

GENERAL INFORMATION

This document is an evaluation of the Community Reinvestment Act (CRA) performance of **Chemical Bank and Trust Company, Midland, Michigan** 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 **May 12, 1997**. 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.

COMMUNITY PROFILE

The bank is headquartered in the City of Midland, Michigan, which is the county seat of Midland County and located approximately 120 miles northwest of Detroit. The bank has defined its service area as all of Midland County, and portions of Bay, Saginaw, Gratiot, and Gladwin Counties. This delineation includes a portion of the Saginaw-Bay-Midland Metropolitan Statistical Area (MSA).

According to 1990 census data, the population of the bank's delineated community totaled 262,562. Demographically, Whites represent 82.7% of the delineation's population compared to 11.6% for Blacks, 4.5% for individuals of Hispanic descent and 1.3% for all other minorities. There are 11 minority census tracts (16.9%) within the MSA portion of the community in which 50% or more of the residents are minorities. All of the minority tracts are located in the City of Saginaw; they are all classified as low- and moderate-income, with 9 of the 11 considered low-income tracts.

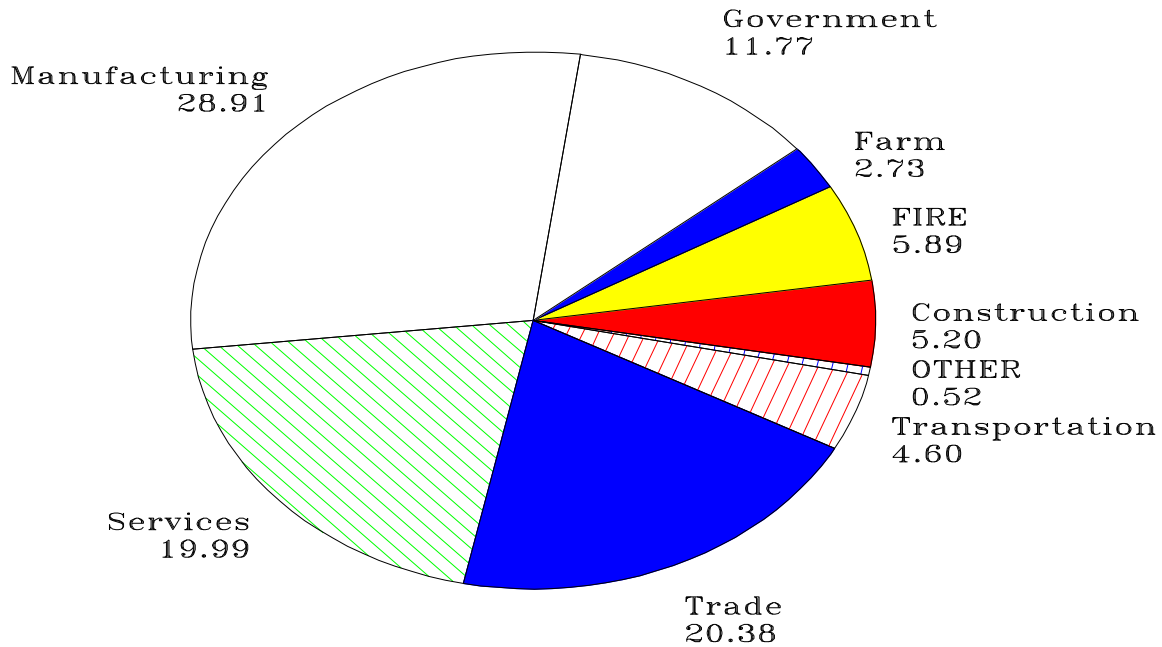
There are a total of 65 census tracts within the assessment area. Low- and moderate-income census tracts, those with incomes less than 80% of the assessment area median, totaled 20 or 30.8% of the assessment area total. The median family income for the assessment area is \$34,590. As a percentage of the assessment area's population, individuals from low- and moderate-income census tracts total 64,078 or 24.4%. There are a total of 103,546 housing units in the market, with 69,595 (67.2%) owner-occupied units and 27,898 (26.9%) rental-units. Of the total number of owner-occupied units, 12,501 (18.0%) are in low- and moderate-income areas. The median age of the housing stock in the delineated community is 28 years, while the median age of the housing stock in the low- and moderate-income areas is 55 years. The median value of housing stock in the assessment area is \$51,515.

Employment Trends

Throughout the 1970s, the manufacturing sector was the largest employer within the MSA¹. As Chart 1 shows, manufacturing employment accounted for approximately 29% of total employment in 1980. During the last decade, however, this MSA experienced industrial downsizing and restructuring, especially in the automobile industry. In the 1990s, the service

¹ Unless stated otherwise, statistical information was obtained from the *MSA Profile and Investment Opportunities*, Consumer and Community Affairs Division, Federal Reserve Bank of Chicago, March 1997.

