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**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 **CSB Bank, Capac, Michigan** prepared by the **Federal Reserve Bank of Chicago**, the institution's supervisory agency, as of **March 3, 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.

CSB Bank is actively engaged in providing for the credit needs of its assessment area. The bank's consistently high loan-to-deposit ratio and percentage of loans within the assessment area evidence this effort. A six-month loan sample indicated that the distribution of the bank's loans to borrowers of different income levels, small farms and small businesses exceeds the standards for satisfactory performance. In addition, the geographic distribution of the bank's loans reflects a reasonable dispersion throughout the assessment area.

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

SMALL INSTITUTION ASSESSMENT CRITERIA	CSB BANK, CAPAC, MICHIGAN 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 examination.		

**DESCRIPTION OF INSTITUTION**

CSB Bank, formerly Capac State Bank, with its main office located in Capac (St. Clair County), Michigan and branch offices in Imlay City (Lapeer County), Allenton (St. Clair County), and Armada (Macomb County), Michigan, had total assets of \$80,756,000 as of December 31, 1996. The Armada office opened on December 9, 1996, and became a full-service facility on February 26, 1997. Additionally, the bank operates three on-premise proprietary automated teller machines (ATMs) at the Capac, Imlay City and Allenton locations. The bank is a subsidiary of Capac Bancorp, Inc., a one-bank holding company. The bank does not face any legal or financial impediments that could affect its CRA performance.

From its four offices, the bank offers a variety of deposit products and services, as well as residential, agricultural, commercial, real estate, and consumer loans. The bank is predominantly a real estate lender. Based upon information contained in the September 30, 1996 Uniform Bank Performance Report (UBPR), 67.97% of the bank's loan portfolio is in real estate, with 59.74% of the real estate loans secured by one-to-four family residences. Commercial and industrial, consumer, and agricultural loans comprise 17.16%, 8.40% and 4.93%, respectively of the loan portfolio. Real estate loan products include conventional loans with financing up to 97% loan-to-value with private mortgage insurance (PMI) coverage, construction loans, mobile home loans and home equity loans. Consumer loan products consist of personal and home equity lines of credit, automobile, overdraft protection, unsecured and secured personal, credit card and student loans.

The bank's primary competitors are branch offices of Lapeer County Bank & Trust (Lapeer), Tri-County Bank (Brown City), Oxford Bank (Oxford), The Commercial and Savings Bank of St. Clair County (St. Clair) and Citizens Federal Savings Bank (Port Huron). Additional competition is provided by local credit unions.

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

CSB Bank's assessment area includes a portion of St. Clair, Lapeer and Macomb Counties, and is located within the Detroit Metropolitan Statistical Area (MSA). The assessment area includes three census tracts in St. Clair County, five in Lapeer County and two in Macomb County. One of the census tracts (3201) is a moderate-income tract, while the remaining nine tracts are middle-income. The population of the moderate-income census tract accounts for 8.1% (4,733 of 58,387) of the total population within the bank's assessment area. Communities in the assessment area include: Valley Center, Yale, Riley Center, Allenton, Armada, Almont, Capac, Oxford, Brown City, St. Clair, Attica, Dyden and Imlay City.

According to the 1990 U.S. census data, the population in the bank's assessment area is 58,387. The racial makeup of the population is as follows: Whites - 56,399 or 96.6%; Blacks - 236 or 0.4%; Asian - 308 or 0.5%; individuals of Hispanic descent - 1,203 or 2.1%; American Indians - 227 or 0.4%; and all other minorities 14 - or 0.0%. The assessment area's housing market

consists of 20,264 total housing units: 15,871 (78.3%) are owner-occupied, 3,278 (16.2%) are rental units and 1,115 (5.5%) are vacant. One-to-four family units and five or more units account for 87.2% and 3.8% of the total housing units, respectively. The median housing value in the assessment area is \$65,550, compared to \$66,680 for the MSA. The median family income in the assessment area is \$39,824, compared to \$40,727 for the MSA. The distribution of families in the assessment area, by income level, is as follows: low-income - 3,070 or 19.5%; moderate-income - 2,886 or 18.4%; middle-income - 4,110 or 26.1%; and upper-income - 5,663 or 36.0%.

