

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 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's performance under the Community Reinvestment Act is considered satisfactory. The bank serves the community through the origination of consumer loans, including real estate, commercial, small businesses and agricultural loans. 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 large majority of loans originated within the bank's defined assessment area, and loan penetration throughout the assessment area is reasonable. The bank's efforts to lend to borrowers of different income levels and businesses of different sizes is strong. Our review disclosed no evidence of illegal lending and credit activities, 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

Eastern Michigan Bank (EMB), with total assets of \$156 million as of December 31, 1997, is a subsidiary of Eastern Michigan Financial Corporation, a one-bank holding company. The bank's main office, drive-up facility, and loan center are located in the city of Croswell, which is nestled in the thumb area of the state. The bank has six full-service branch offices located in Deckerville, Lakeport, Lexington, Minden City, Port Huron, and Sandusky.

EMB is a retail community bank offering traditional financial services including commercial, consumer, real estate and farm credit products. The consumer loan products include secured, unsecured, direct and indirect installment, home equity lines of credit, personal loans and overdraft protection loans. Real estate loans include conventional loans with private mortgage insurance (PMI), construction loans, land purchase, and home improvement loans. Commercial and farm credit products offered by the bank include operating lines of credit, real estate, capital purchases and equipment. The bank also provides Small Business Administration (SBA) and Farmers Home Administration (FmHA) loans. Credit products offered are consistent with the credit needs in the assessment area.

The bank's major credit product is loans secured by real estate comprising 51.5% of the loan portfolio. The highest concentration of real estate loans is in 1-4 family residential loans representing 45.3% of the bank's total outstanding loans. This level of lending secured by 1-4 family residential properties exceeds the peer group by 12.5%. (The bank's peer group is defined as all insured commercial banks located in a non-metropolitan area with three or more banking offices and assets between \$100 million and \$300 million.)

The bank's loan portfolio also includes commercial and industrial loans, agricultural loans, and loans to individuals representing 20.2%, 14.8%, and 12.7% of total outstanding loans, respectively. Commercial and agricultural lending exceeds the peer group by 5.9% and 11.2%, respectively, while loans to individuals fall slightly below the peer group level by 2.3%.

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 Marysville, Yale, and Port Huron; Chemical Bank Bay Area (Bay City, Michigan) in Marlette; and five credit unions in the assessment area.

DESCRIPTION OF ASSESSMENT AREA

EMB has defined its assessment area as the following nineteen census tracts: 6200 through 6370 and 6550 in the northeast section of St. Clair County which is part of the Detroit Metropolitan Statistical Area (MSA). The MSA portion of the bank's assessment area includes the cities and towns of Port Huron, Marysville, Yale, and the townships of Fort Gratiot, Butcherville, Clyde, Kimball, Grant, Greenwood and Brockway. Of the nineteen census tracts in the bank's assessment area, four are low-income (6230, 6240, 6250 and 6260.99), and seven are moderate-income (6200, 6210, 6220, 6260, 6280, 6340, and 6360). The four low-income census tracts have a population of 7,861, and an adjusted median family income of \$18,403. The seven moderate-income census tracts have a population of 30,153 and an adjusted median family income of \$28,629. Based on a total assessment area population of 121,338, the populations of the low-income and moderate-income census tracts represent 6.5% and 24.9%, respectively.

The bank's assessment area also includes block number areas (BNAs) 9701 through 9712 comprising all of Sanilac County. This portion of the assessment area includes the cities and towns of Croswell, Lexington, Brown City, Deckerville, Port Sanilac, and Minden City, and the townships of Washington, Watertown, Bridgehampton, Moore, Lamotte, Evergreen, Argyle, Wheatland, Marion, Forester, Greenleaf, Delaware and Austin. There are no low-, moderate-, or upper-income BNAs in Sanilac County.

The adjusted median family income of the entire assessment area, the Detroit MSA and the non-metropolitan areas is \$31,033, \$40,727, and \$27,894, respectively. A total of 8,159 (24.5%) families are low-income, 7,051 (21.2%) are moderate-income, 8,086 (24.3%) are middle-income, and 9,987 (30.0%) are upper-income. There are 51,605 housing units in the assessment area, of which 32,698 (63.4%) are owner-occupied, 12,187 (23.6%) are rental units and 6,720 (13.0%) are vacant units. The number of housing units includes 38,318 (74.3%) single family dwellings, 8,177 (15.9%) multi-family dwellings, and 4,578 (8.9%) mobile homes. The median housing value is \$48,608, and the median monthly rent is \$392.

