

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 **Eastern Michigan Bank, Croswell, Michigan** prepared by the **Federal Reserve Bank of Chicago**, the institution's supervisory agency, as of **February 10, 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 level of lending within its assessment area exceeds the standards for satisfactory performance. This performance is based primarily on the level of real estate loans (the bank's principal lending product) made within the assessment area. The bank's performance in making loans to businesses and farms in small dollar amounts and to borrowers of different incomes, including low- and moderate-income individuals, reflects an excellent penetration of lending and exceeds the standards for satisfactory performance. The geographic distribution of loans reflects an excellent dispersion throughout the assessment area and exceeds standards for satisfactory performance. The bank received no CRA-related complaints since the previous examination.

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

SMALL INSTITUTION ASSESSMENT CRITERIA	EASTERN MICHIGAN 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	There were no CRA-related complaints received since the previous examination		

DESCRIPTION OF INSTITUTION

Eastern Michigan Bank, with total assets of \$150.7 million as of September 30, 1996, is a subsidiary of Eastern Michigan Financial Corporation, a one-bank holding company. The bank operates six full-service offices, in Deckerville, Lakeport, Lexington, Minden City, Port Huron, and Sandusky. Additionally, a drive-up facility, a loan center, and the main office are in Croswell. Consistent with the bank's retail business focus, the bank offers a variety of loan and deposit products, with 1-4 family residential real estate loans being the predominant loan product. Outstanding real estate loans (by dollar), however, declined by approximately 5% from September 1995 to September 1996, according to the Uniform Bank Performance Report (UBPR). Conversely, during the same period, commercial, agricultural, and individual loans increased. Most notably, loans to individuals increased by 26%. One community representative noted this trend and stated that the bank is making more auto and small business loans

The bank's primary competitors are Citizens Federal Savings Bank in Port Huron, Marysville, and Croswell; NBD Bank (Detroit, Michigan) in Marysville, and Marlette; Michigan National Bank (Farmington Hills, Michigan) in Port Huron and Lexington; Exchange State Bank in Carsonville, Applegate, Deckerville, and Port Sanilac; Independent Bank East Michigan (Caro, Michigan) in Marlette and Snover; Tri-County Bank in Brown City, Peck, and Yale. Additional competition comes from The Commercial and Savings Bank of St. Clair County (St. Clair, Michigan) in Marysville, Yale, and Port Huron; Chemical Bank Bay Area (Bay City, Michigan) in Marlette and five credit unions in the assessment area.

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

DESCRIPTION OF ASSESSMENT AREA

The bank increased its assessment area since the previous examination to include all of Sanilac County. Management said this change was to ensure that entire BNAs are included in the assessment area. The bank has designated Sanilac County and part of St. Clair County as its assessment area, which is in the southeastern portion of the State of Michigan. Sanilac County consists entirely of BNAs. The other portion of the assessment area is in the northeastern portion of the St. Clair County next to Sanilac County and is part of the Detroit Metropolitan Statistical Area (MSA). The bank's assessment area consists of one or more contiguous political subdivisions, contains all geographies where it has offices or deposit-taking automated teller machines (ATMs), and consists only of whole block numbering areas (BNAs) or census tracts. Additionally, the assessment area does not arbitrarily exclude any low-income or moderate-income areas.

According to 1990 census data, the bank's assessment area has a population of 121,338, of which

5.3% are minorities. Sanilac County is divided into 12 BNAs and has no low- or moderate-income areas. The St. Clair County portion of the assessment area is divided into 20 census tracts and has four low-income and seven moderate-income census tracts. The median family income is \$31,033 for the assessment area, \$40,727 for the MSA, and \$27,894 for the nonmetropolitan areas, compared to \$36,652 for the State of Michigan. Housing stock in the assessment area is 63.4% owner-occupied and 23.6% multi-family.

Major employers in the area are Michigan Sugar Company, Dean Foods, Yale Rubber Manufacturing Company, Deckerville Die Form, Huron Manufacturing, and Conveyer Components. According to data supplied by the Michigan Employment Security Commission, the year-to-date unemployment rate through November 1996 is 6.7% for Sanilac County and 5.1% for the St. Clair County portion of the assessment area, compared to 4.7% for the State of Michigan. The November 1996 rates of 5.2%, 4.2%, and 4.2%, respectively show a decline in unemployment.

Management and community representatives both stated that new housing development was occurring in areas surrounding Port Huron. Port Huron is a city with older housing stock and little land available for new housing construction.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

The examination did not reveal any evidence of discriminatory credit policies, procedures, practices or acts. Additionally, no practices were detected that would discourage loan applicants. 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 Analysis

According to the September 30, 1996 UBPR, the bank's net loan-to-deposit ratio is 70.38%. The bank's ratio is below the loan-to-deposit ratio of 72.20% for all insured commercial banks in the peer group (banks with assets between \$100 million and \$300 million with three or more banking offices and in a non metropolitan area). Additionally, the bank's loan-to-deposit ratio is below (from 2.43% to 18.02%) the ratio of the three financial institutions with main offices in the bank's assessment area.

