
GENERAL INFORMATION

This document is an evaluation of the Community Reinvestment Act (CRA) performance of **1st Source Bank** prepared by the **Federal Reserve Bank of Chicago**, the institution's supervisory agency.

The evaluation represents the agency's current assessment and rating of the institution's CRA performance based on an examination conducted as of **February 26, 1996**. It does not reflect any CRA-related activities that may have been initiated or discontinued by the institution after the completion of the examination.

The purpose of the Community Reinvestment Act of 1977 (12 U. S. C. 2901), as amended, is to encourage each financial institution to help meet the credit needs of the communities in which it operates. The Act requires that in connection with its examination of a financial institution, each federal financial supervisory agency shall (1) assess the institution's record of helping to meet the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operations of the institution, and (2) take that record of performance into account when deciding whether to approve an application of the institution for a deposit facility.

The Financial Institutions Reform, Recovery and Enforcement Act of 1989, Pub. L. No. 101-73, amended the CRA to require the Agencies to make public certain portions of their CRA performance assessments of financial institutions.

Basis for the Rating

The assessment of the institution's record takes into account its financial capacity and size, legal impediments and local economic conditions and demographics, including the competitive environment in which it operates. Assessing the CRA performance is a process that does not rely on absolute standards. Institutions are not required to adopt specific activities, nor to offer specific types or amounts of credit. Each institution has considerable flexibility in determining how it can best help to meet the credit needs of its entire community. In that light, evaluations are based on a review of 12 assessment factors, which are grouped together under 5 performance categories, as detailed in the following section of this evaluation.

ASSIGNMENT OF RATING

Identification of Ratings

In connection with the assessment of each insured depository institution's CRA performance, a rating is assigned from the following groups:

Outstanding record of meeting community credit needs.

An institution in this group has an outstanding record of, and is a leader in, ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Satisfactory record of meeting community credit needs.

An institution in this group has a satisfactory record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Needs to improve record of meeting community credit needs.

An institution in this group needs to improve its overall record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Substantial noncompliance in meeting community credit needs.

An institution in this group has a substantially deficient record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

DISCUSSION OF INSTITUTION'S PERFORMANCE

Institution's Rating:

This institution is rated **Satisfactory record of meeting community credit needs** based on the findings presented below.

REGULATION BB - COMMUNITY REINVESTMENT ACT

COMMUNITY PROFILE

The main office of the bank is located in South Bend, Indiana, the county seat of St. Joseph County. The bank's delineated community includes all or portions of seven contiguous counties. On September 1, 1995, 1st Source Bank of Starke County was merged with 1st Source Bank of South Bend. The merger added banking centers in Hamlet and Knox, Indiana. As a result, the delineated community includes all of St. Joseph, Marshall and Starke Counties, the cities of Elkhart and Goshen in Elkhart County, and the area within a two-mile radius of banking centers in the Cities of LaPorte and Michigan City in LaPorte County, Warsaw in Kosciusko County and Portage in Porter County. This area includes all of the South Bend MSA, and portions of Elkhart-Goshen and Gary MSAs.

There are a total of 129 census tracts and/or block numbering areas (BNAs) in the community. Six tracts are considered low-income; one is located in the City of Elkhart, and five are located in the City of South Bend. There are no BNAs identified as low-income within the community. Thirty tracts or BNAs are considered moderate-income; one in LaPorte County, one in Marshall County, six in Starke County, four in Elkhart County and eighteen in St. Joseph County. There are seventy-four middle income, and nineteen upper income tracts in the community. The following chart indicates the income distribution, by number of families, in the delineation in comparison to the MSAs and to the State of Indiana, according to 1990 U.S. census data.

| Geography | Total Families | Median Family Income | % Low Income | % Moderate Income | % Middle Income | % Upper Income |
|----------------------|----------------|----------------------|--------------|-------------------|-----------------|----------------|
| Delineated Community | 140,437 | \$33,969 | 17.1 | 19.8 | 25.4 | 37.7 |
| Elkhart-Goshen MSA | 41,939 | \$35,153 | 14.0 | 19.9 | 27.3 | 38.8 |
| Gary MSA | 161,328 | \$36,921 | 18.7 | 15.6 | 22.3 | 43.5 |
| South Bend MSA | 63,998 | \$34,206 | 17.8 | 19.6 | 24.1 | 38.4 |
| State of Indiana | 1,490,130 | \$34,082 | 18.4 | 19.0 | 24.3 | 38.3 |

The South Bend MSA encompasses approximately 47% of the bank’s community, 91.4% of the low-income, and 61.4% of the moderate-income population. The Elkhart-Goshen MSA encompasses approximately 31% of the bank’s community, but only 8.6% of the low-income, and 10.8% of the moderate-income population. The remaining moderate-income population is located in Starke (21.7%), Marshall (3.5%), and LaPorte (2.6%) Counties. The South Bend MSA accounts for 39.4% of the middle-income, and 59.5% of the upper-income population. The Elkhart-Goshen MSA accounts for 36.6% of the middle-income and 31.0% of the upper-income population. The remaining middle-income population is located in Marshall (11.0%), LaPorte (7.0%), Kosciusko (5.8%) and Starke (0.2%) Counties. The remaining upper-income population is located in Kosciusko (4.5%) and Starke (4.5%) Counties.

According to 1990 U.S. census data, the population of the bank’s delineated community is 530,296, of which 90.5% is White, 6.1% is Black, 2.3% is Hispanic and 1.1% represent all others. The City of South Bend has a population of 105,511, with a racial makeup of 74.6% White, 20.7% Black, 3.4% Hispanic and 1.3% other. The City of Elkhart has a population of 43,627, with a racial makeup of 82.8% White, 13.8% Black, 2.0% Hispanic and 1.4% other. The Counties of LaPorte, St. Joseph and Elkhart contain 10.1%, 12.2% and 6.2% minorities, respectively. The Counties of Porter, Kosciusko, Marshall, and Starke contain 2.0%, 1.9%, 1.6%, 1.3% minorities, respectively.

The following chart describes the income range of the population within the community, by race:

| Geography | Total Population | % Black | % Hispanic | % White | % Other |
|----------------------|------------------|---------|------------|---------|---------|
| Delineated Community | 530,296 | 6.1 | 2.3 | 90.5 | 1.1 |
| Low Income | 8,290 | 58.1 | 4.0 | 36.7 | 1.2 |
| Moderate Income | 93,130 | 17.5 | 3.9 | 77.1 | 1.5 |
| Middle Income | 353,527 | 2.9 | 2.1 | 94.2 | 0.8 |
| Upper Income | 75,349 | 1.8 | 1.1 | 95.9 | 1.2 |

This chart indicates that the bank’s delineated community is approximately 90% White, with most of the residents falling in the moderate-, middle- and upper-income categories. Minority residents constitute approximately 10% of the community and are predominately low- or moderate-income.

Of the 210,201 housing units located in the delineated community, 66.7% are owner-occupied, 26.6% are renter-occupied, and 6.7% are vacant with 362 units (.2%) boarded up. It is significant to note that census data for Kosciusko and Starke Counties show very high vacancy rates, 23.2% and 17.7%, respectively; however, this is mitigated by the fact that 77% of Kosciusko and 68.9% of Starke Counties vacancy rates are attributed to seasonal or recreational units. These two counties are primarily rural in nature, with many small lakes and rivers, thus a

more recreational area. Structures with five or more units compose 11.2% of total units, and mobile homes represent 5.6% of total units. The median age of the housing stock in the community is 45 years. The median rent is \$396 and the median housing value is \$53,502. Residential building permits have increased significantly over the past five years. The South Bend MSA had 829 new residential building permits in 1991, of which 4.1% were for multi-family construction. In subsequent years through 1994, there were, 1,298 (15.2% multi-family), 1,514 (28.0% multi-family), and 1,370 (25.9% multi-family), respectively. The Elkhart-Goshen MSA had 557 new residential building permits in 1991, of which 5.3% were for multi-family construction. In subsequent years through 1994, there were, 790 (24.3% multi-family), 872 (21.3% multi-family) and 960 (11.2% multi-family), respectively. Significant building permit data was not available for 1995.

Six counties in the bank's delineation are ranked in the top fifteen in the state relative to total number of employees per county. They are Elkhart (2nd), St. Joseph (4th), Marshall (10th), Kosciusko (11th), Porter (14th) and LaPorte (15th). The top five employers are as follows: Glaval Corporation, Marshall County, 7,600 employees - manufacturer of fiberglass automobile parts; Bethlehem Steel Corporation, Porter County, 6,000 employees - manufacturer of steel plates; University of Notre Dame, St. Joseph County, 3,800 employees - education; NIBCO, Incorporated, Elkhart County, 3,200 employees - manufacturer of bronze and copper fittings; South Bend Community School Corporation, St. Joseph County, 3,150 employees - education.

