

GENERAL INFORMATION

This document is an evaluation of the Community Reinvestment Act (CRA) performance of **Chemical Bank Michigan, Clare, 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 **June 9, 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 **outstanding record of meeting community credit needs** based on the findings presented below.

COMMUNITY PROFILE

The bank is located in Clare, Michigan, which is in the north central portion of the lower peninsula, approximately 160 miles northwest of Detroit. The bank has defined its community as all of Clare, Gladwin, and Isabella counties; and, a small portion of Midland County; where Midland County is part of the Saginaw metropolitan statistical area (MSA). The following chart shows the census tracts (CTs) and block numbering areas (BNAs) that are included within the delineated community:

County	BNAs/Census Tracts (CTs)	Location in Relation to Clare County
CLARE	(BNAs) 9801, 9802, 9803, 9804, 9805, 9806, 9807, 9808, 9809, 9810, 9811, 9812	N/A
GLADWIN	(BNAs) 9901, 9902, 9903, 9904, 9905, 9906, 9907, 9908, 9909	East
ISABELLA	(BNAs) 9501, 9502, 9503, 9504, 9505, 9506, 9507, 9508, 9509, 9510, 9511, 9512	South
MIDLAND	(CTs) 2914, 2915, 2916, 2917	Southeast

There are thirteen moderate income BNAs or census tracts (35.14%) within the delineated community. These include BNAs 9801, 9802, 9803, 9805, 9809, 9810, 9811, and 9812 in Clare County; BNAs 9901, 9902, 9908 in Gladwin County; and census tracts 2914 and 2915 in Midland County. There are no low-income geographies in the delineated community. Upper income BNAs include 9503, 9506 and 9512; all in the Isabella County. The remainder of the geographies are middle income. According to 1990 census data, the bank's assessment area has a population of 120,154 of which 54,624 (45.5%) reside in Isabella County residents; 24,952 (20.8) reside in Clare County; and, 21,896 (18.2%) reside in Gladwin County. The Isabella County population includes 16,000 students enrolled at Central Michigan University. The total minority population for the bank's delineated community is 3,847 (3.2%) and includes 0.6% Blacks, 0.4% Asians, 1.0% Hispanics, and 1.3% Native Americans.

According to 1990 Census data, the median home value in the assessment area was \$45,253 and the median age of housing stock was 36 years. The following chart represents additional housing information.

HOUSING DATA	Units in the Delineated Community	Percent of Total
Owner Occupied Units	31,355	51.3%
Total Rental Units	10,852	17.8%
Vacant Units	18,862	30.89%
Total Housing Units	<u>61,069</u>	

The median family income was \$25,254 for the assessment area, \$34,727 for the MSA, and \$27,894 for the non-metropolitan portion of the state. Approximately 26.8% of the delineated community population is low income and 19.2% is moderate-income.

Many of the communities located within the delineation serve as bedroom communities for Mount Pleasant. According to Central Michigan University’s Center for Applied Research and Rural Studies, the most significant employers in Mount Pleasant include the following:

Employer	City	# Employed	Product\Service
CENTRAL MICHIGAN UNIVERSITY	Mount Pleasant	2100	Education
SAGINAW-CHIPPEWA TRIBE OPERATIONS	Mount Pleasant	1600	Gaming
THE DELFIELD COMPANY	Mount Pleasant	999	Refrigeration, Air-conditioning, Warm Air Heating
MEIJERS CORPORATION	Mount Pleasant	700	Retail grocer
MORBARK INDUSTRIES	Mount Pleasant	660	Industrial
MOUNT PLEASANT PUBLIC SCHOOLS	Mount Pleasant	650	Education
CENTRAL MICHIGAN COMMUNITY HOSPITAL	Mount Pleasant	500	Health Care
MOUNT PLEASANT REGIONAL CENTER	Mount Pleasant	400	Public Services

According to the Clare Michigan Chamber of Commerce, the most significant employers in Clare County include the following:

Employer	City	# Employed	Product\Service
Mitchell Corporation	Clare	350	Automobile seating, car seats & air
Mid Michigan Regional Medical	Clare	290	Health Care
Renosol Corporation	Farwell	185	Plastics materials & resins
Clare Nursing Home Inc.	Clare	176	Health care
Mid Michigan Community College	Harrison	125	Education
Stage Right Corporation	Clare	100	Stage equipment
Dodge City Citizen Group	Harrison	100	Social Services

According to the Michigan Employment Security Commission, unemployment was 3.2%, 8.5%, 7.3%, and 3.7% as of May 31, 1997, for Isabella County, Clare County, Gladwin County and the State of Michigan, respectively.

Discussions with community representatives revealed that economic conditions since the previous examination have been good. The new Soaring Eagle Casino complex owned by the Saginaw-Chippewa Indian Tribe, has served to benefit the entire community's economy.

BANK PROFILE

Chemical Bank Michigan, with assets of \$230 million as of March 31, 1997, is a subsidiary of Chemical Financial Corporation (CFC), a multi-bank holding company located in Midland, Michigan. The bank offers real estate, consumer, commercial and agricultural loans, as well as lines of credit. The bank also participates in several government-sponsored, subsidized and insured loan programs.

