

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 **G.W. Jones Exchange Bank, Marcellus, Michigan**, prepared by the **Federal Reserve Bank of Chicago**, the institution's supervisory agency, as of **January 20, 1998**. 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 **satisfactory**.

Overall, the bank is in compliance with the Community Reinvestment Act. In light of its asset size and capacity to lend, the bank's loan-to-deposit ratio is considered reasonable. Our review of the geographic distribution of loans indicated that a majority of loans originated within the bank's defined assessment area, an area which contains whole geographies as required by the regulation.

A review of the distribution of loans across the assessment area also disclosed a reasonable level of penetration, including one moderate-income geography. The bank's efforts to lend to borrowers of different income levels is also considered reasonable, while its lending to businesses of different sizes is considered strong. Our review disclosed no evidence of illegal discrimination in the bank's assessment area, and no arbitrary exclusion of low- or moderate-income geographies was noted. The bank received no complaints regarding its CRA performance since the previous examination.

PERFORMANCE CONTEXT

DESCRIPTION OF INSTITUTION

G.W. Jones Exchange Bank, with total assets of \$34.3 million as of December 31, 1997, is a subsidiary of Jones Bancorp Inc., a one bank holding company. The bank's main office and an adjacent drive-through facility are located in the village of Marcellus, Michigan. The bank operates three full service branches located in the neighboring cities of Jones, Cassopolis and Three Rivers. The drive-through facility processes bank transactions and offers extended hours to accommodate customers when the main office is closed.

The bank's dominant product, (1- 4 family) residential adjustable rate mortgage (ARM) loans, comprises 60.0% of the total loan portfolio according to the December 31, 1997, Consolidated Report of Condition. Other products offered by the bank include commercial, small business and small agriculture, and secured and unsecured consumer loans.

Although G.W. Jones Exchange Bank is the only financial institution in Marcellus, primary competition is provided by branch offices of Michigan National Bank and Old Kent Bank in Cassopolis. Other competitors include branches of Shoreline Bank in Paw Paw; First State Bank and La Salle Federal Savings Bank in Decatur; Huntington Bank in Dowagiac; First National Bank of Three Rivers, Sturgis Federal Savings Bank and First Savings Bank located in Three Rivers.

DESCRIPTION OF ASSESSMENT AREA

The bank's assessment area contains Cass County; portions of Van Buren County which include Porter and Decatur townships; portions of St. Joseph County which include the city of Three Rivers; and the following townships: Fabius, Constantine, Lockport, Florence Flowerfield, Park, Mottville, and White Pigeon. The assessment area contains 24 census tracts, including 1.00 through 12.00 and 14.00 through 16.00 in Cass County; 116 in Van Buren County; and 401 through 404, 409, 411, 412 and 414 in St. Joseph County. Tract 9.00 in Cass County is designated as low-income, and tracts 402 and 404 in St. Joseph County are designated moderate-income. Van Buren County is in the Kalamazoo Metropolitan Statistical Area.

According to the 1990 census, the population of the bank's assessment area is 81,376, and the median family income is \$31,681. The total number of families in the assessment area is 22,646. A total of 3,670 families or 16.2% are considered low-income; 3,779 or 16.7% are considered moderate-income; 4,868 or 21.5% are considered middle-income; and 10,329 or 45.6% are considered upper-income.

The assessment area, with a total of 36,441 housing units, is comprised of 23,117 or 63.4% owner occupied units; 6,902 or 18.9% rental units; and 6,422 or 17.6% vacant units. Of the total housing units, 30,402 or 83.4% are 1-4 family units; 1,665 or 4.6% are multi-family units; and

4,050 or 11.1% are mobile homes. The median housing value and housing age in the assessment area is \$46,017 and 45 years, respectively.

Data obtained from the Michigan Employment Security Agency lists the following annual unemployment averages for 1997:

Marcellus	5.3%
Cass County	4.7%
State of Michigan	4.1%
United States	4.4%.

The following chart illustrates the major manufacturers in the bank's assessment area:

EMPLOYER	NUMBER OF EMPLOYEES	TYPE OF BUSINESS OR INDUSTRY
K & M Machine & Fabricating Inc. - Cassopolis	140	Machinery and Equipment Metalworking
Inverness Casting Group Inc - Dowagiac	249	Die Casting, Aluminum & Alloys
Jessup Door Co. Inc. - Dowagiac	250	Millwork, Doors, Wood, and Covered Wood
Lyons Industries, Inc - Dowagiac	130	Plastic Plumbing Fixtures
Modine Heat Transfer - Dowagiac	550	Refrigeration, A.C., Warm Air Heating Eqpt.
Aluminum Casting Division - Dowagiac	180	Die Castings, Aluminum & Alloys
Georgie Boy Manufacturing Inc - Edwardsburg	450	Mobile Homes
Orbit Plastic, Inc - Cassopolis	49	Plastic Film & Sheet
Powco Inc - Marcellus	25	Plastic Film & Sheet
Moorman Printing - Marcellus	19	News Paper; Publishing and/or Printing