Additional employers in the community with at least 1,000 employees include:

| <u>Employer</u> | <u>County</u> | <u># of Employees/Type of Business</u> |
|----------------------------|----------------------|---|
| Memorial Health Systems | St. Joseph | 2,650/Health Care |
| Zimmer, Inc. | Kosciusko | 2,000/Orthopedic Implants |
| Bayer, Inc. | Elkhart | 1,700/Pharmaceuticals |
| National Steel Corporation | Porter | 1,600/Galvanized Steel |
| Donnelly, R & Sons Co. | Kosciusko | 1,600/Lithographic |
| Elkhart Community Schools | Elkhart | 1,550/Education |
| Cooper Industries, Inc. | LaPorte | 1,100/Windshield Wipers |

According to the State of Indiana Department of Commerce, January 1996 unemployment figures for counties within the area were Porter - 4.4%, Elkhart - 5.0%, St. Joseph - 4.7%, Marshall - 4.1%, Starke - 7.5%, LaPorte - 6.1% and Kosciusko - 3.7%. The unemployment figures for cities within the community were Portage - 5.7%, Michigan City - 8.3%, LaPorte - 5.4%, Elkhart - 6.7%, Goshen - 4.6% and Mishawaka - 4.5%. These figures reflect a continued reduction in unemployment within the area over the previous five years.

Although manufacturing remains the principal economic base for the community, the economy continues to diversify with services and retail/wholesale trade becoming more evident throughout the community.

BANK PROFILE

1st Source Bank, with approximately \$1.73 billion in total assets as of December 31, 1995, is a subsidiary of 1st Source Corporation, South Bend, Indiana, a multi-bank holding company. In January of 1995, Trust Corporation Mortgage Company became a bank affiliate. The affiliate purchases the majority of the bank's mortgage loans, a portion of which are then sold in the secondary market, primarily to Federal National Mortgage Association. The bank has 35 branches, six full-service automated teller machines (ATMs), and nine cash dispensing ATMs located within its community. Three branches are located in low-income census tracts; one, a drive-up facility, does not accept loan applications. Three branches are located in moderate-income tracts; one is located on the campus of Notre Dame University. Twenty-five branches are located in middle-income tracts (one is the operations center), and four are located in high-income tracts. Consumer and real estate loan operations are centralized in Mishawaka. Agricultural loans are centralized in Plymouth. The bank offers a full line of credit products, including subsidized and special home ownership loan programs.

Financial competition for the bank is provided by approximately thirty financial institutions, and numerous mortgage companies and credit unions including: Key Bank, South Bend; Valley American Bank and Trust Company, South Bend; NBD Bank - Elkhart/Indianapolis; First of America Bank - Northwest Indiana, LaPorte; First Federal Savings Bank of Indiana; Teachers Credit Union; and Norwest Bank, South Bend.

ASSESSMENT OF RECORD

I. ASCERTAINMENT OF COMMUNITY CREDIT NEEDS

Assessment Factor (a) - Activities conducted by the institution to ascertain the credit needs of its community, including the extent of the institution's efforts to communicate with members of its community regarding the credit services being provided by the institution.

Regulatory Expectation

The Statement of the Federal Financial Supervisory Agencies regarding the Community Reinvestment Act (Policy Statement) indicates that an effective CRA process must include methods to ascertain community credit needs on an ongoing basis through outreach efforts to local governments, businesses, and community members and organizations. This ascertainment effort should include a system that facilitates dialogue with these individuals and groups and enables them to communicate their concerns to an officer of the financial institution.

Scope and Findings

The bank's activities and methods utilized to ascertain community credit needs and efforts to communicate with representatives of the community regarding credit needs were reviewed. These activities include the personal involvement of the bank's directors, officers and staff with local groups and organizations, a formal officer call program and focus group discussions. Also, the bank's involvement in the Neighborhood Partnership Program and use of area demographics were reviewed.

The following list is representative of the groups and organizations where the personal involvement of bank staff has been helpful in the ascertainment of local credit needs:

Elkhart County

Elkhart Centre Board
Elkhart Housing Authority
Elkhart Urban Enterprise Association

LaPorte County

Housing Authority of Michigan City
LaPorte Board of Commissioners
LaPorte Economic Advancement Foundation
Trustees of Centre, Scipio, and Washington Townships

Marshall County

American Society of Farm managers and Rural Appraisers
Argos Industrial Foundation
Bremen Development Corporation
Plymouth Economic Development Corporation
Town Boards of Argos and Bremen
Trustees of Green and Liberty Townships

Porter County

Town Board of Portage
Trustee of Portage Township

St. Joseph County

Business Development Corporation
Industrial Revolving Fund
Lincolnway West Business Association
Neighborhood Business Development Center
Neighborhood Housing Services
New Carlisle Business Association
Osceola Business Association
Small Business Development Center
South Bend Guaranteed Housing
South Bend Housing Authority
South Bend Human Rights Commission
South Bend/Mishawaka Board of Realtors
Town Boards of New Carlisle, Osceola, Roseland and Walkerton
Trustees of Clay, Harris, Greene, Hudson, Liberty, Lincoln, Madison, Olive, Penn,
Portage, Union and Warren Townships
Urban Enterprise Zone Board

Walkerton Industrial Fund
Western Avenue Business Council

Since the previous examination, the bank has added Starke and Kosciusko Counties to its delineated community. As a result, the following groups and organizations were added to the bank's listing of contacts for credit needs ascertainment purposes.

Starke County

Starke County Development Foundation
Indiana Society of Agricultural Bankers
Indiana Bankers Association, Agricultural Committee
Starke County Agricultural Alliance
Hamlet Lions Club
Hamlet and Knox Kiwanis
Trustees of California, Center, Davis, Jackson, North Bend, Oregon, Railroad,
Washington and Wayne Townships
Town Boards of Hamlet and North Judson

Kosciusko County

Warsaw Chamber of Commerce
Warsaw Community Development Corporation
Warsaw Optimist Club
Kosciusko Leadership Academy
Goodwill Industries, Advisory committee

During 1995, the bank's ascertainment contacts also included the following organizations:

Michigan City Community Reinvestment Alliance
Economic/Community Development Division of the Michigan City Chamber of Commerce
Greater Michigan City CDC
Mayor of Michigan City
Elkhart Housing Authority
Scenic (Elkhart County)
NAACP (Elkhart County)
Tolsen Center (Elkhart County)
Winona Lake Housing Authority

Through its call program, the Commercial Banking, Small Business, Mortgage Originators, and Personal Banking departments call on customers and prospects. The results of these calls are presented to the CRA Committee for review on a monthly basis. Samples of call data were reviewed. The review included a sample of calls conducted in LaPorte, Elkhart, Marshall and Starke and St. Joseph Counties. A review of LaPorte County results for 1st quarter 1995 showed a total of 895 calls, of which 244 (27.26%)

were conducted within the delineated community. Of the total calls, 32% were to customers and 68% were to prospective customers. A review of Elkhart County results for 1st quarter 1995 showed a total of 1,295 calls, of which 982 (75.83%) were conducted within the delineated community. A review of Marshall and Starke Counties combined results for all of 1995 showed a total of 259 calls, of which 245 (94.59%) were within the delineated community. A review of St. Joseph County results for 1995 showed a total of 2,103 calls, of which 2,090 (99.38%) were within the delineated community.

The calling efforts of the mortgage department were also reviewed. In 1995, the bank had twelve full-time mortgage originators who were assigned to areas of the community. The originators are required to make at least five realtor calls per week to discuss credit needs, solicit loan business and provide information on credit products and loan terms offered by the bank. Approximately 3,000 realtor calls are made annually. A sample of 134 realtor calls conducted in 1995 revealed a strong effort to identify housing-related credit needs and solicit mortgage loan business.

The bank also uses focus groups to solicit information regarding credit needs:

On November of 1995, several customers who obtained loans from the bank during August and September of 1995 were invited to participate in a group discussion. The meeting focused on the general credit needs of the community and the bank's products and services designed to meet those needs.

The bank is involved in the Neighborhood Partnership Program. This program facilitates positive community dialogue and offers low-income and minority consumers the opportunity to discuss their financial needs. Since the previous examination, forty-one bank employees went door-to-door and met with over 400 residents, 133 of whom received additional follow-up assistance to fully address their needs.

The bank utilizes data from the U.S. Census Bureau, Housing and Urban Development, the Bureau of Housing, the Department of Economic Development and the Michiana Area Council of Governments to better understand the demographics of its market. Also, the Federal National Mortgage Association's Fannie Maps®, Atlas GIS mapping, and a Centrax Software assist the bank in monitoring the changing socio-economic climate of its community and to assist in the development of new credit initiatives.