Major manufacturers in the area are Michigan Sugar Company, Dean Foods, Yale Rubber Manufacturing Company, Deckerville Die Form Harvard Industries, Huron Manufacturing, Conveyor Components, Michigan Peat Inc., Britax Rainsfords, Inc., Mueller Brass, and the Bundy Corporation. According to the Michigan Employment Security Agency, the December 1997 unemployment rate of 5.8% in Sanilac County was slightly above the unemployment rate in St. Clair County of 5.0%, the state of Michigan of 4.1%, and the national unemployment rate of 4.9%.

According to community contacts, the current economic conditions in the community are stable, and unemployment is low. Representatives of the community indicated a need for mortgages, home improvement, and auto loans. They also indicated new construction and high risk lending with more affordable fees is needed as well.

PERFORMANCE CRITERIA

I. LOAN-TO-DEPOSIT RATIO

According to the September 30, 1997 Uniform Bank Performance Report, EMB's net loan-to-deposit ratio of 76.4% exceeds the peer group ratio of 74.5%. An analysis of the bank's Consolidated Reports of Condition for the six quarters beginning September 30, 1996, through December 31, 1997, indicated an average loan-to-deposit ratio of 72.7%.

The following table compares EMB's loan-to-deposit ratio with that of its competitors:

<i>BANK NAME</i>	<i>ASSET SIZE (000s)</i>	<i>LOAN-TO-DEPOSIT</i>
Eastern Michigan Bank	\$155,718	73.4%
Chemical Bank Bay Area	\$204,531	52.8%
Independent Bank East Michigan	\$247,747	98.6%
Citizens First Savings Bank	\$598,214	109.3%
Michigan National Bank	\$9,583,916	98.8%
NBD Bank	\$21,946,699	99.6%

Although EMB's loan-to-deposit ratio is below that of most of its competitors, its lower asset size affects its ability to compete for loans in a highly competitive marketplace. However, in comparison to the competitor closest to it in size (Chemical Bank Bay Area), EMB's loan-to-deposit ratio is significantly higher.

Considering the bank's competition, asset size, and capacity to lend within its assessment area, EMB's loan-to-deposit ratio is considered reasonable and **meets** the standards for satisfactory performance under this criterion.

II. LENDING IN ASSESSMENT AREA

A sample of loans was reviewed to assess the bank's lending activity in its assessment area. The analysis of the loan sample revealed the following distribution:

LOAN TYPE	TOTAL SAMPLED	WITHIN THE ASSESSMENT AREA	PERCENT OF TOTAL
Single Payment	20	18	90.0%
Installment - Direct	20	20	100.0%
Installment - Indirect	20	7	35.0%
Overdraft Protection	10	10	100.0%
Real Estate	20	18	90.0%
Home Equity	10	10	100.0%
Commercial/Agricultural	20	15	75.0%
Total	120	98	81.7%

As the preceding chart indicates, a substantial majority (81.7%) of the loans reviewed were made within the bank's assessment area. However, the offering of a new credit product (indirect installment loans) since the previous examination has resulted in an increase of loans generated outside of the bank's assessment area.

EMB periodically performs a self-analysis of its real estate loan products. The latest analysis revealed that 30.5% (29 of 95) of the bank's loans were made within the MSA portion of its assessment area, and 63.1% (60 of 95) originated in the non-metropolitan areas. Collectively, the analysis indicated that a total of 93.7% (89 of 95) of loans originated in the bank's assessment area for the period July 1, 1997, through November 30, 1997.

A review of the bank's 1996 Home Mortgage Disclosure Act (HMDA) data was also performed and revealed that the bank originated 25.5% (67 of 263) of reportable loans within the MSA portion of its assessment area. Although this origination ratio appears low, the demand for real estate loans is affected by the demographics of the area which includes a high level of competition, a large commercial/industrial base, and an abundance of rental property.

Our review of the bank's lending activity indicated that a significant majority of loans (81.7%) originated within the bank's assessment area. This level of lending indicates that EMB has properly identified the credit needs of its borrowers and is effectively delivering lending products to meet those needs. Based on these results, the bank **exceeds** the standards for satisfactory performance under this criterion.