Capac has traditionally been a farming community. However, there has been a steady decrease in farming activity in the area, as farmers have found it more profitable to sell their land for development. As a result, Capac has become a bedroom community to Imlay City and Almont, which have experienced rapid commercial and industrial growth. The area has a number of small industries that provide employment for community members. In addition, some residents commute to Detroit, Flint and Port Huron for employment. Major employers in the area include the following:

EMPLOYER	LOCATION	# of EMPLOYEES	PRODUCT/SERVICE
Vlasic Food, Inc.	Imlay City	325	Food Processing
Coach, Inc.	Imlay City	240	Truck & Bus Bodies
Ligon Brothers Manufacturing Company	Almont	130	Plastic parts
Capac Manufacturing Corporation	Capac	99	Automotive Parts
Hydraulic Tubes & Fittings, Inc.	Almont	99	Steel Pipe & Tubes
South Cedar Steel Works, Inc.	Imlay City	80	Machinery & Equipment
PSI Telecommunication, Inc.	Imlay City	75	Sheet Metalwork
Scott-Hyponex, Corporation	Imlay City	74	Fertilizer & Nitrogenous processing

**CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:**

The bank was examined for compliance with fair lending laws and regulations. No evidence of prohibited discriminatory credit practices was detected. The bank is in compliance with the substantive provisions of antidiscrimination laws and regulations, including the Equal Credit Opportunity and Fair Housing Acts.

**Loan-to-Deposit Ratio**

A review of the bank's consolidated reports of condition for the five quarters ending December 31, 1996 revealed an average loan-to-deposit (LTD) ratio of 85.06%.

During this five-quarter period, the bank's LTD ratio has increased steadily from 81.03% as of December 31, 1995 to 88.37% as of December 31, 1996. Since the previous examination (call report data as of June 30, 1995), net loans increased by \$8.7 million or 18%, from \$48.5 million to \$57.2 million. The bank's LTD ratio of 88.37% as of December 31, 1996 exceeded the peer group's LTD ratio of 69.82%.

The following chart shows the LTD ratios of the bank's primary competitors, according to the McFadden American Financial Directory:

Loan-to-Deposit Ratios of Competitors				
Bank Name and Location	Assets as of Fall, 1996 (\$000)	LTD Ratio Fall 1996 %	LTD Ratio Fall 1995 %	Average of Fall 1996 and 1995 LTD Ratios %
Lapeer County Bank & Trust, Attica*	\$173,688	71.12	68.17	69.64
Tri-County Bank, Yale	\$83,558	66.97	69.14	68.05
Oxford Bank, Dyden*	\$217,511	65.13	61.32	63.22
The Commercial and Savings Bank of St. Clair County, Yale*	\$238,229	66.72	62.82	64.77
Citizens Federal Savings Bank, Yale*	\$506,938	106.94	98.40	102.67

\*Branch Office Location

As illustrated in the preceding chart, the bank's LTD ratio exceeds the ratios of all but one of its primary competitors, Citizens Federal Savings Bank, which is approximately six times larger (by asset size) than the bank. Only one financial institution, Tri-County Bank, is of similar asset size as that of the bank. Overall, the bank's LTD exceeds the standards for satisfactory performance given the bank's size, financial condition, competition and assessment area credit needs.

**Lending in the Assessment Area**

The bank’s loan originations for the six-month period from August 1, 1996 to January 31, 1997 was utilized to determine the extent of lending within the assessment area. A review of the loan sample revealed the following level of lending within the assessment area:

LOAN TYPE	TOTAL LOANS SAMPLED	LOANS WITHIN THE ASSESSMENT AREA	PERCENT OF TOTAL
Real Estate (1-4 family)	73	64	87.67
Installment	240	147	61.25
Commercial/Agricultural	93	87	93.55
Total Loans	406	298	73.40

As the preceding chart illustrates, a high percentage of loans, by product and in aggregate, were made to borrowers within the assessment area. Overall, the level of lending within the assessment area exceeds the standards for satisfactory performance. The bank’s performance is supported by comments made by community representatives, who indicated that area credit needs are being met, and that financial institutions are actively involved within the community.