CFC is the parent company for ten banking subsidiaries and CFC Data Corporation. The subsidiary banks are Chemical Bank And Trust Company in Midland, Chemical Bank Michigan in Clare, Chemical Bank Bay Area in Bay City, Chemical Bank Thumb Area in Caro, Chemical Bank Key State in Owosso, Chemical Bank Montcalm in Stanton, Chemical Bank Central in Big Rapids, Chemical Bank West in Cadillac, Chemical Bank North in Grayling, and Chemical Bank South in Marshall. CFC provides direction to the bank through corporate policies and procedures, corporate review committees for compliance and CRA, standardized reporting systems, and internal audits and loan reviews.

The bank maintains 14 branches and 8 Automated Teller Machines (ATM's) throughout it's assessment area. The following chart summarizes the bank's branch structure, distribution, and the services offered at each branch:

Branch Locations & Hours of Operation				
Community	Address	County/Census Tract	Income Level	Facility Type
Clare	807 N. McEwan Street	Clare/9806	Middle-Income	Full Service-Main Office, Drive-in, and ATM
Clare	625 W Fifth Street	Clare/9806	Middle-Income	Deposit Service Only, Drive-in
Gladwin	245 E Cedar Ave	Gladwin/9905	Middle-Income	Full Service Branch, Drive-in, and ATM
Gladwin	2673 W. M-61	Gladwin/9905	Middle-Income	Full Service Branch, Drive-in
Gladwin	27 E. M-61	Gladwin/9901	Moderate-Income	Full Service Branch, Drive-in
Farwell	2370 W Lundington Dr	Clare/9804	Middle-Income	Deposit Service Only, Drive-in
Harrison	3245 N. Clare Avenue	Clare/9809	Moderate-Income	Full Service Branch, Drive-in, and ATM
Mt. Pleasant	1908 S. Mission Street	Isabella/9511	Middle-Income	Full Service Branch, Drive-in, and ATM
Mt. Pleasant	914 E. Pickard Street	Isabella/9506	High-Income	Full Service Branch , Drive-in, and ATM
Rosebush	4011 E. Rosebush Rd	Isabella/9502	Middle-Income	Full Service Branch, Drive-in
Beaverton	190 S. Ross Street	Gladwin/9907	Middle-Income	Full Service Branch, Drive-in, and ATM
Coleman	375 E. Railway Street	Midland/2917	Middle-Income	Full Service Branch, Drive-in, and ATM
Harrison	127 N. 2nd Street	Clare/9803	Moderate-Income	Deposit Service Only
Lake George	440 N. Main Street	Clare/9803	Moderate-Income	Deposit Service Only, Drive-in
Clare	North Clare	Clare/9806	Middle-Income	ATM Only

Major competitors throughout the bank's delineated community are listed below by county.

Clare County

Central Michigan Community Federal Credit Union, Clare.

The Farwell State Savings Bank, Farwell & Lake.

First of America Bank Mid-Michigan, National Association (branch of Grand Rapids), Harrison

Isabella Bank & Trust (branch of Mt. Pleasant), Clare.

Firstbank (branch of Mt. Pleasant), Clare.

Gladwin County

Central Michigan Community Federal Credit Union (branch of Clare), Gladwin.

First of America Bank-Mid Michigan, National Association (two branches of Grand Rapids), Gladwin.

Comerica Bank (branch of Detroit), Beaverton Township.

Isabella County

Firstbank, Mt. Pleasant & Winn.

First of America Bank-Mid Michigan, National Association
(branch of Grand Rapids), Mt. Pleasant.

Isabella Bank & Trust, Mt. Pleasant, Weidman, & Beal City.

Isabella Community Credit Union, Mt. Pleasant.

Mutual Savings Bank FSB, Mt. Pleasant.

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's efforts to ascertain credit needs throughout its entire delineated community, as documented through its Community Reinvestment/Public Relations Summary Reports, officer call report summaries, customer surveys and the bank's self-assessment reports, were reviewed.

The bank has a formal call program that targets existing and prospective customers and local agencies that serve community and economic development needs. The purpose of these calls is to identify credit needs and local community and economic development initiatives for participation, to strengthen existing relationships with customers, and to develop new business. Since the previous examination, 1,713 calls were conducted. The bank's calls are listed by branch location below:

Community	Number of Calls Completed	Percent of Total
Beaverton	202	11.79%
Clare	400	23.35%
Coleman	166	9.69%
Downtown Gladwin	163	9.52%
Downtown Harrison	42	2.45%
Farwell	9	0.53%
Gladwin	116	6.77%
Harrison North	203	11.85%
Lake George	20	1.17%
Mission Street - Mt. Pleasant	87	5.08%
Pickard Street - Mt. Pleasant	162	9.46%
Rosebush	54	3.15%
White Star	89	5.20%
Total	1713	100%

As the preceding chart indicates, the calls are distributed throughout the bank's delineated community consistent with the size and resources of the bank and the nature of its community.

The bank maintains a "Business Contact" program where bank officers hand deliver monthly account statements to randomly-selected business customers. This call program is intended to cultivate account relationships with business and governmental units. This special delivery allows the officers to reinforce the importance of the customer to the bank and the bank's desire to serve all of the business's financial needs. According to management, approximately 200 of these contacts are made each month. Municipalities, townships, and local realtors are contacted by bank staff as part of the call program to address specific credit needs of the local communities and to market bank products.

Bank management solicits customer input through a postage-free confidential survey in CRA brochures made available in all branch lobbies. A review of the bank's Public File and records indicated that there have been no responses since the previous examination.