The bank's ascertainment efforts, since the previous examination, have identified the need for home improvement loans to finance septic systems, faster processing of mortgage loans, and easier access to construction loans. The information is forwarded to management for review and follow-up. See Assessment Factor (I) for lending results of two new credit products that were developed in response to identified needs.

Conclusions

The bank's ascertainment program utilizes a variety of methods, and is a thorough and efficient means of determining credit needs. The bank responds to identified needs in a timely manner, with appropriate credit products and services.

Assessment Factor (c) - The extent of participation by the institution's board of directors in formulating the institution's policies and reviewing its performance with respect to the purposes of the Community Reinvestment Act.

Regulatory Expectation

The Policy Statement states that banks are encouraged to develop a CRA plan to ensure an affirmative effort on the part of the bank to comply with the Act. It further states that the duty to coordinate and monitor the CRA process should be assigned to a senior officer or a committee charged with the responsibility to report periodically to the board of directors about the bank's CRA efforts, performance, and areas for improvement, where appropriate. An employee training program should be established which addresses information about those policies of the bank designed to help meet community credit needs including the needs of low- and moderate-income areas and small businesses. Procedures should be implemented to ensure that files are maintained, as required by the regulation, for purposes of receiving public comments and for reviewing and responding to the comments.

Regardless of how the bank organizes itself to implement its CRA plan, seeing that the institution has taken the steps necessary to help meet its community's credit needs is the responsibility of the entire organization, beginning with its board of directors and continuing through its line management. To be effective, a CRA plan must include methods to incorporate findings regarding community credit needs into the development of products and services that the bank decides to offer to help meet these needs.

The Policy Statement also states that the bank's CRA statement should accurately reflect the types of lending and other services that the bank is willing to offer to the community. This statement must be reviewed at least annually to ensure its accuracy. The services that the bank chooses to offer should be clearly articulated and reasonably related to community needs.

Scope and Findings

The level of participation by the board of directors in the formulation of policy, and their oversight of the bank's performance were reviewed. Also reviewed the bank's written CRA policy, the CRA action plan, minutes of the CRA committee and CRA advisory committee meetings, the bank's annual CRA self-assessment reports, the CRA public file, training activities, CRA statements for the previous two years, and minutes of board of directors meetings.

The bank's CRA policy is reviewed and adopted annually; the most recent review occurred on July 18, 1995. The policy articulates the bank's commitment to CRA. According to the policy, the bank's CRA program is implemented through both bankwide and regional annual CRA plans that include objectives and identify activities designed to help meet the bank's CRA goals. The CRA plan is reviewed and approved in December of each year. The 1996 plan was reviewed and approved on December 19, 1995. In each segment of the plan, specific ongoing responsibilities and methods of accomplishment are detailed, and completion dates are recorded as these responsibilities are accomplished. The board of directors has designated a senior officer as the bank's CRA officer. He is responsible for ensuring that the plan is properly administered. The CRA committee reports to the board on a quarterly basis regarding the bank's performance in implementing the plan.

Periodic CRA status reports which summarize CRA efforts and activities, and provide analyses regarding credit counseling seminars, home buyer workshops, performance comparisons of loan volume to targeted goals by income range and product, loan denial second review results, and training are furnished to the board. At the October 18, 1995 board of directors meeting, the presentation to the board included a summary of new CRA.

An internal CRA committee, comprised of executive and senior management, is responsible for monitoring the bank's activities and performance. The CRA committee meets on a monthly basis and includes various senior officers and managers. Marketing, consumer loans, personal banking, audit, retail sales, and mortgage loans and operations are all represented on the committee.

The bank has a CRA advisory board that is comprised of various community leaders and senior officers of the bank. This board assesses the bank's CRA activity and provides ongoing feedback and suggestions for future plans and initiatives. This committee meets on a quarterly basis, and provides quarterly reports to the bank's board of directors.

The bank conducts an annual self-assessment of its CRA performance. The results are shared with the CRA committee and the full board of directors. The 1995 self analysis report has been completed and is scheduled to be submitted to the board of directors for review during the board's March, 1996 meeting. This information keeps the board apprised of the bank's progress in attaining the goals and objectives of CRA, as stated in the CRA policy and annual CRA action plans.

Procedures have been implemented to ensure that files are maintained, as required by the regulation, for purposes of receiving public comments and for reviewing and responding to the comments. The current and previous CRA statements were reviewed and found to be in compliance.

CRA training is incorporated into the bank's regular training program. All new employees participate in CRA orientation training sessions. A review of training sessions since the previous examination showed that 143 employees attended the CRA/Sensitivity sessions. The bank mails a Community Reinvestment Update to all

employees, directors, CRA advisory board members and 26 neighborhood groups on a quarterly basis. This publication provides information regarding outreach and lending initiatives.

The board of directors reviews and approves the bank's CRA statement, at least annually, to ensure its accuracy; the most recent review was done at the July 18, 1995, board of director's meeting.

Conclusions

Participation in the CRA process by the board of directors is strong. The minutes of meetings of the board of directors, the CRA committee and other committees reflect significant activity and communication between the bank and the board of directors.

II. MARKETING AND TYPES OF CREDIT OFFERED AND EXTENDED

Assessment Factor (b) - The extent of the institution's marketing and special credit-related programs to make members of the community aware of the credit services offered by the institution.

Regulatory Expectation

The Policy Statement indicates that an effective CRA plan should include marketing and advertising programs for lending products and services that are responsive to the needs of the community and that will inform and stimulate awareness of those products and services throughout the community, including low- and moderate-income areas.

Scope and Findings

The bank's marketing and advertising efforts, including newspaper, television, radio and other means were reviewed. The results of discussions with community representatives were also reviewed to determine the level of awareness of bank products and services within the community.

The bank markets its products and services using the following print media:

| Name of Publication | Frequency of Publication | Circulation | Geographic Coverage |
|-----------------------------|--------------------------|---|--|
| South Bend Tribune | Daily | 86,916 - Mon. - Fri. 99,231 - Saturday 127,332 - Sunday | 68% of circulation is in St. Joseph Co. Remaining in neighboring counties |
| Elkhart Truth | Daily | 29,427 - Mon. - Sat. 33,326 - Sunday | 86% of circulation is in Elkhart Co. Remaining in St. Joseph, and (Michigan) Berrien and Cass Counties |
| Goshen News | Daily | 13,610 | 95% of circulation is in Elkhart Co. Remaining in neighboring counties |
| LaPorte Herald Argus | Daily | 12,310 | LaPorte County, primarily within metro LaPorte |
| Michigan City News-Dispatch | Daily | 16,497 | 81% of circulation is in LaPorte Co. Remaining in Porter, and Berrien (Michigan) Counties. |
| Warsaw Times-Union | Daily | 15,000 | Kosciusko County |
| Portage Journal-Press | Weekly | 7,000 | Porter County |
| | | | 95% Marshall Co. |

| Name of Publication | Frequency of Publication | Circulation | Geographic Coverage |
|--|------------------------------|---------------------|--|
| Plymouth Pilot-News | Daily | 7,507 | Remaining neighboring counties |
| Knox Leader | Weekly | 3,656 | Starke County |
| Walkerton Shopper | Weekly | 8,402 | Walkerton vicinity of St. Joseph and Marshall Counties |
| Walkerton Independent News | Weekly | 2,345 | Community of Walkerton |
| Bremen Enquirer | Weekly | 1,612 | Town of Bremen |
| New Carlisle/New Prairie Town Crier | Weekly | 10,000 | Town of New Carlisle |
| PennySaver | Weekly | 55,812 (3 Zones) | St. Joseph County |
| Senior Life | Monthly | 43,150 | St. Joseph and Elkhart Counties |
| Farm Exchange | Weekly | 15,000 Agricultural | All counties in the bank's community |
| Niles Daily Star/Cassopolis Vigilant/Edwardsburg Argus | Daily | 4,250 | (Michigan) 95% in Berrien Co. Remaining Cass Co. |
| Nappanee Advance | Weekly | 2,705 | Town of Nappanee |
| The Paper - Elkhart Zone | Weekly | 30,000 | City of Elkhart |
| El Puente | Monthly (written in Spanish) | 3,150 (Hispanic) | Northern Indiana |

In 1994 and 1995, the bank placed 535 newspaper ads, using the print media listed in the preceding chart. A review showed that 54 (10%) were image-related, 317 (59%)

were credit-related, 159 (30%) were deposit-related, and five (1%) were trust-related. The distribution of advertisements among loan products was as follows: mortgages (24%); home equity or home improvement (16%); small business/commercial loans (15%); auto loans (40%); and agricultural loans (5%).