1980 Employment shares
Saginaw-Bay City-Midland MSA, MI



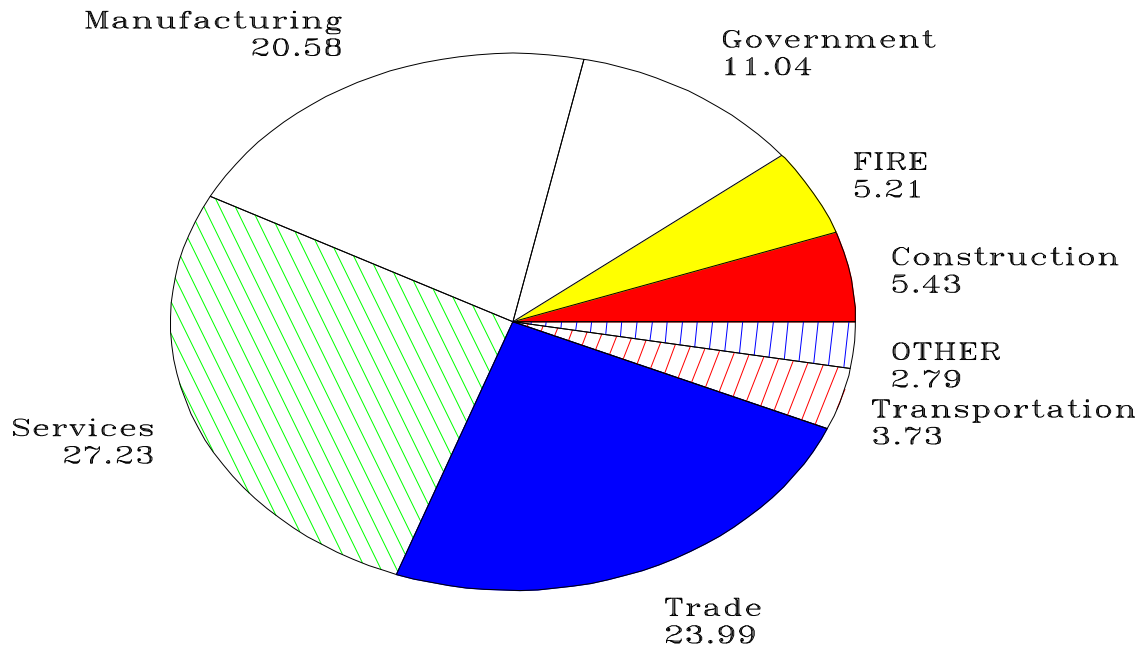
"OTHER" includes sectors representing less than 2% of total

"FIRE" is finance, insurance, and real estate employment.

"Trade" includes retail and wholesale trade employment.

sector, which includes personal, business, and health services, has become the leading employer. By 1994 services employment captured 27.2% of total employment, while manufacturing employment dropped to about 21 percent (Chart 2).

Saginaw-Bay City-Midland MSA, MI



"OTHER" includes sectors representing less than 2% of total
"FIRE" is finance, insurance, and real estate employment.
"Trade" includes retail and wholesale trade employment.

Although over 3,000 manufacturing jobs were lost from 1990 to 1994, the MSA experienced a net gain of over 10,000 jobs primarily in the retail trade and services industries. More recent employment data from the Bureau of Labor Statistics show a similar trend. While manufacturing employment fell by 3,100 jobs between 1990 and 1995, total wage and salary employment rose by 9,200 jobs over the same period, with gains mostly in service producing industries. In fact, the MSA's unemployment rate has consistently declined since 1991, with the March 1997 rate settling to 5.5 percent².

One of Michigan's most dynamic manufacturing centers is located in Saginaw County. With General Motors as the principal employer, the automotive sector continues to have a strong presence. Food processing, chemicals, electronics and light manufacturing are also important industries in the area. Saginaw County's unemployment rate was 5.6 percent in March 1997, slightly higher than the 5.5 percent unemployment rate experienced in the MSA as a whole. In Bay County, major employers include motor vehicle parts manufacturing, education, health care, retail trade, and food processing. Employment growth has been positive for several years. By March 1997, Bay County's unemployment rate was 6.3 percent, the highest in the tri-county area.

The heart of Michigan's **Technology basin** is located in Midland County. On a per capita basis, this county has more resident engineers, chemists, and metallurgists than any other geographical area in the nation. Manufacturing of chemicals, plastics, pharmaceuticals, and silicones provides the majority of job opportunities, with Dow Chemical Company and Dow Corning Corporation as Midland County's largest employers. During March 1997 Midland County experienced the lowest unemployment rate in the tri-county area, dropping to 4.4 percent versus 5.2 percent for the United States and 4.3% for the State of Michigan.

The largest employers in Gratiot County are Total Petroleum, Alma Products, and Loddell Emery Manufacturing. In addition to having a sizable summer tourist industry, Gladwin County's largest

² March 1997 employment figures were obtained from the Michigan Employment Security Agency.

nonseasonal employers are the Gladwin Community School District, Mid-Michigan Medical Center, and Brown Machine. During March 1997, the unemployment rate of Gratiot and Gladwin County's were 6.5% and 9.5% respectively. The unemployment figures have improved for both counties from 8.3% and 10.1% respectively in March 1996. Gladwin County's relatively high unemployment rate is attributed to the seasonal fluctuation of the local tourist industry.

The demographic characteristics of the assessment area have remained fairly stable since 1990, with population growth experienced only in Midland County. While the assessment area has experienced industry downsizing and restructuring over the last decade, the manufacturing industry remains a strong economic force. Moreover, employment has been buoyed by job growth in the retail trade and services sectors. Consequently, the bank's assessment area has maintained its economic vitality over time.

BANK PROFILE

Chemical Bank and Trust company, with \$553,633,000 in total assets as of December 31, 1996, is a subsidiary of Chemical Financial Corporation (CFC), Midland, Michigan, a multi-bank holding company. The bank's main office is located in Midland's downtown business district, and has a total of 17 branches located throughout the bank's delineated community. Eight branches are located in Midland County, four in Saginaw County, three in Gratiot County, and one each in Bay and Gladwin Counties. All bank loan and operating departments, as well as bank and corporate headquarters are located at the bank's main office in Midland. Applications for credit are available at all branch locations. All branch locations have drive-through tellers and are served by 24-hour automated teller machines (ATM's).

Primary competition in the City of Midland is provided by Comerica Bank, Detroit with four branches; First of America Bank-Michigan, NA., Kalamazoo with two branches; Michigan National Bank, Farmington Hills with two branches; Citizens Bank, Bay City with two branches; Wolverine Bank, FSB, Midland with two branches; Mutual Savings Bank, FSB, Bay City with one branch; and Standard Federal Bank, Troy with one branch. Competition is also provided by three credit unions including Dow Chemical Employees Credit Union.

