
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 **State Bank of Caledonia, Caledonia, Michigan** prepared by the **Federal Reserve Bank of Chicago**, the institution's supervisory agency, as of **April 22, 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's management, through its business activities, has demonstrated a commitment towards meeting the spirit and intent of CRA. The bank president oversees the bank's CRA program and is committed to executing a program that is responsive in meeting the entire community's credit needs. These needs are met through the origination of real estate, construction, home equity, home improvement, consumer, commercial, and farm loans.

The bank has an adequate loan-to-deposit ratio and a satisfactory record of lending inside the assessment area. Analysis of the distribution of the bank's loans reflects a reasonable dispersion throughout the assessment area and an outstanding performance, given the demographics of the assessment area, of making loans to individuals of different income levels and businesses of different sizes. Management is knowledgeable of antidiscrimination laws and has implemented adequate policies, procedures, and programs to prevent discrimination in the bank's lending activities. The bank is rated satisfactory based on its performance relative to the five performance criterion.

The following table indicates the performance level of **State Bank of Caledonia, Caledonia, Michigan** with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	STATE BANK OF CALEDONIA 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

State Bank of Caledonia is a wholly owned subsidiary of Caledonia Financial Corporation, a one-bank holding company. The bank reported total assets of \$94 million on March 31, 1996. In addition to its main office in Caledonia, the bank operates two branch offices located in Dutton and Middleville, Michigan. The bank's competitors include a branch office of Old Kent Bank, located in Caledonia; and branch offices of Hastings City Bank, located in Caledonia and Middleville.

The bank provides a full-range of deposit services and loan products, including real estate, consumer, commercial, construction, small business and farm loans. Management recently began to focus on expanding the bank's mortgage and small business loan portfolios. The bank participates in the Small Business Administration (SBA) Low Doc Program to facilitate this expansion. The bank promotes economic development in the community by offering products and services consistent with its size and financial capacity.

DESCRIPTION OF ASSESSMENT AREA

Caledonia, Michigan is located in Kent County, approximately 10 miles southeast of Grand Rapids. The bank has defined a square-shaped area, with Caledonia near the center, as its assessment area. The assessment area is located in the Grand Rapids-Muskegon-Holland Metropolitan Statistical Area (MSA) and includes parts of Allegan, Barry, and Kent Counties. The area includes the Leighton, Thornapple, Irving, Carlton, Caledonia, Lowell, Bowne and Gaines Townships. Parts of Cascade Township and a section of the City of Kentwood are also included in the assessment area. In February, 1996, management expanded the assessment area to include whole census tracts, in accordance with the regulation's requirements. According to the 1990 U.S. census data, the population of the bank's assessment area is 47,962. Minorities represent 5.49% of the bank's assessment area; there are no designated low- or moderate-income census tracts within the bank's community. The breakdown, by income level, of the total number of households (20,920) within the assessment area is 2,964 or 14.2% low-income; 2,966 or 14.2% moderate-income; 4,171 or 19.9% middle-income; and 10,819 or 51.7% upper-income. The bank's assessment area includes all geographies where there are branch offices and includes whole census tracts. Further, the defined area does not arbitrarily exclude any low- or moderate-income areas.

According to 1990 U.S. census data, the total number of housing units in the bank's community is 19,475, with 11,689 or 60.02% owner-occupied and 6,156 or 31.61% renter-occupied. The median age of the housing stock within the assessment area is 14 years. The adjusted median family income is \$53,767, with the assessment area having a low unemployment rate of 3.5%.

The local economy is considered strong and has experienced moderate growth in recent years.

One contact indicated that Grand Rapids is the second fastest growing city in the state. Caledonia and the surrounding areas are becoming bedroom communities for Grand Rapids. The growth in the community is sparked by the relocation of light industrial companies to the area. Over the past fifteen years, the community has changed from a mostly agricultural, rural area to a mix of agriculture, light industrial, and new real estate subdivisions.

Many small farmers in the area are selling their land to commercial builders for the development of industrial parks. The light industrial areas are centered around two small industrial parks in Dutton and numerous manufacturing businesses in Middleville and Caledonia. State Road M-37 is the direct link between the bank's community and Grand Rapids. This commercial corridor is being developed continuously, with one completed light industrial park and one similar development presently under construction. The area has also seen the expansion of large corporations such as Steelcase, with its newly completed research and development facility located in Gaines Township, and Foremost Corporation which recently completed its new headquarters and Office Park in Caledonia Township. This growth has created many new jobs in the community.

The new industries and corporate expansions are drawing residents to the area prompting growth in residential housing development. Numerous subdivisions are being developed, including Glenn Valley Estates in the Village of Caledonia. This development will add approximately 200 units to the Village. Further, the Township of Caledonia is in the process of running a main sewer line north of the M-37 corridor. This new line, a new sewage treatment plant and a new water system for the Village of Caledonia, are contributing to the increase in residential housing development.