SOURCE: Michigan Manufacturers Directory 1998

PERFORMANCE CRITERIA

LOAN-TO-DEPOSIT RATIO - CRITERION I

The bank's loan-to-deposit ratios during the last eight quarters (March 1996 through December 1997) averaged 74.2%. The following chart compares the bank's loan-to-deposit ratio and total assets to its local competitors and national peer group as of September 30, 1997:

Bank	Loan-to-Deposit Ratio	Asset Size (000s)
G.W. Jones Exchange Bank	74.2%	\$34,300
Michigan National (Branch) Cassopolis	99.9%	\$9,202,420
Old Kent (Branch) Cassopolis	90.9%	\$11,311,882
First State Bank-Decatur	68.0%	\$38,336
LaSalle FSB (Branch) - Decatur	121.0%	\$139,253
Shoreline Bank (Branch) - Paw Paw	84.9%	\$860,031
Kalamazoo County State - Schoolcraft	78.9%	\$52,324
First National of Three Rivers	78.6%	\$114,918
First Savings Bank - Three Rivers	103.0%	\$95,015
Sturgis FSB (Branch) - Three Rivers	141.0%	\$186,843
National Peer	69.7%	***

SOURCE: Fall 1997 edition Mc Fadden American Financial Directory

The bank's national peer group includes all insured commercial banks located in a non-metropolitan area with total assets between \$25 million and \$50 million and 2 or fewer offices.

During the past two years, the bank's loan-to-deposit ratio has averaged 70.0% to 75.0%. Management stated that the bank's business strategy is to maintain this level of lending to adequately meet the credit needs of its customer base, and to remain a profitable and competitive banking organization. Considering the bank's competition, asset size, and capacity to lend within its assessment area, the loan-to-deposit ratio is considered reasonable and **meets** the standards for satisfactory performance under this performance criterion.

The dominant product offered by the bank during 1997 was (1- 4 family) residential ARM loans which represented 60.0% of the bank's total loan portfolio according to the December 31, 1997, Consolidated Report of Condition. A total of 82 residential ARM loans were originated by the bank during this period. These loans were analyzed to evaluate the bank's CRA performance under the following performance criteria: Lending in Assessment Area, Lending to Borrowers of Different Incomes and to Businesses of Different Sizes, and Geographic Distribution of Loans (Criterion II, III, and IV).

LENDING IN ASSESSMENT AREA - CRITERION II

The bank's 1997 (1- 4 family) residential ARM loan portfolio was reviewed to evaluate lending activity within its assessment area. An analysis of this portfolio revealed the following distribution:

Assessment Area	Number of Loans	Percentage of Total Loans	Dollar Amount of Loans (000s)	Percentage of Total Dollar Amount
In	70	85.4%	\$4,573	85.4%
Out	12	14.6%	\$784	14.6%
Total	82	100.0%	\$5,357	100.0%

The preceding chart indicates that the majority of loans (85.4%) originated within the bank's assessment area. Based on this ratio, it appears that the bank has properly identified the credit needs of its borrowers, and has effectively met those needs through its dominant product. According to its December 1997 business plan, community-based lending is the bank's primary focus, and residential loans are one of many products offered by the bank to meet the credit needs of borrowers within its assessment area. Based on the above analysis, the bank **exceeds** the standards for satisfactory performance under this performance criterion.

LENDING TO BORROWERS OF DIFFERENT INCOMES AND TO BUSINESSES OF DIFFERENT SIZES - CRITERION III

Lending to borrowers of different incomes:

The bank's 1997 (1- 4 family) residential ARM loan portfolio was reviewed to determine the level of lending to borrowers of different income categories. The following table depicts loan distribution to different income levels:

1997 (1-4 FAMILY) RESIDENTIAL ARM LOANS			
Borrower Income Levels	Number of Loans	Percent Total	Dollar Amount of Loans (000s)
Low-Income	4	4.9%	\$171
Moderate-Income	11	13.4%	\$487
Middle-Income	19	23.2%	\$1,128
Upper-Income	48	58.5%	\$3,571
Total	82	100.0%	\$5,357

According to the preceding chart, 15 or 18.3% of residential ARM loans were made to low- and moderate-income borrowers. Based on 1990 census data, low- and moderate- income individuals total 4,551, or 5.6% of the population in the bank's assessment area. With a lending level of 18.3% to this segment of the population, the bank appears to be making a concerted effort to meet the credit needs of low- and moderate-income borrowers.

To further meet the credit needs of different income borrowers within its assessment area, the bank also acts as a third party processor for MidAmerican National Bank & Trust Company (MidAm Bank), Toledo, Ohio, in the extension of long-term fixed rate mortgages. MidAm Bank finances and services all loans referred by G.W. Jones Exchange Bank, and makes all credit decisions for loans processed on its behalf. G.W. Jones Exchange Bank receives a processing fee from MidAm Bank for acting as a third party processor. During 1997, the bank processed 33 fixed rate residential mortgage loans totaling \$2.3 million for MidAm Bank. Of this total, 1 loan was extended to a moderate-income borrower.