Competition in the City of Saginaw is provided by NBD Bank, Detroit with six branches; First of America Bank-Michigan, NA, Kalamazoo with four branches; Citizens Bank, Saginaw with five branches; Michigan National Bank, Farmington Hills with two branches; Standard Federal Bank, Troy with five branches; Mutual Savings Bank, FSB, Bay City with two branches; and Great Lakes Bancorp, FSB, Ann Arbor with six branches. Competition within the City of Saginaw is also provided by 20 credit unions including Communications Family Credit Union, Wanigas Federal Credit Union,, and Catholic Federal Credit Union.

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 ascertains community credit needs primarily through officer and director affiliations with various community organizations, and through an officer call program directed at both customers and prospects. Various internal reports and studies were reviewed to determine the level and effectiveness of the bank's ascertainment efforts.

OFFICER - DIRECTOR AFFILIATIONS

The bank uses director, management and officer affiliations with various community, civic, business and professional groups and organizations to ascertain community credit needs. The following is a partial list of organizations with which bank officers and directors are affiliated:

Economic Development:

Midland County Economic Growth and Development Corporation
East Central Michigan Development Corporation
Michigan Bankers Association Economic Development Committee
Economic Development Corporation of Gratiot County
Greater Gratiot Development Corporation
St. Louis Economic Development Commission
Downtown Development Authority of Midland
St. Louis Downtown Development Authority
Minority Business Development Center (Saginaw)
Neighborhood Renewal services of Saginaw

Business Associations:

Midland Downtown Business Association
Saginaw African American Minority Business Association
Breckenridge Area Business Association
South Saginaw Business Association
Saginaw Minority Business Center

Chambers of Commerce:

Midland Area Chamber of Commerce
Sanford Area Chamber of Commerce

Saginaw Area Chamber of Commerce
Freeland Chamber of Commerce
Auburn Area Chamber of Commerce
Breckenridge Chamber of Commerce
St. Louis Chamber of Commerce

Housing Related:

Midland County Housing Commission
Midland Council of Realtors
Midland Home Builders Association
Saginaw Home Builders Association
Midland Board of Realtors
Saginaw Board of Realtors
Midland County Residential Loan Review Committee
Saginaw County Residential Loan Review Committee

OFFICER CALL PROGRAM

The bank also ascertains community credit needs through a formal officer call program. Under this call program, branch officers call on customers assigned by branch, and are expected to identify and call on noncustomers, or prospects within their branch's service area. The bank has assigned a senior branch officer to coordinate the calling efforts within the City of Saginaw and Saginaw Township. A review of the bank's call activity records indicates that the officers made 3,029 calls from September 1995 through April 1997. The bank's records show that 208, or 6.9% of all calls were to prospects. The number of calls by the Saginaw Township branches increased significantly since the previous examination, from 263 to 385 or 46%. Prospect calling by the Saginaw branches remained stable at 103 calls. To help increase mortgage loan penetration in the City of Saginaw, the bank has assigned a mortgage originator to market mortgage loans in that portion of the bank's community. The originator routinely calls on 14 Realtors located in and serving the City of Saginaw. The Mortgage Department also calls on nine Realtors in Midland, three in Sanford and two in Freeland. Other Realtors are contacted as part of the general officer call program.

SEMINARS:

The bank sponsored five free Home Buyer seminars in 1996 and year-to-date 1997; four in Saginaw, and one in Midland. The seminars offered information on how to budget for purchasing a home, down payment requirements, and financing options for real estate loans. One hundred people attended these sessions. The bank sent follow-up letters to attendees inviting them to visit the bank and apply for a loan.

Through these various ascertainment efforts the bank identified the need for mortgage financing for low-income residents in Saginaw. To help meet that need, the bank joined a consortia of lenders working with Neighborhood Renewal Services of Saginaw to participate in the Home Ownership Program (HOP) which targets low-income first time home buyers. This is discussed further under Assessment Factor (h) under Community

Development.

Conclusions

The bank's ascertainment efforts are strong. Utilizing several methods, the bank has identified and is addressing the needs in the City of Saginaw. In this regard the bank has increased its call program, increased mortgage loan penetration, conducted home buyer seminars, and participated with community development organizations.

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 bank's CRA Plan, CRA committee structure, minutes of the board of directors and CRA committee meetings, internal reports, self-assessment and training were reviewed.

The bank has developed and implemented a formal written CRA plan designed to provide management oversight and direction of the bank's CRA activities. The bank has appointed a senior officer and committee to coordinate and monitor the bank's CRA activities. The bank's CRA plan identifies the roll of the community affairs officer (CAO), CRA/Public Policy Committee, and the Board of Directors. The plan also establishes that the CAO present a written report to the board monthly, which provides the board with a recap of the bank's CRA activities and a formal presentation semiannually. The CRA/Public Policy committee, which includes the chairman of the CRA operations committee of Chemical Financial Corporation, the bank president, bank CAO, and selected members of the bank's board of directors, meets semi-annually to review CRA activity. These reviews encompass discussion of all five performance categories and include an expanded analysis

of the geographic distribution of credit. A formal self-analysis of the bank's CRA performance is completed annually for presentation to the board of directors. The bank reviews its CRA statement and plan at least annually, as evidenced by the minutes of the November 18, 1996 and April 21, 1997 board of directors meeting.

Conclusions

Participation in the CRA process by the board of directors is strong. Multi-tiered committees and, formal reviews of year-to-date performance results demonstrate that the board and bank management actively oversee the bank's CRA activities.

