

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 **Valley Ridge Bank, Kent City, Michigan**, prepared by the **Federal Reserve Bank of Chicago**, the institution's supervisory agency, as of **May 27, 1997**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 228.

INSTITUTION'S RATING: This institution is rated **Outstanding**.

The bank's loan-to-deposit ratio is high and exceeds that of its peer group. A significant majority of its loans have been made within its assessment area. The distribution of borrowers reflects excellent penetration among individuals of different income levels and a relatively high volume of its loans have been made in moderate-income geographies within its assessment area. There were no CRA-related complaints received since the previous examination.

DESCRIPTION OF INSTITUTION

Kent City State Bank merged with Grant State Bank on December 9, 1996, combining to form Valley Ridge Bank (Abank@). As of March 31, 1997, the bank had total assets of \$120.3 million. The bank is a subsidiary of Valley Ridge Financial Corporation, a one-bank holding company. Following the merger, the bank expanded its assessment area to include all geographies where it has offices or deposit-taking automated teller machines (ATMs). The bank serves the assessment area through its main office in Kent City, and additional branch offices in Ravenna, Sparta, Muskegon, Coopersville, Grant and Newaygo. The bank operates ATMs, which are accessible 24 hours, at its main office and at its branch locations in Muskegon, Ravenna, Coopersville, Grant and Newaygo.

The bank is the only financial institution in Kent City and Grant. Its primary competitors include: Old Kent Bank, Ravenna Branch; Choice One Bank in Sparta; Rogue River Community Credit Union, in Sparta; Comerica Bank, Coopersville Branches; Multi-Products Credit Union in Coopersville; Independent Bank-West Michigan, Fremont Branch; FMB Old State Bank, Fremont Branch; and Gerber Employees Federal Credit Union in Fremont.

The bank is a full-service lender with a significant portion of its loan portfolio consisting of residential real estate, consumer installment, commercial and industrial and agricultural loans. There are no factors relative to the bank's financial condition, size, or local economic conditions that would prevent the bank from meeting the credit needs of the community.

DESCRIPTION OF ASSESSMENT AREA

Kent City is located in the northwest corner of Kent County, Michigan, which is approximately 20 miles north of Grand Rapids and 23 miles east of Muskegon. The bank's assessment area is part of the Grand Rapids Metropolitan Statistical Area (MSA) (3000), and includes portions of Kent, Muskegon, and Ottawa Counties. The assessment area encompasses 14 census tracts which include two moderate-income and 12 middle-income tracts. In addition, the assessment area includes six Block Numbering Areas (BNAs) in the southern portion of Newaygo County, including two moderate-income and four middle income tracts. The bank's assessment area consists of whole contiguous census tracts and BNAs, and does not arbitrarily exclude any low-income or moderate-income areas. According to 1990 U.S. census data, the assessment area's total population is 85,177, or 9.1% of the MSA's total population. Whites comprise 96.2% of the assessment area population.

The assessment area's housing market consists of 32,197 housing units, of which 23,644 (73.4%) are owner-occupied, 4,614 (14.3%) are rental and 3,939 (12.2%) are vacant. There are 6,009 mobile homes within the assessment area, comprising 18.7% of the housing units in the assessment area, and includes 4,962 within Newaygo County. The median housing value in the assessment area is \$53,293, compared to \$65,347, \$60,062 and \$44,414 for the MSA, State of Michigan and non-metropolitan state, respectively. The median age of the housing stock is 34 years. The median family income in the assessment area is \$32,345, compared to \$36,722, \$36,652 and \$27,894 for the MSA, State of Michigan and non-metropolitan state, respectively. The assessment area includes; 4,271 (18.8%) low-income families, 4,858 (21.4%) moderate-income families, 6,233 (27.4%) middle-income families, and 7,367 (32.4%) upper-income families.

The bank's assessment area is primarily rural, with agriculture representing the primary economic activity. The principal cash crops are fruits and vegetables, along with some dairy farming. National Fruit Product Company, Inc., a fruit processing plant with approximately 150 employees, is the major employer in Kent City. According to information obtained from the Coopersville Area Chamber of Commerce and Grand Valley State University Office for Economic Expansion, major employers in the bank's community include the following:

Employer	City	# of Employees	Product\Service
Delphi Automotive Systems	Coopersville	1,100	Motor Vehicle Parts
ETV Inc.	Coopersville	350	Long Distance Trucking
Saturn Electronics	Coopersville	220	Electronic Manufacturing
A E Goetze	Sparta	175	Casting Foundry
Pak Sak Industries	Sparta	150	Plastic Bags
Briggs & Stratton Corp.	Ravenna	150	Foundry
Harrow Products Inc.	Coopersville	125	Metal Products
Production Aluminum Co.	Sparta	90	Die Casting Foundry
Tesa Tuck Inc.	Sparta	90	Packaging Materials

Other major employers include the Coopersville Area Public School District (350 employees) and area hospitals including North Ottawa Community Hospital in Grand Haven. According to the Michigan Department of Labor Market Information, the unemployment rates as of April 1997 for Kent and Ottawa Counties were 2.9% and 2.6%, respectively, compared to the State of Michigan unemployment rate of 4.3% for the same period.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

The institution is in compliance with the substantive provisions of antidiscrimination laws and regulations.

LOAN-TO-DEPOSIT RATIO

A review of the bank's March 31, 1997 Consolidated Report of Condition revealed a net loan-to-deposit ratio of 87.75%. The following chart compares the bank's loan-to-deposit ratio over the eight most recent quarters to those of local competitors, according to each bank's Consolidated Reports of Condition for the same period.