In addition to El Puente noted in the chart, the bank regularly places CRA-related ads in The South Bend Communicator and The N-Former which target minority/ethnic markets within the community. The bank also placed monthly advertisements in seven different magazines (circulations range from 900 to 30,000), which list homes for sale throughout the community. In addition, the bank mailed letters to 17 minority churches in St. Joseph County and 39 flyers to potential home buyers through Neighborhood Housing Services in South Bend, to publicize a credit counseling seminar and home buyers workshop held in November, 1995.

The bank also uses television and radio advertisements to promote awareness of credit products within the community. The radio stations used since the previous examination are heard in St. Joseph, Elkhart, Marshall, Berrien and LaPorte Counties. The television stations covered a broadcast area of St. Joseph, Elkhart, LaGrange, Starke, Marshall, Kosciusko, Pulaski, Fulton, Berrien and Cass Counties, as well as the Cities of LaPorte, Michigan City and Portage via cable television.

In the fourth quarter of 1994, the bank ran 446 television advertisements. The advertisements featured loans (27.4%), investments (27.1%), image (18.6%) and service (26.9%). In 1995, the bank sponsored 4,248 television advertisements. The advertisements featured auto loans (15.7%), home mortgage loans (21.2%), personal loans (4.7%), image (39.8%) and service and investments (18.6%).

A review of radio spots indicated that the bank sponsored 1,882 advertisements in 1995. The ads featured auto loans (33.4%), mortgage loans (33.4%) and home equity loans (33.2%). Of the total ads, 468 spots were run on minority radio stations. These ads featured auto loans (39.7%), mortgage loans (30.1%) and home equity loans (30.2%).

The bank's marketing efforts are further supported with direct mailings, statement stuffers, coupons, brochures, ATM electronic messages and point of purchase displays, which promote loan products or programs. Since the previous examination, there have been 41 separate loan promotions. Approximately 140,000 promotional items (flyers, mailers, brochures, discount loan coupons) have been utilized to market home equity, mortgage, refinancing and installment loans, and loans by check. In excess of 1,250 loans in 1995 are attributable to these efforts.

In 1995, four Neighborhood Partnership Walks were conducted wherein 41 bank employees visited low-income census tracts and contacted over 400 residents by door-to-door visits. This activity resulted in six new loans, 13 new savings accounts and four new checking accounts.

The bank also offers touch tone telephone loan application service. Specially designed to be less intimidating than conventional face-to-face loan interviews, this service offers a fully automated loan application system which can be accessed 24 hours a day. This service is marketed using television ads, posters at the branches, messages on deposit envelopes and advertising via the bank's automatic time and temperature message system.

A sample of mortgage originator calls to realtors [See Assessment Factor (a)] revealed a strong effort to solicit mortgage business, increase construction loan financing, and promote the availability of government sponsored/subsidized home loan programs. To ensure promotion of certain loan products, originators receive incentives for loans made to low- or moderate-income applicants and a guaranteed minimum commission to ensure adequate compensation for low dollar amount FHA and low-income loans. In February,

1995, the bank mailed 225 flyers advertising the FmHA loan program to renters in the Nappanee area of Elkhart County. In 1995, the bank distributed door hangers throughout the low- or moderate-income areas of Elkhart. Approximately 1,250 were distributed.

Conclusions

The bank's marketing program is very effective. The bank places advertisements in the primary media serving its community, and supplements this effort with a telephone loan application service. The total marketing effort has created sufficient community awareness of the bank's products and services, and has resulted in loans being made in the community. In addition, the bank expended considerable effort to enhance and maintain its image as a proactive bank in the community.

Assessment Factor (I) - The institution's origination of residential mortgage loans, housing rehabilitation loans, home improvement loans, and small business or small farm loans within its community, or the purchase of such loans originated in its community.

Scope and Findings

The bank's financial reports and loan portfolio were reviewed, including special loan programs such as bi-weekly payment loans.

A review of the bank's December 31, 1995, Consolidated Report of Condition revealed a loan-to-deposit ratio of 84.68%, and a loan-to-asset ratio of 70.38%. These ratios were below the June 30, 1994 ratios of 88.04% and 71.19%, respectively, as noted in the previous report of examination. The distribution by loan type was as follows:

| LOAN TYPE | DOLLAR AMOUNT OUTSTANDING (000's) | | PERCENT OF TOTAL LOANS | |
|-------------------|-----------------------------------|---------------|------------------------|---------------|
| | December 31, 1995 | June 30, 1994 | December 31, 1995 | June 30, 1994 |
| REAL ESTATE | | | | |
| Construction | 16,448 | 5,201 | 1.35 | 0.48 |
| Agricultural | 17,914 | 14,177 | 1.47 | 1.30 |
| Home Equity | 39,356 | 35,031 | 3.22 | 3.21 |
| Residential (1-4) | 181,093 | 166,819 | 14.82 | 15.31 |
| Junior Liens | 16,067 | 14,193 | 1.31 | 1.30 |
| Multifamily | 3,388 | 4,575 | 0.28 | 0.42 |
| Commercial | 229,607 | 188,237 | 18.79 | 17.28 |
| AGRICULTURAL | 15,779 | 13,409 | 1.29 | 1.23 |

| | | | | |
|-----------------------|---------|---------|-------|-------|
| COMMERCIAL/INDUSTRIAL | 624,004 | 591,378 | 51.06 | 54.27 |
| CONSUMER | | | | |
| Open-end Credit | 3,441 | 3,024 | 0.28 | 0.28 |
| All Other | 42,192 | 36,792 | 3.45 | 3.38 |
| MUNICIPAL* | 1,211 | 3,693 | 0.10 | 0.36 |
| OTHER** | 31,604 | 12,867 | 2.58 | 1.18 |

The preceding chart compares the bank's lending activity on December 31, 1995 to the activity on June 30, 1994 (data included in the previous examination). Overall, total loans increased by \$132,438,000, or 12.15%, since the previous examination. The bank experienced a decrease in residential 1-4 real estate loans as a percentage of its overall portfolio; however, the dollar amount outstanding increased substantially. Construction and agricultural loans secured by real estate increased both in dollar amount of loans and percentage of the total portfolio. All other consumer loans increased both in dollar amount outstanding and percentage of portfolio, while commercial/industrial loans increased in dollar amount, but not as a percentage of total loans outstanding.

According to management, these changes are attributable to a softened residential loan market over the past year. The number of active listings has declined and housing construction indicators have fallen slightly over the past year, and significantly over the prior years.

In 1995, the bank sold 704 loans (totaling \$50,905,694) to a mortgage affiliate. For year-to-date 1996, the bank has sold 60 loans (totaling \$4,828,298). Approximately 30 loans (totaling \$2,067,496) were sold to Federal National Mortgage Corporation, freeing up these funds to be reinvested in the local community.

The bank's portfolio, according to the Uniform Bank Performance Report (UBPR), dated September 30, 1995, as compared to peer is illustrated in the following chart, with additional comparison figures from the March 30, 1994, UBPR as noted in the previous report of examination:

| LOAN TYPE | BANK AVERAGE LOAN MIX (%) | | PEER AVERAGE LOAN MIX (%) | |
|--------------------------|---------------------------|----------------|---------------------------|----------------|
| | September 30, 1995 | March 30, 1994 | September 30, 1995 | March 30, 1994 |
| REAL ESTATE LOANS | | | | |
| Construction/Development | 0.65 | 0.43 | 2.92 | 2.79 |
| 1 - 4 Family Residential | 20.65 | 19.36 | 24.76 | 25.95 |
| Home Equity | 3.25 | 3.27 | 2.88 | 3.36 |
| Other Real Estate Total | 22.24 | 19.44 | 18.39 | 18.87 |
| Farmland | 1.45 | 1.28 | 0.22 | 0.18 |

| | | | | |
|--|--------------|--------------|--------------|--------------|
| Multi-family | 0.30 | 0.48 | 1.60 | 1.49 |
| Commercial | 20.49 | 17.69 | 15.74 | 16.33 |
| TOTAL REAL ESTATE LOANS | 43.54 | 39.23 | 51.47 | 51.96 |
| LOANS TO INDIVIDUALS | 3.67 | 3.89 | 18.31 | 19.19 |
| CREDIT CARD LOANS | 0.29 | 0.31 | 1.63 | 1.94 |
| COMMERCIAL & INDUSTRIAL LOANS | 49.63 | 54.25 | 18.31 | 19.19 |
| AGRICULTURAL LOANS | 1.14 | 0.98 | 0.21 | 0.13 |
| MUNICIPAL LOANS | 0.25 | 0.43 | 0.70 | 1.04 |
| LEASE FINANCING | 1.20 | N/A | 0.26 | N/A |
| OTHER LOANS* | 0.58 | 1.24 | 0.90 | 1.45 |
| * Excludes Financial Institution Loans, Acceptances of Other Banks, Foreign Office Loans and Leases, and Lease Financing Receivables | | | | |

| BANK NET LOAN/LEASE TO DEPOSIT RATIO | | PEER NET LOAN/LEASE TO DEPOSIT RATIO | |
|--------------------------------------|----------------|--------------------------------------|----------------|
| September 30, 1995 | March 30, 1994 | September 30, 1995 | March 30, 1994 |
| 82.99% | 85.05% | 81.45% | 75.76% |

Although the bank's real estate construction lending has improved, its performance is still significantly less than its peer. The bank exceeds peer performance in commercial/industrial, nonfarm nonresidential real estate secured and agricultural lending and lease financing. In addition, the bank is significantly below peer in loans to individuals (the bank does not do indirect lending). The preceding indicate that the bank is primarily a commercial/industrial and real estate lender.