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

Bank records, copies of advertisements and other marketing-related documents were reviewed and interviews with bank officers were conducted to determine the extent and effectiveness of the bank's marketing program in promoting the availability of its credit products and services throughout its delineated community.

The bank markets its products and services through its call programs, community affiliations, direct mailings, lobby brochures and advertising. Commercial loans are marketed primarily through the bank's officer call program and affiliations with various organizations throughout the community. In addition to calls on existing customers, the officer call program includes calls of prospects which provides the bank with an opportunity to market the availability of products and services to noncustomers. Residential mortgage loans are marketed primarily through affiliations with local realty boards, interaction with community-based organizations and calls on local Realtors. Bank affiliations and officer call programs were discussed under Assessment Factor (a). Commercial and real estate loan marketing efforts are also augmented by mass media advertising.

The availability of consumer loan and deposit services are marketed to existing customers primarily through statement messages and enclosures, lobby posters, and brochures. The general public is made aware of the bank's consumer loan products through advertising in the local mass media.

A review of bank marketing records indicates that the bank utilizes a variety of local mass media services to promote consumer loan and deposit products. The following newspapers are used: Sanford Express, Midland Daily News, Midland Buyers Guide, Saginaw Valley Shopper, Saginaw News, Saginaw Banner, Shoppers Guide, Alma Reminder, Midland Business Journal, Township Times, Gratiot County Herald, Auburn Record/Freeland Globe, and Mi Gente. The Mi Gente is directed at the Spanish speaking community. The local radio stations used include WGER (FM) Saginaw, WHNN (FM) Saginaw, WSGW (AM) Saginaw, WKCQ (FM) Saginaw, WMAX (AM) Saginaw, WIOG (FM) Saginaw, WMLM (AM) Alma, WTLZ (FM) Saginaw and WMPX (AM) Midland. Circulation and listening audience data indicate that the bank's delineated community is served by the various media. Use of free publications such as the Saginaw Banner, which targets the city's east side, helps the bank to increase awareness of its products and services in the low- and moderate-income areas of the Saginaw market.

Approximately ninety-five percent of the bank's mass media advertisements utilized print media, while less than five percent utilized radio. This current mix represents a change from the previous examination, as the bank decreased its use of radio. An analysis of the bank's radio advertisements revealed that seventeen percent were for loan products, thirty-eight percent were for deposit services and forty-five percent were goodwill/image advertisements. An analysis of the bank's print advertisements revealed that twenty-nine percent were for loan products, thirty-two percent were for deposit services and twenty-eight percent were goodwill/image advertisements. Further review indicated that the loan advertisements included promotion of real estate mortgage, pre-approved home mortgage, home equity, general consumer and business loan products, as well as government-insured loan programs.

Conclusions

The bank's marketing efforts sufficiently reach out to all segments of the bank's delineated community. The bank advertises the availability of credit products in a variety of local newspapers and publications, as well as on numerous local radio stations throughout the community. The bank's officer call program was also expanded to ensure an increased number of prospect calls in the Saginaw portion of the bank's community. Representatives of the community indicated that the bank's level of credit related advertising is sufficient to inform its community of available credit products and services and has resulted in loans originating 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 December 31, 1996 Consolidated Report of Condition, and Uniform Bank Performance Report (UBPR) were reviewed. The December 31, 1996 Consolidated Report of Condition revealed the distribution of the bank's loan portfolio by loan type was

as follows:

| LOAN TYPE | DOLLAR AMOUNT OUTSTANDING (000's) | PERCENT OF TOTAL LOANS |
|------------------------------------|--------------------------------------|------------------------|
| REAL ESTATE | | |
| Construction | 13,063 | 5.6% |
| Residential (1-4) | 124,717 | 53.9% |
| Home Equity | 2,539 | 1.1% |
| Commercial | 31,371 | 13.6% |
| Agricultural | 380 | 0.2% |
| Multi-family | 1,547 | 0.6% |
| CONSUMER | | |
| Open-end Credit | 367 | 0.2% |
| All Other | 21,708 | 9.4% |
| COMMERCIAL AND INDUSTRIAL | 25,158 | 10.9% |
| AGRICULTURAL | 1,631 | 0.7% |
| STATE AND POLITICAL OBLIGATIONS | 6,989 | 3.0% |
| OTHER | 1,873 | 0.8% |

A comparison of the preceding loan distribution to the December 31, 1996 Report of Condition indicated the bank's loan portfolio remains relatively unchanged. Single-family residential loans continue to dominate the bank's loan portfolio, followed by commercial real estate loans, and commercial and industrial loans. Overall, total loans increased by \$4,263 or 1.88%, since the previous examination.

The December 31, 1996 UBPR comparing the bank's loan portfolio mix to peer is illustrated in the following chart.

| LOAN TYPE | BANK AVERAGE LOAN MIX (%) | PEER AVERAGE LOAN MIX (%) |
|---|---------------------------|---------------------------|
| REAL ESTATE LOANS | | |
| Construction/Development | 4.78 | 3.45 |
| 1 - 4 Family Residential | 54.07 | 28.45 |
| Home Equity | 0.98 | 2.87 |
| Other Real Estate | 15.63 | 22.13 |
| Farmland | 0.27 | 0.46 |
| Multi-family | 0.73 | 1.46 |
| Commercial | 14.62 | 18.60 |
| TOTAL REAL ESTATE LOANS | 74.47 | 57.89 |
| LOANS TO INDIVIDUALS | 9.26 | 16.41 |
| CREDIT CARD LOANS | 0.17 | 0.97 |
| COMMERCIAL & INDUSTRIAL LOANS | 12.51 | 15.85 |
| AGRICULTURAL LOANS | 0.81 | 0.35 |
| MUNICIPAL LOANS | 2.06 | 0.56 |
| OTHER LOANS* | 0.28 | 0.42 |
| *Excludes Financial Institution Loans, Acceptances of Other Banks, Foreign Office Loans and Leases, and Lease Financing Receivables | | |