The bank's quarterly loan-to-deposit ratio since the previous examination (six quarters ending December 1996) averaged 70.76%. Since the previous examination, the bank's loan-to-deposit ratio declined from 77.82% (according to March 31, 1995 Call Report data) to 70.98% (according to December 31 Call Report data). Management said that this was due to an increase in deposits resulting from the bank offering a certificate of deposit at a rate .5% to .75% higher than competitors. Loan growth did not correspond to the increase in deposits

due to competition in the area and the departure of the bank's senior lender. In the previous year, the bank's loans increased by 1.99% while deposits increased by 7.26%, according to the September 30, 1996 UBPR.

The bank's loan-to-deposit ratio is considered reasonable and meets the standards for satisfactory performance. This assessment is based on the bank's performance, when compared with its peer group and local competitors, and the bank's size, financial condition, and the assessment area's credit needs.

Lending in Assessment Area

An analysis of the bank's 1-4 family residential real estate loans made within the assessment area during the six months preceding this examination was conducted. Real estate loans are the bank's primary lending product. According to the September 30, 1996 UBPR, approximately 48% of the bank's loan portfolio was comprised of 1-4 family residential real estate loans; it was determined that 93% of these loans were made within the bank's assessment area.

A review of the examination loan sample consisting of all loan products offered by the bank was conducted. The review revealed that the bank made 98% (94 of 96) of the sampled loans within its assessment area; 100% (13 of 13) of the 1-4 family real estate loans in this sample were made within the assessment area.

The bank conducts an analysis of the geographic distribution of loans by using postal zip code; 1995 was the most recent period for which data was available. A review of the bank's analysis revealed that 92.8% of the loans in 1995 were made within the assessment area. This level of lending is consistent with the distribution of the examination loan sample and the 1-4 family residential real estate six-month loan sample, as indicated above.

A majority of the bank's lending is conducted within its assessment area, indicating that the bank's performance under this criterion exceeds the standards for satisfactory performance.

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

Lending to Small Businesses

A review of the June 30, 1996 Consolidated Report of Condition revealed that all or substantially all of the bank's loans to farms and businesses, were in small dollar amounts (less than \$1 million). Additionally, the examination loan sample of 20 commercial loans revealed that all were in amounts less than \$175,000; 13 of the 20 were in amounts less than \$50,000.

Lending to Individuals

Of the total real estate loans made during the six months preceding this examination, 5% (5 of 95) were to moderate-income borrowers, 26% (15 of 95) were to middle-income borrowers, and 69% (34 of 95) were to upper-income borrowers. Of the total HMDA-reportable loans made in 1995, 49% (21 of 43) were to low- or moderate-income borrowers, 33% (14 of 43) were to middle-income borrowers, and 18% (8 of 43) were to upper-income borrowers. Additionally, the bank made 31 mortgage loans (totaling approximately \$2 million) with private mortgage insurance (PMI) to borrowers with loan-to-value ratios greater than 80%; 26 of these loans were in amounts less than \$100,000. Recently, the bank raised the loan-to-value ratio standard for PMI loans to 97% to better serve applicants with less than conventional down payments.

Review of the examination loan sample revealed that 13% (10 of 75) of the loans were to low-income borrowers, 21% (16 of 75) were to moderate-income borrowers, 20% (15 of 75) were to middle-income borrowers, and 45% (34 of 75) were to upper-income borrowers. According to census data, the distribution, by income level, of total families in the bank's assessment area is as follows: low-income 25%, moderate-income 21%, middle-income 24%, and upper-income 30%.

This bank's lending to borrowers of different incomes and businesses of different sizes exceeds standards for satisfactory performance. Lending to businesses and farms in small dollar amounts is strong and the distribution of loans to borrowers, according to the loans sampled during the examination, approximates the income distribution of the assessment area's population.

Geographic distribution of Loans

The Sanilac County portion of the bank's assessment area has no low-, moderate-or upper-income BNAs. The St. Clair County portion of the bank's assessment area, which is a smaller area than Sanilac County, is in the Detroit MSA and has four low-income census tracts and seven moderate-income census tracts; this area does not have any upper-income census tracts. The bank has two of its six branch offices in the St. Clair portion of the assessment area.

Analysis of the bank's 1995 HMDA data shows that 49% of the loans made by the bank in the St. Clair County portion of the assessment area were in low- and moderate-income census tracts. This percentage exceeds the market aggregate's rate (43%) of lending in low- and moderate-income tracts. According to census data, 66% of the housing units in the low-income census tracts within the bank's assessment area are renter-occupied. In the low-income and moderate-income census tracts within the bank's assessment area, 41% of the housing units are renter-occupied. Despite the high level of renter-occupied housing units in the low- or moderate-income census tracts, the bank's performance in making HMDA-related loans in these areas is very strong.

Of the 1-4 family residential real estate loans the bank made in the St. Clair County portion of the assessment area during the six months preceding this examination, 31% were in low- or moderate-income census tracts. Additionally, the bank made loans in 45% of the low -and moderate-income census tracts within its assessment area.

The geographic distribution of the bank's loans exceeds standards for satisfactory performance. This assessment is based on the substantial level of lending in low- and moderate-income geographies and the high percentage of low- and moderate-income geographies in which the bank made loans. Significant consideration was given to the composition of housing stock in the low- and moderate-income geographies.

Response to Complaints

This bank received no CRA-related complaints during the period covered by this examination.