

**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 **The Fairmount State Bank** prepared by the **Federal Reserve Bank of Chicago**, the institution's supervisory agency, as of January 6, 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 Fairmount State Bank has made an outstanding effort to offer credit consistent with its size, financial capacity, location, and current economic conditions. The bank's efforts are primarily accomplished through the origination of agricultural, consumer, and residential real estate loans. The loan-to-deposit ratio is reasonable. The bank makes a substantial majority of its loans within its assessment area. Lending to low-and moderate-income borrowers is strong. The geographic distribution of loans reflects a very good dispersion throughout the assessment area. In addition, no CRA related complaints have been received since the previous exam, and there is no evidence of any prohibited discriminatory lending practices, or policies intended to discourage loan applications. There are no legal or regulatory impediments which prohibit the bank from meeting the credit needs of its community.

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

SMALL INSTITUTION ASSESSMENT CRITERIA	THE FAIRMOUNT STATE BANK PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does Not Meet Standards for Satisfactory Performance
Loan-to-Deposit Ratio		X	
Lending in Assessment Area	X		
Lending to Borrowers of Different Incomes and to Businesses of Different Sizes	X		
Geographic Distribution of Loans	X		
Response to Complaints	No CRA-related complaints have been received since the previous exam.		

## **DESCRIPTION OF INSTITUTION**

The Fairmount State Bank with assets of approximately \$33.5 million, is a subsidiary of Fairmount Banking Corporation, a one-bank holding company. The bank operates one main office and an off-site automated teller machine (ATM) in Fairmount, Indiana. The bank's primary competitor is the Citizens Exchange Bank, with approximately \$38 million in assets, also located in Fairmount. The bank also faces competition from various credit unions and larger financial institutions based in the City of Marion, Indiana.

The bank offers agricultural, commercial, consumer, and residential real estate loans, including mobile home loans. The bank is involved in government-guaranteed, subsidized and insured lending programs through the Farm Services Agency (formerly FmHA). Agricultural loans represent the largest portion of the bank's loan portfolio (40%), with strength also shown in real estate (26%) and consumer (13%) lending.

## **DESCRIPTION OF THE BANK'S ASSESSMENT AREA**

The bank's assessment area is defined as all of Grant County and one census tract (#101) in Madison County, which is part of the Indianapolis Metropolitan Statistical Area (MSA 3480). The assessment area is comprised of seventeen census tracts. Two of the census tracts are defined as moderate income, eleven as middle income, and four as upper income.

According to 1990 United States Census data, the population of the assessment area is 77,310. The median family income for the assessment area is \$30,800. Low income families represent 18.8%, moderate income families represent 18.8%, middle income families represent 22.6%, and upper income families represent 39.8% of the assessment area's population. Minorities represent approximately 9% of the assessment area population.

According to the census data, the housing stock of the assessment area is 66.4% owner occupied, 26.3% rental, and 7.3% vacant. The housing stock consists of 84.5% one-to-four family units, 6.9% five or more family units, and 7.5% mobile homes. Within the assessment area, the median housing age is 43 years, and the median housing value is \$39,920. Community contacts stated that affordable housing is needed in Fairmount. Affordable housing was described as homes priced at \$40,000 or less, and new construction prices start at \$70,000 for a modular house.

The local economy was described by community contacts as stable with little growth and low unemployment. According to the Indiana Department of Work Force Development, the unemployment rate in the assessment area as of November 1996 is 4.7%, which is higher than the state average of 3.3% and the Indianapolis MSA average of 2.6%. Unemployment has declined since November 1995 when the assessment area's unemployment rate was 6.1%, and the state average was 4.4%. The local economy is driven by agriculture and the auto industry, but is described by contacts as diverse enough to absorb minor fluctuations. There are two major employers in the town of Fairmount: Fairmount Wire Products, a manufacturer of industrial fan

and grill guards employing approximately 80 people; and American Mobile Power, a manufacturer of fire trucks and related items employing approximately 75 people. Due to the town's proximity to the Cities of Marion and Anderson, many of the town's resident commute to work. Major employers convenient to the assessment area include: Delco Remo Division of General Motors (Anderson), a manufacturer of auto parts employing 7,000; General Motors Corp (Anderson), employing 3,500; General Motors Corp., Chevrolet-Pontiac-Canada Group (Marion) employing 2,400; and Foster-Forbes Glass (Marion), a manufacturer of beverage containers employing 1,000. The immediate area surrounding the town of Fairmount is agricultural.

Revised census data indicates that the number of farm proprietors was down 8% over the four-year period ending in 1994. This trend was confirmed by community contacts who stated that the farms are consolidating because of a lack of family continuity, and the need for high crop yields in order to make a living.

**CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:**

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

**Loan-to-Deposit Ratio**

In order to assess the bank's performance in this category, an analysis was performed of its loan-to-deposit ratio over time, and a comparison was made of its loan-to-deposit ratio to that of other financial institutions and its peer group.

