Silver Creek/ 5,903	0003.00	23	2.94%	0.39%	\$491,856	3.42%
Dowogiac/ 6,484	0004.00	23	2.94%	0.35%	\$287,955	2.00%
Pokagon, Howard/ 4,387	0005.00	1	0.13%	0.02%	\$2,042	0.02%
LaGrange, Jefferson/ 2,992	0006.00	45	5.76%	1.50%	\$472,693	3.28%
Cassopolis Village/ 1,822	0007.00	46	5.89%	2.52%	\$706,943	4.91%
Penn, Calvin/ 3,333	0008.00	69	8.83%	2.07%	\$1,260,664	8.76%
Vandalia Village/ 357	0009.00*	14	1.79%	3.92%	\$128,546	0.89%
Porter, Jones Townships/ 3,859	0010.00	18	2.30%	0.47%	\$448,459	3.12%
Mason Twp./ 2,450	0011.00	4	0.51%	0.16%	\$ 65,888	0.46%
Ontwa Twp/ 2,908	0012.00	11	1.41%	0.38%	\$452,542	3.14%
Edwardsburg Village/ 1,142	0014.00	0	0.00%	0.00%	\$0.0	0.00%
Howard Township SW/ 4,082	0015.00	0	0.00%	0.00%	\$0.0	0.00%
Milton Township/ 1,107	0016.00	5	0.64%	0.45%	\$92,302	0.64%
Porter, Decatur Twps/ 5,702	0116.00	47	6.02%	0.82%	\$1,014,187	7.05%
Three Rivers-North/ 3,162 (+)	0401.00	7	0.90%	0.22%	\$180,200	1.25%
Three River-SE/ 1,943	0402.00 **	2	0.26%	0.10%	\$21,110	0.15%
Three Rivers-SW/ 2,592	0403.00	4	0.51%	0.15%	\$147,996	1.03%
Three Rivers-East/						

TOWN/ POPULATION (1990 U.S. Census)	CENSUS TRACT	NUMBER OF LOANS	PERCENT BY NUMBER	PERCENT OF LOANS BY POPULATION	PRINCIPAL LOAN AMOUNT	PERCENT OF TOTAL LOAN AMOUNT
2,251	0404.00 **	0	0.00%	0.00%	\$0.0	0.00%
Flowerfield, Park/ 4,230	0409.00	65	8.32%	1.54%	\$1,555,508	10.81%
Fabius, Constantine/ 7,201	0411.00	21	2.70%	0.29%	\$791,458	5.50%
Lockport, Florence/ 3,206	0412.00	5	0.64%	0.16%	\$149,515	1.04%
Mottville, White Pigeon/ 5,035	0414.00	17	2.18%	0.34%	\$468,385	3.25%
TOTAL LOAN ACTIVITY		781	100.00%	N/A	\$14,390,957	100.00%
*Low-income Census Tract **Moderate-income Census Tract (+) Branch Location						

The preceding chart illustrates that the majority of the bank's lending activity is within the middle-income census tracts, where the bank's main office and branches are located, representing 593 loans or 75.93%. Loans within the upper-income census tracts represent 22.07% while the number of loans within the low-income and moderate-income tracts represent a total of 16 or 2%. The level of lending activity in low- and moderate-income census tracts appears low when compared to overall lending in part because low-income tracts represent only one, and moderate-income tracts represent only two, out of a total 24 census tracts in the assessment area. Additionally, the moderate-income census tracts are located in Three Rivers, an area of heavy local competition. Overall, the distribution of loans meets the standards for satisfactory performance.

Response to Complaints

No CRA-related complaints were received by the institution since the previous examination.