As shown in the above chart, the portfolio is comprised primarily of single family residential loans. These loans comprise 54.07% of the banks loan portfolio which significantly exceeds peer performance of 28.45%. Total real estate loans comprise 74.47% of the loan portfolio. This also compares favorably with peer performance of 57.89%. The bank's current level of loans as a percentage of deposits and total assets, compared to the level in June, 1995 is illustrated in the following chart.

| Date | Bank Net Loan/Lease To Deposit Ratio | Peer Net Loan/Lease To Deposit Ratio | Deposit Ratio Percentile Rank | Bank Net Loan/Lease To Assets Ratio | Peer Net Loan/Lease To Assets Ratio | Assets Ratio Percentile Rank |
|----------|--------------------------------------|--------------------------------------|-------------------------------|-------------------------------------|-------------------------------------|------------------------------|
| 12/31/96 | 50.99% | 75.57% | 10th | 41.45% | 63.56% | 9th |
| 6/30/95 | 47.79% | 75.56% | 8th | 38.87% | 62.92% | 9th |

A review of the December 31, 1996 UBPR revealed that the bank had a net loan-to-deposit ratio of 50.99%, which fell below its peer group ratio of 75.57% and placed the bank in the 10th percentile. The bank had a net loan-to-average asset ratio of 41.45%,

which compared to the peer ratio of 63.56% and placed the bank in the 9th percentile. The bank's ratios have not changed substantially since the previous examination.

Further, the bank originates and sells single family real estate loans to the secondary market, and is actively involved in participation loans; neither of which are reflected in the bank's loan portfolio. According to an internal review of the bank's loan to deposit ratio, approximately \$15 million in secondary market sales and \$9 million in participation loans can be applied toward the bank's outstanding loan portfolio to more accurately reflect the bank's lending performance. Additionally, the bank holds, on deposit, \$19 million in public funds that are not readily available for loans. After these adjustments are made, the bank's loan-to-deposit ratio increases to 59.29%.

Conclusions

The bank extends credit by general type, consistent with its CRA statement of available credit products. The bank's level of lending is reflective of the highly competitive market in which the bank operates; competing with some of Michigan's largest and most aggressive lenders, including NBD Bank, Comerica and First of America Bank-Michigan.

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 use of government loan programs was reviewed. Loan programs reviewed included; Farmers Home Loan Administration (FmHA), Federal Housing Administration (FHA) and Veterans Administration (VA) loans, Small Business Administration (SBA), student loans, and several State of Michigan loan programs through the Michigan State Housing Development Authority (MSHDA). The following chart summarizes the bank's activity in the above mentioned government sponsored loan programs:

| PARTICIPATION WITH GOVERNMENT/SUBSIDIZED LOAN PROGRAMS | | | | |
|--|--|----------------|----------------------------|---------------------------|
| PROGRAM | CURRENTLY OUTSTANDING | | SINCE PREVIOUS EXAMINATION | |
| | NUMBER | DOLLAR AMOUNT | NUMBER | DOLLAR AMOUNT |
| Federal Housing Administration (FHA) | all loans sold in the secondary market | | 5 | \$263,970 |
| Farmers Home Loan Administration (FmHA) | all loans sold in the secondary market | | 60 | \$2,664,600 |
| Veterans Administration (VA) | all loans sold in the secondary market | | 7 | \$1,096,500 |
| Small Business Administration (SBA) | 19 | \$1,377,797.40 | 7 | \$1,096,500 |
| Student Loans | all loans sold in the secondary market | | 323 | information not available |
| MSHDA Home Improvement Program | Outstanding disbursed loans are held by MHDA | | 7 | \$49,126.46 |

Community representatives were interviewed to determine the need for government loan programs within the delineated community and CRA files were reviewed to assess the bank's participation in loan programs that are responsive to those needs. There were no credit needs mentioned by community representatives which the bank cannot serve with its current products.

Conclusions

The bank's performance in generating loans through government programs is consistent with the need for these products in its community. The bank offers and extends products which provide flexibility in lending, and accommodates participants in the credit process who may not have otherwise qualified for loans.

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 results of the bank's delineation analysis were reviewed, along with local demographics and the distribution of branches throughout the community, to determine the reasonableness of the bank's delineated community. The bank has defined its community as follows: all of Midland County; Bay County, limited to Beaver, Frankenlust, Monitor and Williams Townships; Saginaw County, limited to Tittabawasee, City of Saginaw, Thomas and Saginaw Townships and that portion of Kochville Township west of the I-75 Freeway, Zilwaukee Township west of the I-75 Freeway and west of Westervelt Avenue, and Carrollton township that lies north and west of Carrollton Avenue; Gratiot County, limited to Seville, Pine River, Bethany, Wheeler, Sumner, Arcadia, Emerson and Lafayette Townships; and, Gladwin County, limited to a portion of Tobacco, Billings and Bentley Townships.

Since the previous examination, the bank has revised its delineated community by eliminating Coe and Lincoln Townships, located in Isabella County. This action was attributed to low loan volume and the fact that these townships were incorporated into the delineated community of Chemical Bank Michigan, the bank's sister affiliate, located in Clare, Michigan. There are a total of 65 census tracts within the bank's delineated community; 20 of these census tracts are low- and moderate-income tracts and 11 are minority tracts.

The method chosen by the bank in delineating its community is consistent with method number three, described above. The delineation is accurately described in the bank's CRA statement and is updated at least annually, as evidenced by the November 18, 1996 minutes of the board of directors' meetings. No low- and moderate-income or minority areas have been excluded from the delineated community.