According to the September 30, 1996 Uniform Bank Performance Report (UBPR), the bank's loan-to-deposit ratio was 53.19%. This represents a decline from 58.24%, noted in the previous report. After adjusting for seasonal variations, however, the bank has not experienced a significant change in the amount of loans outstanding since the previous examination. As illustrated in the following chart, the bank's six quarter average loan-to-deposit ratio was compared to that of two local banks within the assessment area and its peer group:

BANK	LOCATION	ASSET SIZE * (000)	6/95	9/95	12/95	3/96	6/96	9/96	LOAN-TO-DEPOSIT RATIO **
<b>FAIRMOUNT STATE BANK</b>	Fairmount, IN	\$33,495	53.64%	58.24%	50.79%	50.18%	53.00%	53.19%	53.17%
<b>CITIZENS EXCHANGE BANK</b>	Fairmount, IN	\$37,913	66.61%	63.98%	65.01%	66.69%	68.55%	69.00%	66.64%
<b>GRANT COUNTY STATE BANK</b>	Swayzee, IN	\$32,670	67.33%	64.73%	60.83%	57.29%	57.50%	61.11%	61.47%
<b>PEER</b>	N/A	N/A	61.78%	63.08%	60.17%	59.96%	62.01%	63.06%	61.68%

\* Asset size based upon the September quarterly consolidated report of condition (Call report)

\*\* Loan-to-Deposit Ratio is the average of the previous six quarters as reported on the Uniform Bank Performance Report (UBPR)

While the bank’s loan-to-deposit ratio is lower than those of other local financial institutions and peer, there are several compensating factors adversely impacting the ratio which support a satisfactory rating in this performance category.

The bank’s ratio is influenced by competition from Citizens Exchange Bank. The Fairmount State Bank is the primary local agricultural lender, while Citizens is primarily a real estate and consumer lender. Demand for agricultural loans has remained steady over the six quarter review period, while demand for mortgage loans increased causing Citizens Exchange Bank’s loans outstanding to increase by \$1.25 million or 5.69%, while the bank’s loans remained constant. In addition, increased competition from Farm Credit Services for agricultural lending has also contributed to a lack of significant agricultural loan growth since the previous examination.

A six-month review of consumer installment loans revealed that 63 (30%) of 208 loans were extended in amounts of \$1,000 or less. In addition, the bank recognized that many of its customers were interested in thirty year fixed rate mortgages at low secondary market rates. Realizing that they would be unable to meet such a demand in the portfolio, the bank contracted with a mortgage network to provide secondary market mortgage loans to its customers. Since February 1996, approximately three loans totaling \$126,000 closed under this agreement. These activities demonstrate the bank’s commitment to serving its community, and supplement the loan-to-deposit ratio.

Based upon this review, the bank meets the standards for satisfactory performance in this category.

**Lending in the Assessment Area**

Agricultural and consumer installment loans, as well as the examination sample, were reviewed in order to better assess the bank’s performance in this category. The examination loan sample revealed the following geographic distribution:

<b>LOAN TYPE</b>	<b>TOTAL SAMPLED</b>	<b>WITHIN THE ASSESSMENT AREA</b>	<b>PERCENT OF TOTAL</b>
Installment	20	20	100%
Real Estate	10	10	100%
Single Payment	10	9	90%
Credit Card	10	9	90%
Commercial/Agriculture	12	11	92%
Total	62	59	95.16%

As the chart indicates that 95% of the loans in the examination sample were made within the assessment area.

A six-month sample of agricultural and consumer installment loans were reviewed and compared with the bank’s current assessment area. Agricultural loans were selected because they represent the largest portion of the bank’s portfolio, and consumer installment loans were chosen because they represent the loan product with the highest volume. A sample of 50 agricultural loans indicated that 44 or 88.00% were made within the assessment area. In addition, a sample of 208 installment loans indicated that 189 or 90.87% were made inside the assessment area. Combining the two products sampled, a total of 90.13% (233 of 258) were made within the assessment area.

Based upon this review, the bank exceeds the standards for satisfactory performance under this category.

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

Agricultural and consumer installment loans originated during the six month period preceding the examination, as well as the examination loan sample, were analyzed in order to evaluate the bank under this category.

The examination loan sample revealed the following distribution of loans:

<b>LOAN TYPE</b>	<b>LOW-INCOME Number of Loans</b>	<b>MODERATE- INCOME Number of Loans</b>	<b>MIDDLE- INCOME Number of Loans</b>	<b>UPPER-INCOME Number of Loans</b>
Installment	8	4	4	2
Real Estate	0	3	3	4
Single Payment	3	3	0	1
Credit Card	2	4	3	1
Total	13	14	10	8
Percent	28.89%	31.11%	22.22%	17.78%

The above chart reveals that 60% of the loans sampled were made to low- or moderate-income borrowers. In addition, a sample of 145 consumer files that included income information was analyzed. The sample indicated that 49 or 33.79% of the loans were extended to low income borrowers, 43 or 29.66% were made to moderate income borrowers, 27 or 18.62% were extended to middle income borrowers, and 26, or 17.93% were made to upper income borrowers. In this sample, approximately 63.45% of the bank’s loans were made to low- or moderate-income borrowers.

According to information in the June 30, 1996 Call Report, all the banks agricultural loans are to small farms. The bank reported 40 loans secured by farmland, and 407 loans to finance agricultural production and other loans to farmers. In its commitment to provide credit to the small farms in the assessment area, the bank participates with the Farm Services Agency (formerly FmHA). At the time of the examination, the bank had one government guaranteed loan outstanding in the amount of \$268,224.

Based upon this review, the bank exceeds the standards for satisfactory performance under this category.

**Geographic Distribution of Loans**

Consumer installment loans originated during the six-month period preceding the examination were analyzed in order to evaluate the bank under this category. Consumer installment loans were chosen because they represent the bank’s highest loan volume. Two moderate income census tracts are in the City of Marion, located in the bank’s assessment area.

The sample indicated that 8 or 4.23% of the loans were made to borrowers living in the moderate income census tracts, 175 or 92.59% of the loans were made to borrowers living in middle income census tracts, and 6 or 3.17% of the loans were made to borrowers living in upper income

census tracts. Approximately, 12% of the families in the assessment area are living in the moderate income tracts, 63% of the families in the assessment area are living in middle income tracts, and 25% of the families in the assessment area are living in upper income tracts.

Based upon this review, the bank exceeds the standards for satisfactory performance under this category.

**Response to Complaints**

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