The bank's three year trend in commercial/industrial and agricultural lending reflects a continued effort to make low dollar amount small business and agriculture loans; details about this type of lending is included in the following charts:

| LOAN PURPOSE | JUNE 1995 # AND \$ | | JUNE 1994 # AND \$ | | JUNE 1993 # AND \$ | |
|--|-----------------------|----------------|-----------------------|----------------|-----------------------|----------------|
| NONFARM-NON RESIDENTIAL REAL ESTATE SECURED | | | | | | |
| \$100,000 or less | 349 | 13,457 | 409 | 37,714 | 412 | 14,077 |
| \$100,000 - 250,000 | 276 | 34,854 | 212 | 29,264 | 202 | 25,573 |
| \$250,000 - \$1MM | 241 | 93,508 | 245 | 79,430 | 158 | 64,877 |
| TOTALS | 866 | 141,819 | 866 | 146,408 | 772 | 104,527 |

| LOAN PURPOSE | JUNE 1995 # AND \$ | | JUNE 1994 # AND \$ | | JUNE 1993 # AND \$ | |
|---------------------------------|-----------------------|---------|-----------------------|---------|-----------------------|---------|
| COMMERCIAL AND INDUSTRIAL LOANS | | | | | | |
| \$100,000 or less | 646 | 30,205 | 2,045 | 107,821 | 1,849 | 40,523 |
| \$100,000 - \$250,000 | 503 | 58,206 | 510 | 53,552 | 419 | 49,406 |
| \$250,000 - \$1MM | 772 | 178,694 | 640 | 161,822 | 631 | 154,174 |
| TOTALS | 1,921 | 267,105 | 3,195 | 323,195 | 2,899 | 244,103 |

| LOAN PURPOSE | JUNE 1995 # AND \$ | | JUNE 1994 # AND \$ | | JUNE 1993 # AND \$ | |
|---|-----------------------|-------|-----------------------|-----|-----------------------|-----|
| AGRICULTURAL LOANS SECURED BY FARMLAND | | | | | | |
| \$100,000 or less | 45 | 1,273 | N/A | N/A | N/A | N/A |
| \$100,000 - \$250,000 | 6 | 548 | N/A | N/A | N/A | N/A |
| \$250,000 - \$1MM | 2 | 455 | N/A | N/A | N/A | N/A |
| AGRICULTURAL OPERATING/PRODUCTION LOANS | | | | | | |
| \$100,000 or less | 64 | 521 | N/A | N/A | N/A | N/A |
| \$100,000 - \$250,000 | 2 | 76 | N/A | N/A | N/A | N/A |
| \$250,000 - \$1MM | 1 | 202 | N/A | N/A | N/A | N/A |
| TOTALS | 67 | 799 | N/A | N/A | N/A | N/A |

N/A = data not available

The preceding charts demonstrate that a significant portion of the bank's loan portfolio continues to be small business and agricultural lending. Additionally, the bank's self-analysis, as of December 31, 1995, showed 131 small business loans (totaling \$3,561,000), and 859 commercial small business and farm loans (totaling \$152,448,000). This lending effort meets a substantial credit need within the bank's community.

In 1994, the bank implemented two new consumer loan products, the Credit Starter and the Credit Builder, in response to needs ascertainment results. These products are designed to meet the needs of consumers with little or no established credit, and those who may have had previous credit problems and need to reestablish credit. The Credit Starter product offers a small, short-term, partially secured loan which is intended to assist in establishing a positive repayment history. The Credit Builder offers a program which allows consumers to borrow funds which are then reinvested in a certificate of deposit and used as collateral for the loan. Upon repayment of the loan, the consumer will have

reestablished a positive repayment history, and will also have a certificate of deposit, with interest. Since the implementation of the programs, seven Credit Starter loans (totaling \$9,876), and 21 Credit Builder loans (totaling \$40,350) have been made.

The bank also offers the Loan Source Program, a loan-by-telephone program. According to the bank's December 31, 1995 annual recap, a total of 413 calls were received, which generated 92 loans (totaling \$1,732,058). Thirty-three percent of the calls were received by the system after normal banking hours. Although the majority of loan requests did not state a reason for the loan, automobile purchase were most often the stated purpose, followed by debt consolidation.

Conclusions

The bank is primarily a commercial/industrial and real estate lender, although it offers a complete line of credit loan products. Lending activity has remained strong and is reflective of market demands. Although, residential real estate loan activity decreased, due to a reduced market demand for home loan refinancings, loans for real estate construction and agricultural purposes increased, while commercial and industrial, and loans to individuals increased substantially. The bank's loan-to-deposit ratio of 84.68% suggests that the bank is very active in pursuing and originating loans. The bank originates loans consistent with its CRA statement of credits and the credit needs within the community.

Assessment Factor (j) - The institution's participation in governmentally insured, guaranteed or subsidized loan programs for housing, small business or small farms.

Scope and Findings

The bank's participation in government loan programs was reviewed. Small Business Administration Loans (SBA), Guaranteed Student Loans, Indiana Housing Mortgage Program, Indiana Treasurer Deposit Loan Program, Federal National Mortgage Association (FNMA) loans, and loan programs designed to meet specific needs were reviewed.

The following chart summarizes the bank's activity in government insured loan programs:

| PROGRAM | CURRENTLY OUTSTANDING | | SINCE PREVIOUS EXAMINATION | |
|--------------------------------------|-----------------------|---------------|----------------------------|---------------|
| | NUMBER | DOLLAR AMOUNT | NUMBER | DOLLAR AMOUNT |
| Small Business Administration (SBA) | 90 | 14,688,648 | 17 | 3,035,413 |
| Federal Housing Administration (FHA) | 159 | 7,903,191 | 223 | 13,034,722 |
| Veterans Administration (VA) | 60 | 3,590,352 | 55 | 4,072,301 |

| | | | | |
|--|-----|-----------|-----|-----------|
| Farmers Home Loan Administration (FmHA) | -0- | -0- | 2 | 81,500 |
| State of Indiana Student Loan Program | 751 | 2,001,356 | 652 | 1,834,562 |
| Indiana Housing Finance Authority (IHFA) * | 3 | 168,617 | 10 | 584,326 |

* As a participant in the IHFA Home Ownership Tax Credit Program, the bank assists qualified low-income borrowers apply for federal income tax credits of up to \$2,000 per annum.

The preceding chart indicates that the bank is an active participant in government insured or subsidized loan programs, particularly FHA and VA mortgage loans and student loans.

An analysis of the examination loan sample indicated that the bank has instituted flexible income guidelines, lowered down payment requirements, made down payment financing optional and eased debt-to-income standards [see Assessment Factor (f)]. The bank also offers no-cost mortgage loan preapprovals and prequalifications, home improvement financing at below market rates, and extended repayment terms to qualified low-income borrowers.

Conclusions

The bank's performance is consistent with the need for these type of products in its community. The types of loan products offered, provides flexibility in lending which attracts participants to the credit process, who may not have otherwise qualified for loans.

No credit needs were mentioned by community contacts which are not addressed by currently available products.

III. GEOGRAPHIC DISTRIBUTION AND RECORD OF OPENING AND CLOSING OFFICES

Regulatory Expectation

Reasonableness of Community Delineation

The regulation requires state member banks to prepare, and at least annually review, a delineation of the local community or communities that comprise its entire community, without excluding low- and moderate-income neighborhoods. Maps are required to be used to portray community delineations. The regulation requires Federal Reserve System examiners to review the reasonableness of the delineations.

The regulation states that a local community shall consist of the contiguous areas surrounding each office or groups of offices, including any low- and moderate-income neighborhoods in those areas. In preparing its delineation, a bank may use any one of the three methods, as stipulated in the regulation: (1) existing boundaries, such as those of a Metropolitan Statistical Area or counties in which the bank's office or offices are located; (2) the bank's effective lending territory, which is defined as that local area or areas where it makes a substantial portion of its loans and all other areas equidistant from its offices; or (3) any other reasonably delineated local area that meets the purposes of CRA and does not exclude low- and

moderate-income areas.