The bank conducts a delineation analysis as part of the semiannual Community Affairs Committee Meeting conducted with the board of directors. The delineation analysis is intended to monitor the appropriateness of the delineation by tracking the bank's geographic distribution of loans, deposits, and marketing and public relations efforts. The primary focus of the analysis is to monitor the bank's lending efforts, especially new credit business, both within and outside of its community.

Conclusions

A review of the geographic distribution of HMDA data for 1995, 1996 and year-to-date 1997, the bank's delineation analysis and the examination sample of loans selected during this examination, in conjunction with local demographics and the distribution of branches throughout each community, support the reasonableness of the delineation. The delineated community does not exclude any areas that the bank could reasonably be expected to serve.

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 bank's 1995 and 1996 HMDA data, and the examination sample of loans and denied applications was reviewed to determine the distribution of loans within the delineated community. Additionally, the bank's semi-annual internal lending pattern analysis was reviewed; and, discussions were held with management to determine the distribution of the bank's lending activities.

Lending Within the Delineated Community

The examination sample of approved and denied credit was reviewed for geographic distribution within the bank's delineated community. A review of the loan sample revealed the following geographic distribution:

| LOAN TYPE | TOTAL SAMPLED | WITHIN THE DELINEATED COMMUNITY | PERCENT OF TOTAL |
|----------------------------|---------------|---------------------------------|------------------|
| APPROVED | | | |
| Real Estate | 20 | 20 | 100 |
| Home Equity Line | 20 | 20 | 100 |
| Installment (Direct) | 25 | 24 | 96 |
| Installment (Indirect) | 20 | 14 | 70 |
| Single Payment | 20 | 18 | 90 |
| Chemline ODP | 17 | 16 | 94 |
| Small Business/Agriculture | | | |
| TOTAL APPROVED | 20 | 20 | 100 |
| | 142 | 132 | 93 |
| DENIED | | | |
| Real Estate | 10 | 9 | 90 |
| Home Equity Line | 4 | 4 | 100 |
| Installment (Direct) | 20 | 19 | 95 |
| Installment (Indirect) | 20 | 17 | 85 |
| Single Payment | 20 | 18 | 90 |
| Chemline ODP | 10 | 9 | 90 |
| Small Business/Agriculture | | | |
| TOTAL DENIED | 10 | 10 | 100 |
| | 94 | 86 | 91 |

As illustrated in the preceding chart, 93% of all loans and 91% of denied credit applications reviewed during this examination were within the bank's delineated community. A review of the bank's HMDA data revealed that 533 of 757 (70.41%) 1995 HMDA originations were within the bank's delineated community and 566 of 792 (71.46%) 1996 HMDA originations were within the bank's delineated community.

Lending to Minority and Low- and Moderate-Income Areas

The following charts shows the total number of HMDA related originations within the delineation based upon the income classification of the census tract in which the property securing the loan is located, according to the bank's 1995 and 1996 HMDA data. The corresponding aggregate data for the delineation is also displayed for comparison purposes.

| 1995 HMDA Originations by Census Tract Income to Delineation Aggregate | | | | | | | |
|--|-------------------------|--------------------|------------------|-----------------|------------------------|------------------|-----------------|
| Census Tract Income Classification | Chemical Bank and Trust | | | | 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 and Moderate Income | 57 | 70.37 | 10.69 | 12.29 | 54.42 | 17.95 | 23.71 |
| Middle Income | 304 | 80.00 | 57.04 | 57.67 | 73.97 | 52.30 | 50.84 |
| Upper Income | 172 | 86.87 | 32.27 | 30.05 | 84.10 | 29.75 | 25.44 |
| Total | 533 | 80.88 | 100.00 | 100.00 | 71.91 | 100.00 | 100.00 |
| *Excludes Institution | | | | | | | |

The preceding chart reveals that the bank originated 70.37% of the total loan applications received from low- and moderate-income areas in 1995. These applications represented 12.29% of all HMDA reportable applications received. The total originations (57) represented 10.69% of the total HMDA originations by the bank. These figures indicate that the bank exceeded aggregate in low- and moderate-income areas for originations as a percentage of applications; however, the bank was below aggregate for percentage of total applications received and percentage of total originations in low- and moderate-income census tracts.

| 1996 HMDA Originations by Census Tract Income | | | | |
|---|-------------------------------|--------------------|------------------|-----------------|
| Census Tract Income Classification | Chemical Bank & Trust Company | | | |
| | # of Origs | Origs as % of Apps | % of Total Origs | % of Total Apps |
| Low and Moderate Income | 92 | 77.97 | 16.25 | 17.53 |
| Middle Income | 289 | 83.53 | 51.06 | 51.41 |
| Upper Income | 185 | 88.52 | 32.69 | 31.05 |
| Total | 566 | 84.10 | 100.00 | 100.00 |

*Aggregate data was not available as of the date of examination

The preceding chart reveals that the bank originated 77.97% of the total loan applications received from low- and moderate-income areas in 1996. These applications represented 17.53% of all HMDA applications received. The total originations (92) represented 16.25% of the total HMDA originations by the bank. Figures comparing the bank's performance to the delineation aggregate were not available as of the date of this examination.

A review of the bank's internal geographic distribution for all loan products revealed that 669 of the bank's 774 applicants from low- and moderate-income census tracts in 1996 were from consumers or businesses in the City of Midland, and 105 of the applicants were from the City of Saginaw. In 1995 there were 582 applicants from Midland's low-and moderate-income tracts compared to 81 from Saginaw.