Bank directors, management and staff are actively involved with community organizations located throughout the bank's delineated community. Many of the bank's directors and officers serve as volunteer members of the boards of directors of community and

economic development organizations such as housing commissions, downtown development authorities and local realty associations. The following is a partial list of these organizations:

Affiliation With Bank	Organization	Position With Organization
President	Mid Michigan Regional Medical Center	Board Member
President and Senior Vice President	Clare Economic Development Corporation	Board Member and Member
Senior Vice President	Clare County Building Authority	Chairman
Senior Vice President	Clare County Economic Development Corporation	Member
Senior Vice President	Clare County Planning Commission	Member
Senior Vice President	Clare Downtown Development Authority	Chairman
Senior Vice President	Clare Industrial Development Corporation	Chairman
Senior Vice President	Beaverton Industrial Development Corporation	Secretary
Vice President	Mid Michigan Industries Inc.	Board Member
Vice President	Business and Professional Women’s Association	Member/Treasurer
Vice President	Financial Women International	Member
Assistant Vice President	Coleman Chamber of Commerce	Treasurer
Assistant Vice President	Coleman Downtown Development Authority	Treasurer
Assistant Vice President	Midland County Economic Development Corporation	Director
Assistant Vice President	Clare/Gladwin Board of Realtors	Member
Assistant Vice President	Harrison Chamber of Commerce	Member
Assistant Vice President	Harrison Economic Development Corporation	Director
Assistant Vice President	Tobacco Township - Planning Committee	Secretary
Assistant Vice President	Beaverton Area Business Association	President
Assistant Vice President	Gladwin County Economic Development Corporation	Secretary
Assistant Vice President	Gladwin County Chamber of Commerce	Member
Assistant Vice President	Isabella County Housing Coalition	Treasurer
Assistant Vice President	Mt. Pleasant Chamber of Commerce	Ambassador
Assistant Vice President	Gladwin County Chamber of Commerce	Director and Treasurer
Assistant Vice President	Clare-Gladwin Board of Realtors	Associate Member
Assistant Vice President	Gladwin Business and Professional Association	Treasurer
Assistant Vice President	Gladwin Economic Development Corporation	Member

A review of CRA committee minutes shows active participation in all of the above organizations.

Through the bank's ascertainment efforts, management identified a number of credit needs within the community. Through the private mortgage insurer (PMI) MGIC, the bank was able to expand their low downpayment loan program. The program allows a mortgage applicant to qualify for financing with only a five percent downpayment if PMI is obtained. Refer to Assessment Factor (i) for loans made through the bank's PMI program.

During the first quarter of 1997, the bank began to offer pre-qualification and pre-approval services for potential mortgage applicants. The pre-qualification program is a free service which serves to help an interested potential homebuyer ascertain an affordable mortgage amount, individual credit criteria and suitable purchase prices. The pre-approval program commands a \$42.00 fee which is applied toward the applicant's credit report. The request is processed as a normal loan request where the bank commits to a maximum loan amount based on the applicant's qualifications. The loan is committed to, pending an appraisal on the property chosen by the applicant at a future date.

Conclusion

A review of the bank's call programs, survey, and self-assessments revealed that bank management has established an effective and ongoing program to ascertain credit needs throughout the bank's entire delineated community. Management also demonstrates its willingness to respond to identified credit needs through modification of existing products and new product offerings.

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 1996 and 1997 CRA plans, training activities, Community Reinvestment/Public Relations Summary Reports and board of directors meeting minutes since the previous examination were reviewed to determine the level of oversight provided by the board of directors.

Formal 1996 and 1997 CRA plans were approved and adopted by the board of directors on November 21, 1995 and November 19, 1996 respectively. The plan articulates the involvement of bank personnel and describes methods of ascertainment, marketing efforts, committee review structure, geographic analysis, efforts to ensure compliance with fair lending laws, and community development activities.

Bank records indicate that CRA and fair lending training is regularly conducted for bank staff. CRA and Compliance training is coordinated by the bank's holding company (BHC). The training sessions are mandatory for all employees and are administered by the bank training officer and CRA officer. Training sessions held for Chemical Bank Michigan employees since the previous examination include the following:

1997

Five training sessions were held during the week of February 10, 1997 at various branch locations. The 1997 training sessions began with an overview of CRA and fair lending followed by a 14 minute video. Topics covered included; bank responsibilities, CRA notice requirements, contents of the public files, ascertaining community credit needs, and fair lending. A training session was also held on February 19, 1997 for employees of the proof department pertaining to CRA.

1996

Five training sessions were held during the week of February 12, 1996 at various branch locations. The training session utilized videos and support materials provided by the American Bankers Association. The video was in two parts, one for employees, and one for board members, executive officers and CRA officers. Topics covered included; a CRA background, details of the revised CRA, why CRA is good for business, how CRA affects the community, how CRA ratings affect the bank and a review questionnaire.

A review of the minutes of the board of director meetings since the previous examination revealed active board participation, through documented discussions, in CRA. CRA discussions are documented in the board minutes for every month since the previous examination. Bank management reviews its CRA Statement annually as evidenced by the

minutes of the November 21, 1995 and November 19, 1996 board meetings.

The bank has a CRA committee that consists of directors, and other bank officers. This committee meets semi-annually and its chairman reports to the board of directors. The most recent CRA committee meeting was held in March 1997. A review of the minutes from this meeting revealed a detailed discussion of the bank's performance under all of assessment factors contained in the regulation.