Scope and Findings

The distribution of the bank's loans, and the servicing abilities of its branch system were reviewed in conjunction with local demographics to determine the reasonableness of the delineated community.

The bank has defined its community as all or portions of seven contiguous counties. On September 1, 1995, 1st Source Bank of Starke County was merged with 1st Source Bank of South Bend. The merger added banking centers in Hamlet and Knox, Indiana. As a result, the delineation was revised to include all of St. Joseph, Marshall and Starke Counties, the Cities of Elkhart and Goshen in Elkhart County, and the area within a two mile radius of banking centers in the cities of LaPorte and Michigan City in LaPorte County, Warsaw in Kosciusko County and Portage in Porter County. This area includes all of the South Bend MSA, and portions of Elkhart-Goshen and Gary MSAs. There are a total of 129 census tracts and/or block numbering areas (BNAs) in the community. This method of delineation is consistent with method number three described above.

Conclusions

A review of the geographic distribution of Home Mortgage Disclosure Act (HMDA) data for 1994 and 1993 and the examination loan sample support the reasonableness of the delineation. No areas that the bank would be reasonably expected to serve were excluded from the delineated community.

Assessment Factor (e) - The geographic distribution of the institution's credit extensions, credit applications and credit denials.

Regulatory Expectation

The Policy Statement states that the services that the bank chooses to offer should be distributed within the bank's community in a fair and nondiscriminatory manner, in keeping with the bank's general approach to its business.

Scope and Findings

The distribution of the bank's 1993 and 1994 HMDA data and a sample of recent loans were reviewed. Also reviewed the geographical distribution of calls to solicit loans, loans originated through the bank's participation in special loan programs, and the bank's self-review program.

A review of the 1994 HMDA data revealed that 1,060 of a total 1,635 loans (64.83%) were originated within the delineated community. In 1993, 1,211 of a total 1,744 HMDA loans (69.44%) were originated within the delineated community.

The following charts show HMDA-related lending, by income levels, within the delineated community. The corresponding aggregate data for the delineation is also included for comparison purposes:

| 1994 HMDA Originations by Census Tract Income to Delineation Aggregate | | | | | | | |
|--|-----------------|--------------------|------------------|-----------------|-----------------------|------------------|-----------------|
| Census Tract Income Classification | 1st Source Bank | | | | Delineation Aggregate | | |
| | # of Origs | Origs as % of Apps | % of Total Origs | % of Total Apps | Origs as % of Apps | % of Total Origs | % of Total Apps |
| Low income | 146 | 67.59 | 13.77 | 16.90 | 64.40 | 11.00 | 12.83 |
| Moderate Income | 286 | 81.25 | 26.98 | 27.54 | 73.98 | 33.97 | 34.47 |
| Middle Income | 396 | 87.61 | 37.36 | 35.37 | 76.81 | 37.93 | 37.07 |
| Upper Income | 232 | 89.92 | 21.89 | 20.19 | 82.10 | 17.10 | 15.64 |
| Total | 1,060 | 82.94 | 100.0 | 100.0 | 75.07 | 100.0 | 100.0 |

The preceding chart reveals that the bank originated 67.59% of the loan applications received from low-income census tracts in 1994. These applications represented 16.90% of all HMDA-related applications received. The total originations (146) represented 13.77% of the total HMDA-related originations by the bank. The bank exceeded aggregate in percentage of applications approved, low-income originations to total originations, and low-income loan applications to total applications received

The bank originated 81.25% of the applications received from moderate-income census tracts in 1994. These applications represented 27.54% of all HMDA-related loan applications received. The total originations (286) represented 26.98% of the total HMDA-related originations by the bank. These figures indicate that the bank received less applications as a percentage of total applications than aggregate, and had less originations as a percentage of total originations than aggregate; however, the bank exceeded aggregate in percentage of moderate-income applications approved.

As the preceding chart indicates, the bank's 1994 HMDA-related lending activity in the middle- or upper-income census tracts compared favorably to the aggregate's lending activity.

| 1993 HMDA Originations by Census Tract Income to Delineation Aggregate | | | | | | | |
|--|-----------------|--------------------|------------------|-----------------|-----------------------|------------------|-----------------|
| Census Tract Income Classification | 1st Source Bank | | | | Delineation Aggregate | | |
| | # of Origs | Origs as % of Apps | % of Total Origs | % of Total Apps | Origs as % of Apps | % of Total Origs | % of Total Apps |

| | | | | | | | |
|-----------------|-------|-------|-------|-------|-------|-------|-------|
| Low Income | 126 | 74.12 | 10.40 | 11.96 | 71.12 | 7.59 | 8.83 |
| Moderate Income | 281 | 81.92 | 23.30 | 24.14 | 80.28 | 30.96 | 31.91 |
| Middle Income | 437 | 86.36 | 36.09 | 35.61 | 83.44 | 39.91 | 39.57 |
| Upper Income | 367 | 91.29 | 30.31 | 28.29 | 90.51 | 21.54 | 19.69 |
| Total | 1,211 | 85.22 | 100.0 | 100.0 | 82.74 | 100.0 | 100.0 |

The preceding chart reveals that the bank originated 74.12% of the loan applications received from low-income census tracts in 1993. These applications represented 11.96% of all HMDA-related applications received. The total originations (126) represented 10.40% of the total HMDA-related originations by the bank. The bank exceeded aggregate in percentage of applications approved, low-income originations to total originations, and low-income loan applications to total applications received.

The bank originated 81.92% of the applications received from moderate-income census tracts in 1993. These applications represented 24.14% of all HMDA-related loan applications received. The total originations (281) represented 23.30% of the total HMDA-related originations by the bank. These figures indicate that the bank received less applications as a percentage of total applications than aggregate, and had less originations as a percentage of total originations than aggregate; however, the bank exceeded aggregate in percentage of moderate-income applications approved.

As the preceding chart indicates, the bank's 1994 HMDA-related lending activity in the middle- or upper-income census tracts compared favorably to the aggregate's lending activity.

Comparison of the 1994 and 1993 data shows that in 1994 the bank originated a smaller percentage of its applications in low-income areas; however, exceeded 1993 in number

of originations, percentage of total applications, and percentage of total originations. In moderate-income areas, the bank's percentage of originations was slightly less than 1993; however, 1994 figures exceeded 1993 in number of originations, percentage of total applications, and percentage of total originations. In the middle-income areas, 1994 originations and percentage of total applications were below 1993; however, exceeded 1993 in percentage of total applications and total originations. In the upper-income areas, 1994 was well below 1993 in number of originations, as well as all other percentages. There was an overall decrease of 151 loans, or 12.47% in 1994 compared to 1993; this was primarily attributed to a decrease in consumer demand for refinancings. Management indicated that the reduction in total volume was a reflection of market conditions, and that the lower percentage of originations within the delineation may reflect more aggressive lending efforts by mortgage originators to offset the overall reduction in lending.

The bank continuously monitors the geographic distribution of its loans, applications and denials using Centrax software. Implemented in 1993, this system combines geocoding with the demographic information utilized by the Federal Financial Institution Examination Council. This program is also used by the bank to track small business and small farm lending activity. Also, the bank uses Atlas Select mapping software to track HMDA-related originations, denials, withdrawals, and applications as well as small business and small farm lending by census tract, BNA or zip code throughout the bank's community. This data is compared to local demographics to determine the effectiveness of lending programs. On a monthly basis, the CRA committee reviews real estate lending activity in each county and on a bankwide basis.

The bank's analysis of its installment loans for small business as of December 31, 1995, showed the following geographic distribution:

| <u>County</u> | <u># of Loans</u> | <u>Dollar Amount of Loans (000)</u> |
|---------------|-------------------|-------------------------------------|
| St. Joseph | 597 | \$17,212 |
| Elkhart | 144 | 4,173 |
| Porter | 18 | 365 |
| Marshall | 153 | 3,048 |
| LaPorte | 144 | 4,583 |
| Starke | 16 | 262 |
| Kosciusko | 22 | 493 |

The bank's analysis of its small commercial and farm loans, as of December 31, 1995, showed the following geographic distribution:

| <u>County</u> | <u># of Loans</u> | <u>Dollar Amount of Loans (000)</u> |
|---------------|-------------------|-------------------------------------|
| St. Joseph | 313 | \$ 57,342 |
| Elkhart | 181 | 37,309 |
| Porter | 9 | 1,346 |
| Marshall | 145 | 17,912 |
| LaPorte | 35 | 5,731 |
| Starke | 14 | 971 |
| Kosciusko | 26 | 6,399 |

This data shows that the bank actively extends small business and farm loans in each county within the delineated community.