A review of the bank's geographic distribution analysis was also reviewed to assess the bank's loan penetration to minority census tracts. The bank's analysis tracks applications received, loans originated, applications withdrawn, and applications denied for HMDA reportable and non-HMDA reportable consumer and commercial loan applications. The bank's data showed distribution of applications and loans within the minority census tracts of the community. As noted in the community profile, all minority tracts in the delineated community are within the City of Saginaw. The bank received 61 applications from consumers or businesses in minority tracts during 1996. The bank received 47 applications from minority tracts in 1995. A review of the bank's HMDA data revealed that the bank received four HMDA reportable applications from minority census tracts in 1995 and only two applications from minority census tracts in 1996.

The bank's loan penetration to both low- and moderate-income tracts, and minority tracts is low as a percentage of total; however, many of the low- and moderate-income, and minority census tracts are confined to the City of Saginaw. The bank's low penetration levels in these census tracts is attributable to several factors including; the fact that the bank does not have any branches within the city, the significant number of competitors located in Saginaw and that nine of the low- and moderate-income tracts in the City of Saginaw have median income levels less than 50% of the MSA median.

Conclusions

The bank has formulated procedures to identify the geographic distribution of its loan products. This information is utilized by the board of directors and senior management to establish loan policies, products, services, and marketing plans. Although, the majority of loan activity is within the bank's delineated community, the bank's penetration in the low- and moderate-income and minority census tracts in the City of Saginaw appears low. However, as discussed in Assessment Factors (a) and (b) respectively, the bank is ascertaining the needs of

the entire delineation and promoting products and services across geographies with different demographic characteristics including the City of Saginaw.

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 to assess the adequacy and availability of the services offered by Chemical Bank and Trust Company.

The bank has a branch opening and closing policy which was last approved by the board of directors in November of 1996. The policy states that prior to making a determination regarding the closure of a branch or other banking facility, the bank will evaluate the impact of closure including: the operations and financial condition of the bank; the access and availability of bank products and services for existing customers of the subject location of facility; and the effects on the neighborhood or community served by the subject location or facility.

In October of 1996, a new branch office was opened in Alma, Michigan. The branch is fully staffed with both depository and lending personnel. The bank has 17 total branches including: the main facility, located in a moderate-income census tract; thirteen branches are located in middle income census tracts/block numbering areas; and four branches are located in upper income census tracts. The bank's normal lobby hours are: Monday - Thursday 9:00 A.M. to 4:30 P.M., and Friday 9:00 A.M. to 5:30 P.M. The lobbies are closed on Saturdays, with the exception of the Circle office in Midland which is open from 9:00 A.M. to 12:00 P.M. The bank's drive-up hours are: Monday - Wednesday 8:30 A.M. to 6:00 P.M., Thursday and Friday 8:30 A.M. to 7:00 P.M, and Saturday 8:30 A.M. to 12:30 PM.

Conclusions

The bank's policy is sufficient to maintain a reasonable level of service in the bank's delineated community. Discussions with management, branch personnel and community representatives during visits determined that the bank delivers services to all geographies within each of the bank's delineated communities.

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

A comparison was made between the credit products listed in the bank's CRA statement and the examination loan sample, as well as other bank documents to determine if products listed were in fact being made available.

The bank's CRA statement indicates that the following types of credit are available to members of its community:

Consumer Loans:

- Automobile Loans
- Personal Loans
- Secured Loans
- Home Improvement Loans (includes both direct and MSHDA loans)
- Personal Revolving Credit Loans
- Credit Cards (through a credit card agency agreement)
- Educational Loans (processed by Educational Financial Services, Inc.)

Real Estate Mortgage Loans (Owner-occupied 1-4 family):

- Conventional Mortgages
- Construction Mortgages
- Home Equity Loans
 - Single advance home equity loans
 - ChemLine multiple advance loans with flexible repayment terms
- Michigan State Housing Development Authority Loans (low to moderate income borrowers)
- Affordable Gold (joint Freddie Mac and State program for low to moderate income)
- VA (Veterans Administration) mortgage loans
- FHA (Federal Housing Administration) mortgage loans
- MGIC mortgage loans borrower can have as little as 10% down payment
- Rural Economic Community Development Program (formerly FmHA)

Commercial Loans:

- Commercial and Industrial Loans
- Small Business Loans (Bank is a Preferred and Certified SBA Lender)
- Construction Loans
- Farm Loans (Direct Loans and FmHA Guaranteed Loans)
- Community Development Loans (Direct loan and bond financing available)
- Other Special Purpose Emergency Need Loans (i.e. loans to flood victims, etc.)

Conclusions

A review of the examination sample of loans and loans made since the previous examination indicated that the bank has extended loans in accordance with its stated policy. No practices intended to discourage applications for the credit products listed in the bank's CRA Statement were detected. In addition, discussions with community representatives support the examination findings.

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 a sample of 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 second review procedures for denied credit applications was also reviewed. Loan officers and other bank personnel, who have contact with the public, were interviewed to determine their level of knowledge with fair lending laws.

No evidence of prohibited discriminatory credit practices were detected in the loan sample or through officer interviews. The following chart shows the racial composition of loan applications and originations according to the bank's 1996 and 1995 HMDA data.

| 1996 Racial Composition of Chemical Bank & Trust Company Loan Applications and Originations Compared to the Population in the Delineation | | | | | | |
|---|------------------------|-----------------------|-------------------|--------------------|-------------------|---------------------|
| Racial Category | Delineation Population | % of Total Population | # of Applications | % of Apps to Total | # of Originations | % of Origs to Total |
| American Indian | 944 | 0.4 | 1 | 0.15 | 0 | 0.00 |
| Asian | 2,189 | 0.8 | 5 | 0.75 | 5 | 0.89 |
| Black | 30,344 | 11.6 | 2 | 0.30 | 1 | 0.18 |
| Hispanic | 11,685 | 4.5 | 1 | 0.15 | 1 | 0.18 |
| White | 217,231 | 82.7 | 658 | 98.65 | 553 | 98.75 |
| Other | 169 | 0.1 | -0- | 0.00 | -0- | 0.00 |
| Totals | 262,562 | 100.00 | 667 | 100.00 | 560 | 100.00 |