Conclusion

The board of directors provides guidance and oversight through a formal CRA plan, and is actively involved in CRA efforts throughout the bank's community. CRA training is well documented, ongoing and sufficient to maintain a high level of awareness at the bank and within the community. The bank's overall efforts demonstrate continued diligence and a strong desire to identify and meet the credit needs of its entire delineated community.

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

A review of marketing policies, strategies, self-assessments, special promotions and discussions with management were conducted to assess the effectiveness of the bank's marketing efforts. The advertising conducted by the bank since the previous examination and the bank's loan distribution were reviewed to evaluate the effectiveness of the bank's marketing program in reaching all segments of its delineated community.

The bank's Advertisement/Marketing Summary, for the period from March 1995 to April 1997, is exhibited in the following chart:

ADVERTISING MEDIUM	BANK SERVICES ADVERTISED	FREQUENCY	PERCENT OF TOTAL BY TYPE
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NEWSPAPER	Mortgage	17	12.4
	Home Improvement	33	24.1
	Home Equity	2	1.5
	Automobile Loans	11	8.0
	Deposits	15	11.0
	Checking	3	2.2
	Good Will & Misc	24	17.5
	IRA	2	1.5
	CFC Investment Center	7	5.1
	Special Promotions	23	16.7
	TOTAL	137	100.0
RADIO	Mortgage	796	24.4
	General Loan Advertising	1,590	48.6
	Good Will & Misc.	76	2.3
	Special Promotions	11	24.7
	TOTAL	3,268	100
STATEMENT STUFFERS	Home Equity	30,000	18.8
	Deposits	20,000	12.6
	Checking	6,000	3.7
	Good Will & Misc	20,000	12.6
	IRA	3,000	1.9
	CFC Investment Center	60,000	37.7
	Special Promotions	20,200	12.7
	TOTAL	159,200	100
STATEMENT MESSAGES	Mortgage	18,800	6.0
	Home Improvement	20,000	6.4
	General Loan Advertising	169,200	54.1
	Deposits	40,000	12.8
	Good Will & Misc	63,600	20.3
	Special Promotions	1,200	.4
	TOTAL	312,800	100
LOBBY POSTERS	Mortgage	14	6.3
	Home Improvement	28	12.5
	General Loan Advertising	42	18.7
	Deposits	28	12.5
	Checking	28	12.5
	Good Will & Misc	14	6.3
	IRA	14	6.3
	CFC Investment Center	56	25.0
	TOTAL	224	100

In addition to the advertising outlined above, the bank distributes lobby brochures advertising various bank products. Of the 24,775 total brochures distributed since the previous examination, approximately 7% contained loan product information. Further, in February 1997, the bank sent letters to 1,350 mortgage loan customers promoting a Chemline home equity loan of up to \$25,000 at 1% over the prime lending rate with no closing costs. The product distribution of advertisements using the various media outlined

above demonstrates that management is committed to promoting its credit products and services on an ongoing basis. The bank markets its products and services primarily through the following sources:

WMMI-AM: A radio station located in Mt. Pleasant, Michigan, that covers the bank's delineated community and surrounding counties. The station's format is oldies music and targets an audience of 25-54 year-olds.

WCZY-FM: A radio station located in Mt. Pleasant, Michigan, that covers the bank's delineated community and surrounding counties. The station's format is easy listening music and targets an audience of 35-64 year-olds.

WCFX-FM: A radio station located in Mt. Pleasant, Michigan, that covers the counties of Isabella, Clare, Gratiot, Mecosta, Gladwin and Midland.

WGDN-AM/FM: A radio station located in Gladwin, Michigan, that covers the cities of Midland, Gladwin, Bay City, Auburn, Freeland, Clare, West Branch, Houghton Lake, Mt. Pleasant, Standish and Farwell. The station's format is country music and targets an audience of 25-54 year-olds.

WKKM-FM: A radio station located in Harrison, Michigan, that covers the institution's delineated community and also surrounding counties.

The Gladwin County Record: A weekly publication located in Gladwin, Michigan, with a circulation of 18,200. The paper is also available at newsstands in Gladwin, Clare, Roscommon, Midland, and Ogemaw Counties.

The Clarion: A weekly publication located in Coleman, Michigan. The paper has a circulation of 17,000.

The Clare Sentinel: A weekly publication located in Clare, Michigan. The newspaper is received by 3,200 paid subscribers in the cities of Clare, Farwell, Harrison, Lake George and Lake. The paper is available to surrounding county and out-of-state subscribers.

The Clare County Review: A free weekly publication which is delivered to 10,500 households in Clare County and portions of Gladwin, Midland and Isabella Counties.

The Clare County Cleaver: A weekly publication located in Harrison, Michigan. The paper is delivered to 1,500 paid subscribers and is also available to non subscribers through stores and malls located in the cities of Harrison and Clare. The total circulation for the publication is 5,000.

The Isabella County Herald: A free weekly publication located in Mt. Pleasant,

Michigan. The paper is delivered to 17,000 households in Isabella County.

The Gladwin/Clare/Mt. Pleasant Shopper: A free weekly publication located in Gladwin, Michigan. The paper has a circulation of 55,600 households in Gladwin and Clare Counties and the City of Mt. Pleasant.