A review of the examination loan sample of 171 loans (30 installment, 20 single payment, 21 real estate, 24 home equity, 26 overdraft protection, 20 commercial/agricultural, 10

home improvement, 20 consumer leases) and 126 denied credit applications (10 installment, 19 single payment, 29 real estate, 10 home equity, 28 overdraft protection, 10 commercial/agricultural, 10 home improvement, 10 consumer leases) revealed the following geographic distribution:

| LOAN TYPE | WITHIN DELINEATED COMMUNITY | | | | % WITHIN LOW OR MODERATE INCOME TRACTS (IN THE DELINEATED COMMUNITY) | | | |
|--------------------------------|-----------------------------|------------|--------|------------|--|------------|--------|------------|
| | APPROVED | | DENIED | | APPROVED | | DENIED | |
| | # | % of Total | # | % of Total | # | % of Total | # | % of Total |
| Installment | 24 | 80.00 | 7 | 70.00 | 5 | 20.83 | 2 | 28.57 |
| Single Payment | 16 | 80.00 | 18 | 94.74 | 2 | 12.50 | 7 | 38.89 |
| Real Estate | 19 | 90.48 | 21 | 72.41 | 1 | 5.26 | 5 | 23.81 |
| Home Equity | 21 | 87.50 | 6 | 60.00 | 1 | 4.76 | 3 | 50.00 |
| OD Protection | 23 | 88.46 | 23 | 82.14 | 1 | 4.35 | 5 | 21.74 |
| Commercial/Agricultural | 16 | 80.00 | 8 | 80.00 | 4 | 25.00 | 1 | 12.50 |
| Home Improvement | 9 | 90.00 | 10 | 100.00 | 0 | 0.00 | 4 | 40.00 |
| Consumer Leases | 19 | 95.00 | 9 | 90.00 | 0 | 0.00 | 0 | 0.00 |
| TOTAL | 147 | 85.96% | 102 | 80.95% | 14 | 9.52% | 27 | 26.47% |

The loan sample analysis showed that 147 of 171, or 85.96% of originations were within the delineated community. Of the originations within the community, 14 of 147, or 9.52% were in low- or moderate-income census tracts or BNAs. The analysis also showed that 102 of 126, or 80.95% of denials were within the bank's delineated community. Of the denials within the community, 27 of 102, or 26.47% were in low- or moderate-income census tracts or BNAs.

The bank's participation in the Community Homebuyers Corporation (CHC) low-income housing program was reviewed for geographic distribution. There were a total of 97 applications received as of December 31, 1995 through this program, of which 51 (52.58%) were from low- or moderate-income census tracts. There were 56 loan originations, of which 27 (48.21%) were made in low- or moderate-income census tracts.

Conclusions

The majority of originations and denials are within the delineated community. The bank's participation in special loan programs to promote low-income housing ownership has

contributed significantly to lending results. Loans are distributed throughout the entire community, both geographically and by income category.

Assessment Factor (g) - The institution's record of opening and closing offices and providing services at offices.

Scope and Findings

The bank's branch closing policy, services available at facilities and hours of operation, were reviewed. Visits were made to several branches and personnel were interviewed to determine whether branches offered similar services.

The bank's branch opening and closing policy was approved by the board of directors on March 18, 1994. The policy outlines branch opening, closing and consolidation procedures.

The bank added three full-service offices since the previous examination. On September 1, 1995, 1st Source Bank of Starke County merged with 1st Source Bank of South Bend. This merger added a branch office in Hamlet and a branch office in Knox. On January 16, 1996, the bank opened a branch in Valparaiso. Since the previous examination, the bank has also installed four additional automated teller machines (ATMs).

On December 30, 1994, the bank closed its University Park Mall Banking Center and combined all services with the nearby BankMart; however, in response to customer requests, the bank will lease space for an ATM and night depository facility. In July of 1995, the bank moved its Portage banking center approximately two miles to a new location in Portage. The University Park Mall Banking Center and Portage Banking Center relocations did not affect the nature of the bank's business or services available to customers, even though they resulted in the closing of two ATMs.

The bank has 35 branches, six full-service ATMs, and nine cash dispensing ATMs located within its community. Three of the branches are located in low-income census tracts (one branch is a drive-up facility which does not accept loan applications); three branches are located in moderate-income tracts; twenty-five branches are located in medium-income tracts (one branch is the operations center); and four branches are located in high-income tracts. The bank's normal hours of operation are Monday- Friday 9:00 A.M. to 5:00 P.M. (lobby); Monday- Thursday 9:00 A.M. to 5:30 P.M., Friday 9:00 A.M. to 6:00 P.M.(drive-In). The BankMart branch is also open on Sunday 1:00 P.M. to 4:00 P.M., during the holiday season.

Conclusions

The bank's branch closing policy is sufficient to maintain a reasonable level of service throughout the entire delineated community. Interviews with management, branch personnel and community representatives indicated that the bank delivers similar services to all geographies within the delineated community, including low- and moderate-income

areas. The bank proactively solicits information from the community regarding the adequacy and effectiveness of its services and attempts to respond to identified needs.

IV. **DISCRIMINATION OR OTHER ILLEGAL CREDIT PRACTICES**

Assessment Factor (d) - Any practices intended to discourage applications for types of credit set forth in the institution's CRA Statement(s).

Scope and Findings

The bank's CRA statement and loan portfolio were reviewed. Loan officers were interviewed and branch facilities were visited to assess the availability of loan products and other services. Members of the community were interviewed to determine their perception of the bank's lending and services, and the availability of credit on an equitable basis.

The bank's CRA statement indicates that the following types of credit are available to members of its community: mortgage loans, consumer loans, small business loans, agricultural loans, commercial loans, and special loan programs. The special loan programs include loans through the Federal Home Loan Bank, Community Homebuyers real estate loans, commercial loans, installment loans, credit card loans, personal reserve account loans, student loans, letters of credit, participations purchased and sold, industrial revenue bond financing and municipal loans. The composition of the bank's loan portfolio indicates that the bank makes loans, by general type, consistent with its CRA statement.

The result of loan officer interviews and branch visits did not reveal any practices which would tend to discourage loan applicants or raise concerns regarding the

accessibility of credit. The result of interviews with community representatives did not reveal concerns relative to the equitable offering and delivery of credit products and services by the bank.

Conclusions

The lending data and a sample of approved and denied credit applications reviewed during the examination revealed that the bank makes loans consistent with its CRA statement and stated policies.

Assessment Factor (f) - Evidence of prohibited discriminatory or other illegal credit practices.

Scope and Findings

The bank's loan forms, policies and procedures, training, HMDA data and recently approved consumer and commercial loans, as well as rejected credit applications were reviewed for compliance with the applicable fair housing and fair lending laws and

regulations. The bank's participation in loan programs, second review procedures for denied credit applications and a sample of outside calls were reviewed. Loan officers and other personnel with public contact were interviewed to determine their level of knowledge with fair lending laws.

The bank has adopted a non-discrimination/fair lending policy and incorporated fair lending training into its ongoing training program. Training relative to low- or moderate-income home loan programs, small business loans, and fair lending has been provided. Fair lending training included showings of the video *ATrue Colors*, which was viewed by approximately 70 staff members during 1995.

Management indicated that the bank's policy is to offer flexible income guidelines, lower down payment requirements, optional down payment financing and less stringent debt-to-income standards. The bank also offers no cost mortgage loan preapprovals and home improvement financing at below market rates and extended repayment terms to qualified low-income borrowers. The bank offers its own affordable housing program designed for low- or moderate-income applicants by providing up to 97% financing of a home's value plus closing costs for purchase or rehabilitation. It also provides an 80% first mortgage with up to a 30 year maturity, along with a 17% second mortgage for up to 10 years. Qualifying ratios can be as high as 33% for the borrower's debt service (mortgage payment) and 38% for the total debt-to-income.