| 1995 Racial Composition of Chemical Bank & Trust Company Loan Applications and Originations Compared to the Population in the Delineation | | | | | | |
|---|------------------------|-----------------------|-------------------|--------------------|-------------------|---------------------|
| Racial Category | Delineation Population | % of Total Population | # of Applications | % of Apps to Total | # of Originations | % of Origs to Total |
| American Indian | 944 | 0.4 | 0 | 0.00 | 0 | 0.00 |
| Asian | 2,189 | 0.8 | 2 | 0.31 | 0 | 0.00 |
| Black | 30,344 | 11.6 | 7 | 1.09 | 3 | 0.58 |
| Hispanic | 11,685 | 4.5 | 4 | 0.62 | 4 | 0.77 |
| White | 217,231 | 82.7 | 629 | 97.98 | 514 | 98.66 |
| Other | 169 | 0.1 | -0- | 0.00 | -0- | 0.00 |
| Totals | 262,562 | 100.00 | 642 | 100.00 | 521 | 100.00 |

As illustrated in the preceding charts, White applicants, who comprise 82.7% of the population in the bank's community, represented 98.65% of the bank's applicants in 1996 and 97.98% of 1995 applicants. By comparison, Blacks, who comprise 11.6% of the community residents, represented only 0.30% of applicants in 1996 and 1.09% in 1995. Hispanics, who comprise 4.5% of the population in the bank's community, represented 0.15% of 1996 applicants and 0.62% in 1995. Although there were a small number of minority applicants, much of the minority population is also considered low- and moderate-income, and do not qualify for a loan based on the bank's income requirements.

As noted in the community profile, all of the minority tracts are classified as low- and moderate-income, with 9 of the 11 considered low-income tracts. Overall, 75.5% of the Black population is considered low-income, and 22.8% is considered moderate income. Additionally, all of the minority tracts are in the City of Saginaw, where the bank does not have any branches.

Further review showed that the bank's overall origination rate for 1996 was 83.96% and 81.15% in 1995. The origination rate for White applicants was 84.04% in 1996 and 81.72% in 1995. The origination rate for Black applicants was 50% in 1996 and 42.86% in 1995. The origination rate for Hispanics was 100% both in 1996 and 1995.

The bank's overall denial rate for 1996 was 9.81% and 11.99% in 1995. The denial rate for White applicants was 9.73% in 1996 and 11.76% in 1995. By comparison the denial rate for Blacks was 50.00% in 1996 and 57.14% in 1995; while there were no denials for Hispanics in either 1996 or 1995. The primary reason for denial for all applicants in both 1996 and 1995 was credit history.

To ensure adherence to bank policy and Fair Lending laws and regulations, management conducts periodic audits of loans and denied credit applications. These audits, as well as analysis of HMDA data are incorporated into the bank's self assessment and are reviewed by the board of directors. The bank has an internal committee to conduct second reviews of all denied consumer and mortgage loan applications. The committee is chaired by the bank's CRA officer, and is comprised of a non-lending officer, a representative from the marketing department, corporate loan review, branch management, a mortgage loan officer, and a senior lending officer. The committee meets each week to insure that: 1) denials are not based on any prohibited factors; 2) the loan officer gave full consideration to all sources of income, and other credit factors before the loan was declined; and 3) if alternatives to the original request is made, the loan was discussed with the customer, the committee reviews these notes on the application.

Conclusions

There was no evidence of prohibited discriminatory credit practices detected during the examination. 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. Management is committed to preventing discriminatory lending practices through implementation of fair lending training and a second review process.

V. COMMUNITY DEVELOPMENT

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

Scope and Findings

Discussions were held with management and various internal reports were reviewed to determine the extent of the bank's participation in community development lending and redevelopment projects/programs. This participation included: local bond activity; assistance offered to non-profit groups, government offices and/or local social service agencies that serve low- and moderate-income populations; and specific activity related to the development of affordable housing or economic development.

The bank's Consolidated Report of Condition as of December 31, 1996, showed that the bank's investment portfolio totaled \$281,991,000 or 50.93% of assets. Municipal obligations totaled \$9,668,000, or 1.75% of the portfolio. All Municipal bonds in the bank's portfolio were from issuers within the State of Michigan.

Since the previous examination the bank has provided direct community development loans. In this regard the bank provided \$150,000 in a direct loan to a local governmental unit and \$3,084,000 to six local school districts. The bank also provided \$1,186,000 in loans to businesses through three local Economic Development Corporations. The bank's lending activity also included \$3,178,000 loans to 17 churches in the community. As of February 1997, the bank had \$10,350,000 in lines of credit committed to local foundations

with \$662,000 advanced.

The bank is a member of a lending consortia in Saginaw. The seven financial institutions in the consortia have committed to pooling \$1,400,000 to provide mortgage loan financing in low income census tracts in the City of Saginaw. Neighborhood Renewal Services of Saginaw, a nonprofit organization, coordinates the program. The Home Ownership Program (HOP) loans are limited to first time home buyers. The bank is participating in the second and third portions of the loan pool, which has a combined commitment of \$500,000. As of May 31, 1997, a total of \$230,792.86 has been expended (66 loans), leaving \$269,207.14 unexpended. The bank's portion of the outstanding loan balance is \$215,795.

Conclusions

The bank's community development activities are proactive and contribute to the economic welfare of its community. The bank provides financing for local government through direct loans and funding of municipal bond issues. The bank has leveraged its abilities by joining in several initiatives involving affordable housing and small business assistance. In addition, the bank provided direct loans to various nonprofit organizations including area churches. Working in cooperation with local initiatives, which assist or promote local community development, are 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.

None.