Lending to businesses/farms of different sizes:

A review of the bank's June 1996 and 1997 Consolidated Reports of Condition indicated the following outstanding loans less than \$250,000:

Loan Type and Loan Amount	1996	1997
Loans Secured by Nonfarm, Nonresidential Property		
\$100,000 or less	17	13
\$100,000 through \$250,000	0	0
Commercial and Industrial Loans		
\$100,000 or less	158	215
\$100,000 through \$250,000	3	5

Loan Type and Loan Amount	1996	1997
Loans Secured by Farmland		
\$100,000 or less	9	10
\$100,000 through \$250,000	1	1
Loans to Finance Agricultural Production and other Loans to Farmers		
\$100,000 or less	34	15
\$100,000 through \$250,000	0	0

According to the preceding chart, commercial and industrial loans (less than \$100,000) increased by 57 or 36.1% in 1997; loans to finance agricultural production and other loans to farmers (less than \$100,000) decreased by 19 or 55.9%; loans secured by nonfarm and nonresidential property (less than \$100,000) decreased by 4 or 23.5%; and loans secured by farmland remained relatively stable. Discussions with management revealed that the decrease in agricultural lending noted above is attributed to changes within the local economy which has affected the ability of the bank to service the credit needs of local farmers. Over the past four years, small farming operations have gradually been replaced by large farming concerns. The bank's legal lending limit of \$250,000 reduces its ability to service large customers who tend to bank at organizations with the capacity to service the full credit relationship. The increase in commercial and industrial loans noted in the preceding table largely reflects the proper categorization of these products as commercial loans, and does not reflect significant loan growth.

The bank's level of lending to borrowers of different incomes is reasonable based on lending activity in 1997 and the demographics of the assessment area. Loans extended to small businesses also correspond closely with the composition of the local business community. Based on lending performance to borrowers of different incomes and businesses and farms of different sizes, the bank **meets** the standards for satisfactory performance under this performance criterion.

GEOGRAPHIC DISTRIBUTION OF LOANS - CRITERION IV

The following chart illustrates the geographic distribution of the bank's 1997 (1-4 family) residential ARM loan portfolio by census tracts in its assessment area:

Census Tracts #	Population	Number of Loans	Percentage of Total Loans	Dollar Amount of Loans (000s)	Percentage of Total Dollar Amounts
1.00	4035	24	34.3%	\$1,587	34.4%
2.00	1193	2	2.9%	\$94	2.0%
3.00	5903	1	1.4%	\$44	1.0%

Census Tracts #	Population	Number of Loans	Percentage of Total Loans	Dollar Amount of Loans (000s)	Percentage of Total Dollar Amounts
4.00	6484	0	0.0%	\$0	0.0%
5.00	4387	0	0.0%	\$0	0.0%
6.00	2992	7	10.0%	\$360	7.8%
7.00@	1822	2	2.9%	\$57	1.2%
8.00	3333	4	5.7%	\$310	6.7%
9.00*	357	0	0.0%	\$0	0.0%
10.00@	3859	3	4.3%	\$96	2.1%
11.00	2450	1	1.4%	\$225	4.9%
12.00	2908	1	1.4%	\$103	2.3%
14.00	1142	0	0.0%	\$0	0.0%
15.00	4082	0	0.0%	\$0	0.0%
16.00	1107	0	0.0%	\$0	0.0%
401.00@	3,162	4	5.7%	\$189	4.1%
402.00**	1,943	0	0.0%	\$0	0.0%
403.00	2,592	1	1.4%	\$40	0.9%
404.00**	2,251	1	1.4%	\$46	1.0%
409.00	4,230	1	1.4%	\$47	1.0%
411.00	7,201	11	15.7%	\$685	14.8%
412.00	3,206	1	1.4%	\$75	1.6%
414.00	5,035	2	2.9%	\$283	6.1%
116.00	5,702	4	5.7%	\$375	8.1%
Total	81,376	70	100.0%	\$4,617	100.0%

*Low-income

**Moderate-income

@Branch Location

The preceding chart illustrates that the bank has achieved reasonable penetration throughout its assessment area. As noted in the chart, tract number 9.00 is designated a low-income geography, and tract numbers 402 and 404 are designated moderate-income geographies. Although no mortgage loan activity occurred in tract number 9.00 during 1997, management stated that this area is comprised primarily of multi-family rental units, where minimal demand for residential lending exists. With respect to census tracts 402 and 404, management stated that these geographies offer competitive banking environments where other local financial institutions

adequately meet the credit needs of the community.

The geographic distribution of loans throughout the bank's assessment area is reasonable, and there is no evidence of irregular lending patterns. Management offered reasonable explanations regarding those tracts that received little or no mortgage loan activity in 1997. Based on these results, the bank **meets** the standards for satisfactory performance under this performance criterion.

RESPONSE TO COMPLAINTS

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

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Our analysis of the bank's performance under the criteria described above indicated that the bank is in compliance with CRA and the substantive provisions of anti-discrimination laws and regulations, including the Equal Credit Opportunity Act and the

Fair
Housing
Act.