The contacts confirmed that the local economy is prospering. One contact named numerous foreign companies that have relocated to the area and stated that these corporations combined employ approximately 9,000 local residents.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Compliance with Antidiscrimination Laws

Management is knowledgeable of antidiscrimination laws and has implemented adequate policies, procedures, and programs to prevent discrimination in lending activities. Information obtained from loan reviews, discussions with bank personnel, and analysis of HMDA data confirm the absence of any discriminatory practices. The institution is in compliance with the substantive provisions of antidiscrimination laws and regulations including the Equal Credit Opportunity Act and the Fair Housing Act.

Loan-to-Deposit Analysis

The bank's average loan-to-deposit ratio since the previous examination is 75.93%. The ratio declined from 80.76% on December, 31 1994 to 72.51% on December 31, 1995; however, the bank's loan-to-deposit ratio compares favorably with the peer's ratio of 68.45%. The decline in the ratio since the previous examination is due to a 13% reduction in total outstanding loans. Changes in the loan portfolio since the previous examination are detailed below by loan type:

LOAN TYPE	DOLLAR AMOUNT OUTSTANDING (000's) As of 6-30-94	DOLLAR AMOUNT OUTSTANDING (000'S) As of 3-31-96	% CHANGE FROM 6-30-94 to 3-31-96
REAL ESTATE	3,793	2,489	-34%
Construction	246	253	3%
Agricultural	2,614	2,974	14%
Home Equity	23,429	22,841	-3%
Residential (1-4)	138	56	-59%
Multifamily	4,041	2,241	-45%
Commercial	3,625	2,668	-26%
AGRICULTURAL COMMERCIAL/ INDUSTRIAL	18,041	16,398	-9%
CONSUMER	471	629	34%
Open-End Credit	12,164	8,981	-26%
All Other	472	451	-4%
OTHER	(116)	(93)	N/A
LESS UNEARNED	68,918	59,888	-13%
TOTALS			

Overall, total loans decreased by \$9 million or 13% since the previous examination. This is, in part, a result of management's actions taken since the previous examination to improve the quality of the bank's loan portfolio. In its efforts to improve credit quality and consistent with its current business strategy to increase the loan portfolio, management revised the bank's underwriting guidelines and is focusing on originating first mortgage and small business loans. The institution recently began participating in the Small Business Administration (SBA) Low Doc Program. The bank originated one loan (in the amount of \$80 thousand) and is processing a second credit (in the amount of \$90 thousand) under this program. Further, in 1995, the bank made 8 real estate loans (totaling \$529 thousand) which were subsequently sold on the secondary market.

Given the bank's size, financial condition, and the assessment area's credit needs, the bank's loan-to-deposit ratio is considered reasonable. Further, the real estate loans sold on the secondary market are a positive factor when evaluating the bank's performance. Management monitors the bank's loan-to-deposit ratio on a quarterly basis and includes this data in the public file, as required by the Act.

Lending in Assessment Area

A review of the bank's 1994 Home Mortgage Disclosure Act (HMDA) data revealed the following geographic distribution:

STATE BANK OF CALEDONIA 1994 HMDA LOAN ORIGINATIONS			
LOAN TYPE	TOTAL ORIGINATIONS (\$000's/#)	LOANS WITHIN THE ASSESSMENT AREA (\$000's/#)	PERCENT OF TOTAL LOANS WITHIN (\$000's/#)
FHA/FmHA/VA	\$0/0	\$0/0	0/0
Conventional	\$3,509/50	\$2,003/27	57.08/54.00
Refinancing	\$6,172/96	\$3,669/53	59.45/55.21
Home Improvement	\$43/3	\$38/2	88.37/66.67
Multi-Family	\$0/0	\$0/0	0/0
Total Loans	\$9,724/149	\$5,710/82	58.72/55.03

The 1994 HMDA data shows that 55.03% (by number) and 58.72% (by amount) of loans were made inside the assessment area. Since the above analysis is limited in scope because it only includes HMDA-reportable loans, the bank's analysis of its 1995 loan activity for all loan products was reviewed and is summarized below.