The Mt. Pleasant Morning Sun: A daily publication located in Mt. Pleasant, Michigan. The paper is delivered to paid subscribers, and is also available for purchase at stores and newsstands throughout Isabella County. The total circulation for the publication is 12,500.

The review of the bank's efforts indicates that a significant amount of the bank's marketing was done through radio advertisements. Advertising for credit products accounted for 46% of newspaper advertisements, and 73% of radio advertisements. Advertising for mortgage loans was the most significant credit product advertised in newspapers, while general loan advertising dominated radio advertising.

Included in the special promotion advertising noted in the above chart, the bank markets its "Money Bonanza" special loan program each spring. This loan program is designed to market general purpose loans at below market interest rates, with no application or loan processing fees, or closing costs.

Chemical Bank Michigan markets its loan products to local realtors through the Clare-Gladwin Board of Realtor's on-line computer system. This system, which is used by realtors to list homes for sale in Clare and Gladwin counties, is also used by area lenders to advertise their loan products and programs. The system gives real estate agents quick access to the most current loan programs and rates offered by area lenders.

Bank representative also participate in a number of seminars to help promote its loan products and services. In March 1996, the bank participated in the area's Home and Builders Shows. During the shows, which were attended by thousands of area residents, the Bank promoted its Home Equity and Home Improvement loan products through a special interest rate of 7.5%, and its Mortgage Loan products through the distribution of a \$100 certificate to be used towards the closing costs of a mortgage loan obtained through Chemical Bank. As a result of the Bank's participation in the Home and Builders Shows throughout the local community, the bank extended 13 home improvement and home equity loans with total loan proceeds in excess of \$113,000. The bank also extended 12 residential mortgage loans with total loan proceeds of approximately \$780,000 as a result of the \$100 off closing costs certificate distributed during the shows.

Conclusions:

The bank promotes the availability of its credit products and services throughout its delineated community. Members of bank staff regularly contribute to this effort through

their involvement in community activities and events to distribute loan product information. This activity is comprehensive and serves to inform all segments of the community of the availability of the bank's credit products and services. As a result of its marketing program, the bank originated loans in response to identified credit needs. the bank's marketing efforts are considered strong in reaching all segments of the bank's delineated 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

Discussions with management and reviews of the bank's Consolidated Report of Condition, Uniform Bank Performance Report (UBPR), the composition of examination loan sample, the types of credit offered as listed on the bank's CRA Statement, the bank's Home Mortgage Disclosure Act (HMDA) data and the bank's internal analysis of its lending activity were conducted to assess the bank's level of performance in originating and/or purchasing loans within its community.

The bank offers a complete line of loan products to all qualified applicants within its delineated community consistent with the credit needs of the community. A review of the bank's March 31, 1997 Consolidated Report of Condition revealed the following distribution by loan type:

LOAN TYPE	DOLLAR AMOUNT OUTSTANDING (000's)	PERCENT OF TOTAL LOANS
REAL ESTATE		
Construction	1401	1.47
Residential (1-4)	55,315	58.19
Commercial	7,132	7.50
Agricultural	649	.68
CONSUMER		
Open-end Credit	270	.29
All Other	17,457	18.36
COMMERCIAL AND INDUSTRIAL	8,771	9.23
AGRICULTURAL	1,055	1.11
STATE AND POLITICAL	2,671	2.81
OBLIGATIONS		
OTHER	339	.36
TOTAL:	95,060	100

A comparison of the preceding loan distribution to the report of condition reviewed as part of the previous examination, dated March 31, 1995 indicated the bank's loan portfolio remains relatively unchanged. Single-family residential loans continue to dominate the bank's loan portfolio, followed by loans to individuals and commercial loans. Overall, total loans increased by \$13,160,000 or 16.07%, since the previous examination.

The Uniform Bank Performance Report (UBPR), dated March 31, 1997 was reviewed during the examination. The bank's performance compared to peer is illustrated in the following chart.

LOAN TYPE	BANK AVERAGE LOAN MIX (%)	PEER AVERAGE LOAN MIX (%)
REAL ESTATE LOANS		
Construction/Development	1.67	2.17
1 - 4 Family Residential	57.93	33.02
Home Equity	1.03	.85
Other Real Estate	8.10	22.03
Farmland	.67	3.44
Multi-family	.00	.66
Commercial	7.42	15.32
TOTAL REAL ESTATE LOANS	67.70	60.44
LOANS TO INDIVIDUALS	19.06	15.59
CREDIT CARD LOANS	.29	.49
COMMERCIAL & INDUSTRIAL LOANS	8.69	14.23
AGRICULTURAL LOANS	1.13	3.36
MUNICIPAL LOANS	3.07	.51
OTHER LOANS*	.36	.18
*Excludes Financial Institution Loans, Acceptances of Other Banks, Foreign Office Loans and Leases, and Lease Financing Receivables		

BANK NET LOAN/LEASE TO DEPOSIT RATIO	PEER NET LOAN/LEASE TO DEPOSIT RATIO
46.72	71.58

According to the UBPR, the bank's loan portfolio is comprised primarily of single- family residential loans, comprising 57.93% of the bank's loan portfolio. This significantly exceeds peer performance of 33.02%. In addition, real estate loans comprise 67.7% of the total loan portfolio. This also compares favorably with peer performance of 60.44%.