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

The bank’s small business, small farm, installment and residential real estate loans for which income information was available were reviewed for the six-month period from August 1, 1996 to January 31, 1997. The following chart summarizes the distribution of the loans, based on borrower income:

LOAN TYPE	LOW-INCOME BORROWERS \$/#	MODERATE-INCOME BORROWERS \$/#	MIDDLE-INCOME BORROWERS \$/#	UPPER-INCOME BORROWERS \$/#	TOTALS \$/#
Installment	\$201,491/39	\$226,485/38	\$261,238/34	\$278,595/36	\$967,809/147
Real Estate (1-4 Family)	\$115,420/3	\$366,581/9	\$1,170,022/22	\$2,174,617/30	\$3,826,640/64
Totals	\$316,911/42	\$593,066/47	\$1,431,260/56	\$2,453,212/66	\$4,794,449/211

Of the 211 loans sampled, 42 loans (19.91%), aggregating \$316,911 (6.61%) were made to low-income applicants; 47 loans (22.27%), aggregating \$593,066 (12.37%) were made to moderate-income applicants; 56 loans (26.54%), aggregating \$1,431,260 million (29.85%) were made to middle-income applicants; and 66 loans (31.28%), aggregating \$2,453,212 million (51.17%) were

made to upper-income applicants. A total of 89 (42.18%) of the 211 loans were to low- and moderate-income applicants. By comparison, low- and moderate-income families comprise 37.90% of the total families in the assessment area. The analysis demonstrates that the bank is making loans to low- and moderate-income individuals consistent with assessment area demographics.

Small Farm and Small Business Loans

A review of a sample of 93 commercial loans and agricultural loans showed that loan amounts ranged between \$1,050 and \$200,000, indicating the bank’s willingness to make loans in small dollar amounts. Ninety-one (98%) of the 93 loans in the sample were made to small businesses or small farms (less than \$1.0 million in annual revenue). In addition, a review of the bank’s 1995 and 1996 Consolidated Reports of Condition (as of June 30) revealed that all or substantially all of the 740 farm loans and commercial loans for both years were in amounts of \$100,000 or less.

Overall, the bank’s performance under this criterion exceeds the standards for satisfactory performance. The loan distribution reflects an excellent penetration among individuals of different income levels (including low- and moderate-income), and small businesses and small farms.

**Geographic Distribution of Loans**

The bank’s assessment area consists of ten census tracts, of which one (census tract 3201) is defined as moderate-income. The following chart represents the geographic distribution of installment, commercial/agricultural and real estate loans in the assessment area for the six-month period from August 1, 1996 to January 31, 1997.

DISTRIBUTION OF LOANS THROUGHOUT ASSESSMENT AREA					
CENSUS TRACT NUMBER	POPULATION	# OF LOANS	PERCENT OF TOTAL	TOTAL DOLLAR AMOUNT OF LOANS (\$)	PERCENT OF TOTAL
2120	3,869	23	7.72	611,639	7.21
2130	6,458	3	1.01	215,017	2.53
3201*	4,733	20	6.71	586,549	6.91
3205	5,454	7	2.35	87,823	1.04
3206	5,064	34	11.41	694,255	8.19
3207	8,181	5	1.68	222,118	2.62
3212	8,059	28	9.39	959,717	11.31

DISTRIBUTION OF LOANS THROUGHOUT ASSESSMENT AREA					
CENSUS TRACT NUMBER	POPULATION	# OF LOANS	PERCENT OF TOTAL	TOTAL DOLLAR AMOUNT OF LOANS (\$)	PERCENT OF TOTAL
6550	6,754	20	6.71	344,469	4.06
6570	5,520	129	43.29	3,596,828	42.40
6580	4,295	29	9.73	1,164,503	13.73
TOTALS	58,387	298	100.00%	8,482,918	100.00%

\* Moderate-income census tract

Census tract 6570, where the bank's main office is located, had the highest concentration of loans, while census tracts 2130 and 3207 had the smallest concentration of loans. Census tract 2130 is the furthest point to the south of the bank's main office and census tract 3207 is the furthest point to the west of the bank's main office. According to management, competition in these two markets is very strong and is the primary reason for the low number of loans. Twenty loans (6.71%) totaling \$586,549 (6.91%) were made in the one moderate-income census tract (3201).

Overall, the bank's geographic distribution of loans in the assessment area, particularly the moderate-income tract is reasonable, and meets the standards for satisfactory performance.

### Response to Substantiated Complaints

No complaints were received by the institution regarding its CRA performance since the previous examination.