STATE BANK OF CALEDONIA 1995 TOTAL LOAN ACTIVITY			
LOAN TYPE	TOTAL ORIGINATIONS (\$000's/#)	WITHIN THE ASSESSMENT AREA (\$000's/#)	PERCENT OF TOTAL WITHIN (\$000's/#)
Real Estate (No Commercial Purpose)	\$6,227/104	\$4,870/81	78.21/77.88
FNMA	\$1,289/18	\$1,178/16	91.39/88.89
Agricultural	\$1,725/42	\$1,560/38	90.43/90.48
Home Equity	\$1,053/52	\$762/39	72.36/75.00
Commercial	\$19,576/351	\$16,887/299	86.26/85.19
Consumer	\$9,805/1,435	\$7,069/1,080	72.10/75.26
Totals	\$39,675/2,002	\$32,326/1,553	81.48/77.57

The analysis shows that the bank made a total of 2,002 loans in 1995. Of this total, 77.57% (by number) and 81.48% (by amount) were made within the assessment area. The bank's analysis is

slightly flawed because the loans are tracked by zip code. Certain zip codes extend outside of the assessment area which may result in loans made outside of the assessment area being included in the assessment area. Management is in the process of implementing a system which tracks loans by census tract and stated that a more accurate analysis will be conducted in the following months.

A sample of 103 loans was analyzed during the examination to confirm the aforementioned data. This analysis disclosed that 71.84% of the sampled loans were made inside the assessment area.

The preceding analyses indicate that the bank makes a majority of loans within its assessment area. The bank's performance relative to this assessment factor is considered satisfactory.

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

A review of the bank's 1994 HMDA data revealed that of the total HMDA-reportable loans, 34.15% were made to low- or moderate-income, 32.92% to middle-income, and 32.93% to upper-income individuals.

The examiners also reviewed a sample of loans to analyze lending activity based on borrower income classifications. The results of this review are presented in the following table:

STATE BANK OF CALEDONIA LOANS SAMPLED - ORIGINATED				
LOAN TYPE	LOW-INCOME \$000's/#	MODERATE-INCOME \$000's/#	MIDDLE-INCOME \$000's/#	UPPER-INCOME \$000's/#
Mortgage	\$57/1	\$293/5	\$408/3	\$309/4
Instalment-Direct	\$52/11	\$39/5	\$49/4	\$0/0
Instalment-Indirect	\$49/4	\$31/2	\$27/2	\$36/2
Single Payment	\$25/2	\$1/1	\$14/3	\$12/2
Home Equity	\$30/1	\$74/4	\$58/4	\$20/1
Credit Card	\$8/4	\$2/1	\$4/2	\$2/1
Overdraft Line	\$2/3	\$2/2	\$7/3	\$1/1
Totals*	\$223/26	\$442/20	\$567/21	\$380/11

*A total of 83 loans were reviewed. Income information for five loans was not available.

As the preceding chart illustrates, a total of 83 loans were reviewed. The analysis disclosed that of the total loans the bank made, 31.33% were to low-income individuals, 24.10% were to

moderate-income individuals, 25.30% were to middle-income individuals, and 13.25% were to upper-income individuals. The analyses disclosed that the bank's loans are generally evenly distributed among individuals of different income levels. The bank made approximately 55% of the sampled loans to low- or moderate-income individuals. Given the demographics of the assessment area, the distribution of loans reflects that the bank's performance in making loans to individuals of different income levels within its community is excellent.

The examination also entailed a review of a sample of commercial loans. Analysis of the sample indicated that the majority of the bank's commercial lending activity is to businesses and farms with annual revenues less than \$500 thousand. Further, the bank's Consolidated Reports of Condition and Income show that all of the bank's commercial loans made in 1995 were to small businesses and small farms. This information is detailed in the following table:

STATE BANK OF CALEDONIA LOANS TO SMALL BUSINESSES AND SMALL FARMS (AS OF JUNE 30, 1995)		
ORIGINAL AMOUNTS	SMALL BUSINESSES (\$000's/#)	SMALL FARMS (\$000's/#)
# \$100,000	\$3,225/421	\$1,937/56
\$100,000 - # \$250,000	\$7,267/47	\$320/4
\$250,000 - # \$1,000,000	\$9,639/14	\$1,329/4
Totals	\$20,131/482	\$3,586/64

As the preceding chart indicates, loans to small businesses and small farms totaled \$20 million and \$4 million, respectively. This activity is considered reasonable and is consistent with the demographics of the assessment area and the bank's financial capacity.

Overall, the bank's penetration to borrowers of different income levels, particularly low-income and moderate-income individuals, and businesses of different sizes exceeds the standards for a satisfactory performance.

Geographic Distribution of Loans

There are no designated low- or moderate-income census tracts in the community. The 1994 HMDA data revealed that the bank had loan activity in 9 out of 10 census tracts that are within its assessment area. Management stated that the lack of activity in one of the census tracts is a result of significant competition. Five other banks have full-service branch offices in the area,

while the bank does not have any branch offices in this area. The geographic distribution of the bank's loans reflects a reasonable dispersion throughout the assessment area and supports a

satisfactory rating.

Response to Complaints

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