The bank's loan-to-deposit ratio is 46.72% as of March 31, 1997. This compares less favorably with peer performance of 71.58%, although the bank's performance demonstrates slight increases over 38.35% and 41.56, for December 1993 and 1994, respectively. The bank's loan policy, indicates that the institution's goal is to attain a loan-to-deposit ratio of 60% to 65%. Discussions with management and a review of 1990 census data, revealed that approximately 27% of the residents of the bank's delineated community are under the age of 18 and 25% are 55 years of age or older, excluding the Amish community. These percentages suggest that the bank may be operating in a market with limited consumer credit demand. Further, the community is considered a vacation area where many of the homes are second or vacation homes. Many of the owners of

these homes obtain financing from a bank near their primary residence.

The bank's comparatively low loan-to-deposit ratio may also be partially attributed to the sale of real estate loans in the secondary market and to the age groups most prevalent in the bank's delineated community. The real estate loans sold in the secondary market are not included in the calculation of the bank's loan-to-deposit ratio. Since the previous examination, the bank sold approximately 81 loans for \$4,030,180. The balance of mortgages that the bank currently services which have been sold in the secondary market is \$9,631,418 as of May 30, 1997.

In its efforts to increase the number and volume of loans originated, management promoted the availability of its Low Down Payment Mortgage Loan program and its small dollar amount loans through Banking Updates as discussed under Assessment Factor (b). Under the Low Down Payment Mortgage Loan program, the bank originated 28 loans for \$1,948,350 since the previous examination; these loans are insured through the Mortgage Guaranty Insurance Corporation (MGIC).

Conclusions

The composition of the bank's loan portfolio is consistent with the identified credit needs in its delineated community. Overall lending has increased by 16.07% since the previous examination. Although the bank's loan-to-deposit ratio remains lower than peer, management has set a goal to increase this ratio to approximately 60-65% and is aggressively promoting its credit products through its marketing program as discussed under Assessment Factor (b) to achieve that goal. Management has demonstrated its willingness to respond to identified credit needs through new product offerings and product modifications as discussed under Assessment Factors (a) and (j). The success of the bank's small dollar amount loan program provides evidence of the bank's commitment to meet the credit needs of its entire delineated community, including those of low- and moderate-income residents.

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 loan originations through government-insured, guaranteed and subsidized loan programs for housing, small business and small farms were reviewed to determine the bank's level of participation in such programs. Contacts with community representatives were also conducted to determine if the bank's participation in such programs was sufficient to meet the need for these programs. The following chart summarizes the programs that are offered through the bank and the bank's activity in these programs.

PARTICIPATION WITH GOVERNMENT/SUBSIDIZED LOAN PROGRAMS

Program	Currently Outstanding		Originated Since the Previous Examination	
	Number	Dollar Amount	Number	Dollar Amount
Federal Housing Administration (FHA)	0	0	0	0
Veterans Administration (VA)	0	0	0	0
Rural Economic Community Development Loans (RECD) - Formerly FmHA	all loans sold in the secondary market		22	\$911,300
Small Business Administration (SBA)	8	\$719,279	5	\$951,000
Student Loans	153	297,707	276	\$745,218
MSHDA (Michigan State Housing Development Authority) Home Improvement	outstanding disbursed loans are held by MHDA		7	\$49,126

Management articulated that although there have been no loans originated under the FHA or VA programs, the bank has actively marketed these programs since it began offering them in the Fall of 1994. There were no credit needs mentioned by community representatives which the bank cannot serve with its current products.

Conclusions

The bank's performance is considered strong. The products and level of participation in government subsidized or insured programs is consistent with the need for these products. The bank's extensive promotion of these products exemplifies managements commitment toward meeting the credit needs of low- and moderate-income borrowers 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

A review of the following items was performed to assess the reasonableness of the bank's delineated community: the bank's CRA Statement; an analysis of the geographic distribution of the examination loan sample within the delineated lending area; 1995 and 1996 Home Mortgage Disclosure Act data; and the bank's geographic distribution analysis of approved and denied loan applications for January 1, 1996 through December 31, 1996.

A review of the bank's CRA Statement indicated that the delineated community has changed since the previous examination to comply with the requirements of the new regulation which the bank will be assessed under during the next scheduled examination. The bank defines its community as all of Clare, Gladwin, and Isabella counties; and, a small portion of Midland County; where Midland County is part of the Saginaw metropolitan statistical area (MSA). This area encompasses all branch locations and does not arbitrarily exclude any low- or moderate-income BNA's or census tracts. This method of delineation is consistent with method number one described above.

The bank conducts a self analysis of its lending distribution to assess the reasonableness of its delineated community. The results of this analysis, in conjunction with the examination loan sample and HMDA analysis, as discussed under Assessment Factor (e), support the reasonableness of the bank's delineated community. The bank annually reviews its delineated community, as required under the regulation.

CFC reviews the delineated communities of its subsidiary banks to prevent overlap in the markets of its subsidiaries. As a result of this approach, Chemical Bank Michigan's delineated community encompasses only a small portion of Midland County because Chemical Bank and Trust, CFC's lead bank, delineates the rest of the county.

Conclusions

The geographic distribution of the examination loan sample, the HMDA data for 1995, 1996 and the bank's internal analysis of the geographic distribution of its loans and rejected applications support the reasonableness of the bank's delineated community. Each analysis reveals a high level of loans originated within the bank's delineated community as discussed under Assessment Factor (e).