Bank Name	Avg.	06/95	09/95	12/95	03/96	06/96	09/96	12/96	03/97
Valley Ridge Bank	86.05%	82.58%	86.20%	86.44%	84.14%	83.49%	89.72%	88.05%	87.75%
ChoiceOne Bank	95.97%	80.32%	82.99%	83.87%	89.12%	94.35%	105.23%	113.49%	118.37%
FMB Old State Bank	65.42%	73.19%	68.56%	61.81%	59.21%	60.52%	64.35%	66.44%	69.27%

The chart reveals that the bank's ratio is stable and shows moderate growth.

The bank's eight quarter average of 86.05% is significantly above its peer group average of 69.47%. The distribution of the bank's loan portfolio by loan type as of the March 31, 1997 Consolidated Report of Condition was as follows:

LOAN TYPE	DOLLAR AMOUNT OUTSTANDING (000s)	PERCENT OF TOTAL LOANS
REAL ESTATE	35,802	40.57%
Construction	1,221	1.38%
Residential (1-4)	34,556	39.16%
Commercial	0	0%
Agricultural	25	0.03%
Multi-family	0	0%
CONSUMER	11,233	12.73%
Open-end Credit	532	0.06%
All Other	10,701	12.13%
COMMERCIAL AND INDUSTRIAL	31,973	36.23%
AGRICULTURAL	7,527	8.53%
STATE AND POLITICAL OBLIGATIONS	944	1.07%
OTHER	0	0%

The pre-merger portfolios of the two banks were combined using the December 31, 1995 Uniform Bank Performance Report (UBPR), and then compared to the loan portfolio as of March 31, 1997, which is summarized in the above chart. The comparison revealed a \$2.1 million (23%) increase in consumer loans, and a \$1.4 million (22.8%) increase in agricultural loans. Overall, total loans increased by \$6,668,000 or 8.2% on a consolidated basis since the previous examination. The growth of the portfolio is attributed to the addition of new consumer products and the expansion of agricultural lending into a larger geographic market created by the merger. The bank's net loan-to-deposit ratio, considering the bank's size, location, and the portfolio mixture exceeds standards for satisfactory performance.

LENDING IN ASSESSMENT AREA

A six month sample of real estate loans reported on the bank's 1997 Home Mortgage Disclosure Act Loan Application Register, along with the consumer loans included in the examination sample, were reviewed to determine the bank's level of performance in lending within its assessment area. The review revealed that 126 of the 161 (78.26%) loans sampled were made within the assessment area, including 54 of the 68 (79.41%) real estate loans sampled. The bank's record of lending within its assessment area exceeds standards for satisfactory performance.

LENDING TO BORROWERS OF DIFFERENT INCOMES

The following chart illustrates the distribution of the loan sample among borrowers of different income levels (where income information was available).

LOAN TYPE	LOW-INCOME	MODERATE-INCOME	MIDDLE-INCOME	UPPER-INCOME
Consumer Real Estate	2	8	20	24
Installment Loans - Direct	8	4	4	2
Installment Loans - Indirect	2	2	2	1
Single Payment Loans	3	3	6	6
Credit Cards	3	2	0	1
Overdraft Lines of Credit	3	1	2	1
Home Equity Lines of Credit	0	0	0	5

The total number of loans to borrowers of low- and moderate-incomes is 41 or 35.65%. This compares favorably to the 11% low- and moderate-income population of the assessment area. Loan penetration to different borrower income levels, given the demographics of the assessment area, exceeds standards for satisfactory performance.

GEOGRAPHIC DISTRIBUTION OF LOANS

The following chart illustrates the distribution of the loan sample throughout the bank's assessment area, by geographic area and income level:

County	Tract #	Income	# of Loans
Kent	3000 081 0103.01	Middle	12
Kent	3000 081 0103.02	Middle	2
Kent	3000 081 0104.00	Middle	8
Kent	3000 081 0106.00	Middle	1
Kent	3000 081 0114.01	Middle	1
Muskegon	3000 121 0029.00	Middle	10
Muskegon	3000 121 0030.00	Middle	18
Muskegon	3000 121 0032.00	Middle	7
Newaygo	3000 123 9706.00	Middle	0
Newaygo	3000 123 9709.00	Middle	12
Newaygo	3000 123 9711.00	Middle	5
Newaygo	3000 123 9712.00	Middle	20
Ottawa	3000 139 0201.00	Middle	6
Ottawa	3000 139 0202.00	Middle	4
Ottawa	3000 139 0203.00	Middle	8
Ottawa City	3000 139 0204.00	Middle	2
Kent	3000 081 0102.00	Moderate	1
Muskegon	3000 121 0031.00	Moderate	8
Newaygo	3000 123 9703.00	Moderate	0
Newaygo	3000 123 9707.00	Moderate	1

The assessment area does not include any high- or low-income census tracts or BNAs. The bank has originated loans in a substantial number of its census tracts and BNAs, including moderate-income areas. It has not arbitrarily excluded any low- or moderate-income areas. The distribution of loans is consistent with the general population of the areas.

As shown in the preceding chart, 7.94% of the loans sampled were made in moderate-income census tracts and BNAs. These tracts are located in the far west, north and east boundaries of the assessment area which account for only 14.00% of the population. The far west census tract is located just outside of Muskegon and the east tract is located just outside of Grand Rapids. Both of these areas experience substantial competition. In addition, the two moderate income tracts located in the northern portion of the assessment area have limited access to a Valley Ridge banking location because of distance. The bank's geographic distribution of loans within the assessment area exceeds the standards for satisfactory performance.

RESPONSE TO COMPLAINTS

There were no CRA-related complaints of Valley Ridge Bank, Kent City State Bank or Grant State Bank, received by the Federal Reserve Bank of Chicago, since the previous examinations.