Recently approved and rejected credit applications were reviewed for compliance with the applicable fair housing and fair lending laws and regulations. The review included samples of installment, real estate, single-payment, home equity, home improvement, commercial/industrial and overdraft checking loans. As previously noted, the racial composition of the population within the bank's community is 90.5% White, 6.1%

Black, and 2.3% Hispanic. According to U.S. census data, there are seven census tracts within the bank's delineated community which are designated as high minority (greater than 50% minority population). With consideration given to these racial demographics, the recent examination loan sample revealed little or no activity in high minority census tracts; however, the examination loan sample is only based upon a small portion of the bank's annual loan volume. The following charts detail and compare to market aggregate the bank's HMDA-reportable lending activity by individual racial categories:

| 1994 HMDA Originations by Individual Racial Categories | | | | | | | |
|--|-----------------|--------------------|------------------|-----------------|-----------------------|------------------|-----------------|
| Racial Category of Applicant | 1st Source Bank | | | | Delineation Aggregate | | |
| | # of Origs | Origs as % of Apps | % of Total Origs | % of Total Apps | Origs as % of Apps | % of Total Origs | % Of Total Apps |
| American Indian | 1 | 50.0 | 0.09 | 0.16 | 71.62 | 0.47 | 0.49 |
| Asian | 10 | 100.0 | 0.94 | 0.78 | 84.78 | 0.69 | .61 |
| Black | 59 | 60.2 | 5.57 | 7.67 | 64.10 | 4.11 | 4.81 |

| | | | | | | | |
|-------------|-------|------|-------|-------|-------|-------|-------|
| Hispanic | 15 | 78.9 | 1.42 | 1.49 | 75.08 | 1.99 | 1.99 |
| White | 945 | 86.4 | 89.15 | 85.52 | 79.14 | 88.68 | 84.12 |
| Other | 3 | 60.0 | 0.28 | 0.39 | 55.32 | 0.23 | .31 |
| Joint (W/M) | 18 | 94.7 | 1.70 | 1.49 | 74.90 | 1.68 | 1.69 |
| Unknown | 9 | 28.1 | 0.85 | 2.50 | 26.99 | 2.15 | 5.98 |
| Total | 1,060 | 82.9 | 100.0 | 100.0 | 75.07 | 100.0 | 100.0 |

| 1993 HMDA Originations by Individual Racial Categories | | | | | | | |
|--|-----------------|--------------------|------------------|-----------------|-----------------------|------------------|-----------------|
| Racial Category of Applicant | 1st Source Bank | | | | Delineation Aggregate | | |
| | # of Origs | Origs as % of Apps | % of Total Origs | % of Total Apps | Origs as % of Apps | % of Total Origs | % Of Total Apps |
| American Indian | 4 | 66.67 | 0.33 | 0.42 | 73.81 | 0.20 | 0.22 |
| Asian | 12 | 85.71 | 0.99 | 0.99 | 84.26 | 0.58 | 0.57 |
| Black | 58 | 68.24 | 4.79 | 5.98 | 68.79 | 2.33 | 2.81 |
| Hispanic | 8 | 66.67 | 0.66 | 0.84 | 78.45 | 1.41 | 1.48 |
| White | 1,102 | 88.09 | 91.00 | 88.04 | 85.70 | 92.06 | 88.88 |
| Other | 3 | 100.0 | 0.25 | 0.21 | 75.68 | 0.18 | 0.19 |
| Joint (W/M) | 20 | 94.24 | 1.65 | 1.48 | 84.36 | 1.30 | 1.27 |
| Unknown | 4 | 13.79 | 0.33 | 2.04 | 35.21 | 1.94 | 4.58 |
| Total | 1,211 | 85.22 | 100.0 | 100.0 | 82.74 | 100.0 | 100.0 |

Application and loan activity is evident in each category for both years. The charts attest that in 1994, 89.15% of originations were to White applicants, compared to 91.00% in the previous year. In 1994, 5.57% of originations were to Black applicants, compared to 4.79% in 1993. In 1994, 1.42% of originations were to Hispanic applicants, compared to 0.66% in the previous year. This data indicates that the bank's performance in lending to minorities improved in 1994 over 1993.

Additionally, a sample of originations and denials from the 1994 HMDA data (regression analysis) and the loans sampled during the examination were reviewed for fair lending purposes. No instances of prohibited discriminatory practices were noted.

The following chart details the bank's participation in the Community Homebuyers Corporation (CHC) low-income housing program, by race/gender:

| RACE AND GENDER | Applications Received | Originations |
|-----------------|-----------------------|--------------|
| | | |

| | Number | % of all Applications | Number | % of Originations to Applications Received by Race |
|----------|-----------|-----------------------|-----------|--|
| BLACK | <u>35</u> | <u>36%</u> | <u>18</u> | <u>51%</u> |
| Male | 2 | 2% | 0 | |
| Female | 28 | 29% | 17 | |
| Joint | 5 | 5% | 1 | |
| HISPANIC | <u>9</u> | <u>9%</u> | <u>3</u> | <u>33%</u> |
| Male | 3 | 3% | 1 | |
| Female | 2 | 2% | 1 | |
| Joint | 4 | 4% | 1 | |
| WHITE | <u>53</u> | <u>55%</u> | <u>35</u> | <u>66%</u> |
| Male | 10 | 10% | 7 | |
| Female | 23 | 24% | 18 | |
| Joint | 20 | 21% | 10 | |
| Totals | 97 | | 56 | |

The chart shows that, as of December 31, 1995, ninety-seven applications were received by CHC resulting in 56 originations. The originations were distributed as follows: Black 32.14%, Hispanic 5.36%, and White 62.50%. A review of reasons for denial indicated that adverse credit history was the predominant reason for denial, across racial/gender categories.

The bank has a second review procedure for denied applications. The purpose of this process is to review each HMDA-related loan denial on an ongoing basis to ensure that the reason for denial is valid.

Conclusions

The bank is in compliance with the substantive provisions of the fair housing and fair lending laws, including the Fair Housing Act and the Equal Credit Opportunity Act.

V. COMMUNITY DEVELOPMENT

Assessment Factor (h) - The institution's participation, including investments, in local community development or redevelopment projects or programs.

Scope and Findings

The bank's community development lending, particularly for the development of affordable housing, participation in local bond activity, and assistance offered to non-profit groups, government offices and/or local social service agencies that serve low- or moderate-income areas, and specific activity related to the development of affordable housing or economic development were reviewed and are as follows:

The bank serves as a member of the Federal Home Loan Bank (FHLB) of Indianapolis, which promotes low-income housing initiatives and programs.

The bank continues to participate in the Indiana Capital Access Program, a program

formed by an alliance of borrowers, banks and the State of Indiana Development Finance Authority (IDFA). Under this program, a reserve fund, established from contributions made by the borrower, lender and IDFA, is created as protection from loan default.

The bank makes community development loans in South Bend and Elkhart Urban Enterprise Zones (UEZ), as established by the State of Indiana.

The bank serves as a consortium member of the South Bend Home Improvement Program, the City of Goshen's Face of the City Loan Program, the City of Elkhart's Downtown Enterprise Zone Building Renovation Program, and the Elkhart Housing Partnership (EHP), a organization dedicated to improving the viability of downtown Elkhart through the purchase and renovation of inner city housing units.

The bank also participates in various municipal and economic development loan pools, benefitting low- or moderate-income individuals and small businesses. The purpose of the loans is for residential home purchase and home improvement, facade improvements and economic development.

In addition, as of the examination date, the bank's investment portfolio totaled \$373,139,261. Municipal obligations comprise approximately 35% or \$132,412,000 of the portfolio. Approximately 1.95% of the municipal obligations are in the form of local bond issues and 38.69% are State of Indiana bond issues.

Conclusions

The bank's community development activities are proactive and contribute significantly to the economic welfare of the community. In addition to financial support, in the form of loans and the purchase of bond issues, the bank has made initiatives involving affordable housing and small business assistance which promote the development of the community. Local community development appears to be an integral part of the bank's lending philosophy.

Assessment Factor (k) - The institution's ability to meet various community credit needs based on its financial condition and size, legal impediments, local economic conditions and other factors.

There are no apparent factors relating to the bank's financial condition and size, or local economic conditions that would prevent the bank from meeting community credit needs.

Assessment Factor (l) - Any other factors that, in the regulatory authority's judgement, reasonably bear upon the credit needs of its entire community.

Scope and Findings

Other programs and services that relate directly to meeting the credit needs of the community were reviewed and are as follows:

The bank is a founding member of the Community Homebuyers Corporation (CHC), a nonprofit organization formed as a partnership which is designed to assist and improve housing opportunities for low- or moderate-income residents of St. Joseph County by providing loan funds. A loan officer of the bank serves on the organization's loan review committee. See disposition of applications and loans by race/gender under Assessment Factor (f).

The bank offers Homebuyer Workshops and Credit Counseling Seminars at churches and banking centers located in low- or moderate-income census tracts. Under an agreement with the Housing Development Corporation (HDC) of St. Joseph County, the bank provides free credit counseling to consumers. Also, the bank regularly offers Financial Planning Workshops in schools throughout its community.

The bank conducts Homeowner Workshops for Spanish speaking consumers. Both English and Spanish versions of the FNMA Guide to Homeownership are provided to participants. In the Elkhart area and in conjunction with a local Hispanic Realtor, the bank's mortgage originator conducts homebuyers workshops in Spanish. In 1995, the bank held three bilingual homebuyer workshops, two in Elkhart and one in South Bend.

Representatives of the bank's Small Business Division conduct presentations for various groups in St. Joseph County regarding the bank's business loan products, financial reporting, SBA loan programs and various accounting methods. The bank's Partnership Program offers small businesses free consultation.

Conclusions

These activities enhance the community's awareness of bank services and promote an attitude of friendliness and approachability that indicate bank staff is available in the community to provide credit products, services and information and to respond to questions regarding the credit needs of the entire community.