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

A review of the examination loan sample of approved loans and rejected applications, and the bank's analysis of the geographic distribution of its credit applications, originations and denials was conducted to assess the level of the bank's lending within the delineated community.

A review of the examination loan sample is contained in the following chart:

PRODUCT TYPE	TOTAL SAMPLED	WITHIN THE LOCAL COMMUNITY	PERCENT OF TOTAL
Real Estate	20	20	100
Installment Direct	30	30	100
Installment Indirect	20	17	85
Chemline Home Equity	22	22	100
Single Payment	20	20	100
Overdraft Protection	10	10	100
Commercial	12	12	100
Total Approved Loans	134	131	97.8
Denied Applications	88	82	93.2
Total Applications	222	213	96

The examination loan sample and the bank's analysis of the geographic distribution of its credit applications, originations and denials revealed a high level of loans distributed within the delineated community.

The bank tracks its distribution of approved loans and rejected applications by the township and city or village in which they are located and displays this data on a map of the delineated community. This analysis is formally reviewed on a semi-annual basis and includes loans subject to HMDA reporting, as well as other bank credit products. The results are discussed at CRA committee meetings. The 1996 analysis revealed that 99.11% of all HMDA reportable applications received were from applicants in the bank's delineated community. Further, 99.6% of all HMDA reportable approved loans were within the bank's delineated community. The review of the bank's analysis also revealed that approved and rejected applications were distributed throughout the bank's delineated community.

The bank tracks all non-HMDA loans on an aggregate basis which includes all consumer and business lending. A review of the bank's analysis for the year ending December 1996 revealed that 94.84% applications received and 96.25% of the loans originated were made within the bank's assessment area.

Although the bank failed to penetrate many of the moderate-income geographies within its delineated community, the bank has been able to penetrate the market of low- and moderate-income borrowers. According to the year end 1996 CRA Committee Minutes, the bank extended 923 or \$1,225,961 in small consumer loans in 1996 which they define as those for amounts under \$2,500. Additionally, the bank reported extending 762 consumer loans for amounts between \$2,500 and \$5,000 with total loan proceeds of \$2,743,891. Between October 1995 and February 1996 the bank offered a 7.83% installment loan special that could be originated for any consumer purpose. During the loan special, the 1,015 installment loans were originated with total loan proceeds exceeding \$6.3 million. Discussions with management revealed that because the markets for other Chemical Bank affiliates overlap the bank's delineation, penetration in some moderate-income tracts is accounted for through these affiliates.

Conclusions

The examination loan sample and the bank's analysis of the geographic distribution of its credit applications revealed a high level of loans distributed within and throughout the entire delineated community. The geographic distribution of the bank's credit applications and originations reaches all segments of the community.

Assessment Factor (g) - The institution's record of opening and closing offices and providing services at offices.

Scope and Findings

A review of the bank's branch opening and closing policy, minutes of the board of directors meetings, interviews with bank officers and an assessment of the services provided by the branches was conducted to assess bank's level of accessibility to all areas within in its delineated community.

The bank has a formal written branch closing policy as required by the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA). This policy defines the factors the bank will consider when deciding whether or not to close a branch facility, including the following: the profitability of branch; impact on the community; and the viability of alternative solutions. The policy also contains provisions for the proper notices of closure to the public and the appropriate regulatory agency. The policy is reviewed and approved annually, as evidenced by the minutes of the board of directors meeting, dated November 19, 1996.

The bank has not opened or closed any branch offices since the previous examination. The bank has 14 branch offices located throughout its delineated community. Automated Teller Machine (ATM) services are offered at seven of these locations, which provide 24-hour cash-dispensing and deposit services. The bank also operates an off-premise ATM in the City of Clare. The bank participates in the shared state and nationwide networks of: Quantum; Network One; Magic Line; and Cirrus. All of the offices provide the same level of deposit services. The following branch facilities accept deposits only: Clare-West office, Farwell office, downtown Harrison office, and Lake George office. The Farwell office and Clare-West office refer all loan applicants to the bank's main office located in Clare, Michigan. The Lake George office and downtown Harrison office refer loan requests to the Harrison Street office, located in Harrison, Michigan. These four facilities are all in close proximity to the referral branch, and therefore, the bank's customers are not inconvenienced. The Coleman branch, the only facility located in a low- and moderate-income geography, provides full service. The branch facilities are open Monday through Saturday, with varied hours, and offer lobby and drive-up services.

Conclusions

The bank's policy and management ensures that branches provide a high level of service to the entire delineated community. The bank maintains reasonable lobby hours, drive-up facility hours, branch banking business days, ATM machines, and location of branch facilities.

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

The bank's CRA statement indicates that the following types of credit are available to members of its community: Consumer loans - automobile and other consumer product loans, Personal, Secured, Home Improvement, Michigan State Housing Development Authority (MSHDA) Home Improvement Loans, Credit Card and Educational loans. Real Estate 1-4 Owner Occupied loans - Conventional Mortgage, Construction, Home Equity, Affordable Gold, FHA, MGIC Insured, MSHDA Program, and VA. Commercial loans - Commercial and Industrial, SBA, Construction, Farm, FmHA, Community

Development Loans and other special purpose emergency type loans.

Conclusions

No practices were detected that would discourage applicants from requesting available loans. An analysis of the bank's loan portfolio and HMDA reports revealed a reasonable volume and distribution of the loans listed in its CRA Statement. The bank originates credit, by general type, consistent with those offered in its CRA Statement.

Assessment Factor (f) - Evidence of prohibited discriminatory or other illegal credit practices.

Scope and Findings

The bank's HMDA data, loan forms, policies and procedures were reviewed. Loan officers were interviewed to determine their knowledge of fair lending and fair housing laws. The examination included a review of recent loan transactions. The loan sample included 20 real estate, 10 overdraft protection, 30 direct installment, 20 indirect installment, 22 home equity, 20 single payment, and 12 commercial loans. A sample of 88 denied applications was also reviewed. The samples were reviewed individually and compared by type, for compliance with applicable fair housing and fair lending laws and regulations.

The bank effectuates a second review program for all rejected and withdrawn credit applications through an internal committee. The committee meets weekly to conduct a full review to ensure that denied applicants have been given full and fair consideration and to ensure compliance with all provisions of the consumer protection laws and regulations. This review does not include a comparison to approved applicants which limits management's ability to detect any instances of the inconsistent application of the bank's underwriting criteria.

Management conducted fair lending training for all bank officers in February 1996 and February 1997. These training sessions included a video tape on disparate lending practices and procedures and was accompanied by a discussion about the effects of disparate and discriminatory lending.

Conclusions

The bank has implemented measures to ensure compliance with fair lending laws and regulations and no evidence of discriminatory acts or practices was noted. The bank employs reasonable lending standards which have been made more flexible through the use of government-sponsored or -subsidized loan programs and special purpose loan programs. 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.

V. COMMUNITY DEVELOPMENT

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

Scope and Findings

The bank's municipal investments and community development activities were reviewed to assess the bank's level of support for development efforts within its delineated community. Information received from contacts within the community concerning development needs was also considered in evaluating the bank's performance.

Management invests in the community through municipal bond purchases. Currently the bank's municipal bond portfolio has 11 issues totaling over \$5 million outstanding. Of these investments, 10 or 90.9%, are within the bank's delineated community.

The bank services privately-negotiated land contract agreements by administering the collection, disbursement and record-keeping for approximately 470 land contract holders. As of September 30, 1996, the total outstanding balance of these contracts was approximately \$7.4 million. Land contracts provide an alternative to mortgage loans for prospective home buyers and frequently require substantially less money to complete the purchase. This service is provided in addition to the bank's conventional, government and special loan products, discussed under Category II, to allow the bank to assist members of the community whose credit needs it could not meet directly.

As discussed under Assessment Factor (a), bank officers actively participate and take leadership roles in community and economic development organizations within the community. A senior officer of the bank serves as the chairman of the Clare Industrial Development Corporation (IDC) Corporation which is responsible for the development of the Clare Industrial Park; and, as an influential member of the Clare County Economic Development Corporation (EDC). The IDC has attracted a number of new businesses to the park since the previous examination. In November 1996, Chemical Bank Michigan provided \$120,000 in commercial loan financing for the purchase of a 10,000 square foot industrial building in the park for a manufacturing business, creating 25 new jobs.

Conclusions

The bank, through its leadership, has maintained an excellent level of participation in development and redevelopment programs. Management has demonstrated its commitment to the long-term economic improvement of its delineated community through its involvement and financial support of the Streetscape projects, the industrial park and local school districts as discussed previously.

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.

Scope and Findings

The bank has played a leadership role in developing and implementing specific projects promoting economic revitalization and growth. Participation in these projects has taken the form of investment, direct loans, financial services and technical assistance. This has been consistent with the bank's size, financial capacity, location and current local economic conditions. 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 (I) - Any other factors that, in the regulatory authority's judgement, reasonably bear upon the credit needs of its entire community.

Scope and Findings

The bank's charitable contributions and banking and credit education programs were reviewed to assess the bank's efforts to address community development needs in its community through non-lending activities.

The bank donated approximately \$68,000 to various civic and social organizations during the years ending 1995 and 1996 with an additional \$28,000 in donations budgeted for 1997. The most significant donations that were used toward the betterment of the community included the following:

On May 15, 1996, representatives from the bank's Gladwin and Beaverton offices conducted two separate educational seminars for members of the Gladwin Adult Education Caring Outlook On Learning School and the Gladwin Adult Education program on the subject of consumer loans. The seminars were attended by 20 and 10 students respectively ranging in age from 16 to adult. The seminars focused on general loan qualification procedures including how to complete an application and maintain a satisfactory credit rating.

On April 22, 1996, the bank held a "Financing the Small Business" seminar. Invitations were sent to dozens of area business owners, included in the local Chamber of Commerce newsletters and also published in several area newspapers. The three-hour program outlined several aspects of financing and operating a small business in today's market. The program centered on conventional sources of financing as well as discussions of governmental and community development sources of financing. Specifically, topics included; sources of financing, developing a business plan, types of loans/structures, analyzing the application, alternative financing, and case studies.

On April 22, 1996, a loan representative from the bank's Harrison North Office conducted a consumer credit educational program with members of the Harrison Community Schools Alternative Education Class. Approximately 30 students attended the seminar which covered several aspects and considerations when obtaining a consumer loan.

Conclusions

The bank has an exceptional record of participating in meaningful activities that contribute to the bank's total efforts to help identify and meet community credit needs of a developmental nature. These activities provide opportunities for dialogue with local residents, promote an open and friendly atmosphere and a willingness to communicate.