III. LENDING TO BORROWERS OF DIFFERENT INCOME LEVELS AND TO BUSINESSES OF DIFFERENT SIZES

Lending to Borrowers of Different Income Levels:

A review of the bank's 1996 HMDA data revealed that 26.6% (17 of 64) of loans were made in low- or moderate-income census tracts located in the MSA portion of the assessment area. Low- or moderate- income families comprise 45.6% (15,210 of 33,283) of families in this area. Considering that the low- and moderate- income census tracts provide a limited number of creditworthy home purchase and home improvement customers in a largely rental community, the bank's origination ratio of 26.6% appears reasonable.

Our review of the examination loan sample revealed the following loan distribution to borrowers of different income levels:

LOAN TYPE	LOW-INCOME \$/# of loans	MODERATE- INCOME \$/# of loans	MIDDLE- INCOME \$/# of loans	UPPER-INCOME \$/# of loans
Single Payment	\$1,500/1	\$21,400/6	\$28,200/3	\$28,700/7
Installment-Direct	7,085/3	5,400/4	33,595/8	30,213/5
Installment - Indirect	4,029/1	24,586/2	6,800/1	20,055/3
Overdraft Protection	5,000/1	2,000/2	500/1	8,000/6
Real Estate	0/0	35,000/1	0/0	1,274,599/17
Home Equity	0/0	0/0	0/0	158,640/9
Total	\$17,614/6	\$88,386/15	\$69,095/13	\$1,520,207/47

The preceding chart indicates that 25.9% (21 of 81) of loans sampled were made to low- or moderate-income borrowers within the bank's assessment area, with an average loan amount of \$5,048. The chart also indicates minimal real estate and home equity lending in low- and moderate-income areas primarily due to the presence of a large number of rental units and the existence of few creditworthy borrowers.

The bank performs a self-analysis of lending to borrowers of different income levels in the non-metropolitan area of Sanilac County and the MSA portion of St. Clair County. Income level data from the US Census Bureau and HUD was used in the analysis which covered the period from July 1, 1997, through November 30, 1997. The bank's findings revealed that 18.1% of real estate loans and 58.0% of installment loans were originated to low- or moderate-income borrowers.

Lending to Small Businesses:

A review of the June 30, 1997 Consolidated Report of Condition indicated that all or substantially all of the bank's loans to small businesses and small farms were in amounts of \$100,000 or less. A loan sample of commercial loans was also reviewed and revealed that a majority of the commercial and agricultural loans was to businesses with annual revenues of \$1 million or less. In the sample of 30 loans reviewed, loan amounts ranged from \$5,200 to \$300,000.

To accommodate the needs of all borrowers, the bank offers Farmers Home Administration (FmHA) and Small Business Administration (SBA) loans. The following chart summarizes the bank's increased participation in these programs since the previous examination:

PROGRAM	OUTSTANDING		SINCE PREVIOUS EXAMINATION	
	NUMBER	DOLLAR AMOUNT (000s)	NUMBER	AMOUNT (000s)
FmHA	27	\$3,593	13	\$1,898
SBA	1	\$21	0	0

Our review indicated that the bank's lending to borrowers of different income levels and to businesses of different sizes is strong. Based on this analysis, the bank **exceeds** the standards for satisfactory performance under this criterion.

IV. GEOGRAPHIC DISTRIBUTION OF LOANS

The following chart indicates the number of loan originations in each census tract and BNA in the bank's assessment area per the bank's self-assessment, the analysis of HMDA data, and our examination loan sample:

Census Tract	Self-Assessment	HMDA	Loan Sample
6200	1	2	
6210	4	1	
6220	1	4	2
6230*	1		
6240*		1	
6250*	3		
6260.99*			
6260	1	1	1
6270	1	4	
6280	5	2	
6290	4	2	
6300	14	6	
6310	2	2	1
6320	24	18	3
6330	17	6	
6340	6	6	2
6350	9		
6360	1		
6370	1	2	1
6550	27	11	2
9701	16		
9702	14		1

Census Tract	Self-Assessment	HMDA	Loan Sample
9703	8		1
9704	39		4
9705	9		2
9706	29		
9707	11		4
9708	117		9
9709	68		5
9710	16		3
9711	5		
9712	31		3

*Low-income census tracts

The bank's self analysis of real estate loans and installment loans in its assessment area from July 1, 1997, through December 31, 1997, and a review of the examination loan sample of real estate and installment loans revealed that loans were made in all census tracts with few exceptions. Census tract 6240, a low-income census tract, is located in an industrial area with a high concentration of rental property. Census tract 6260.99 has a population of only 14.

A review of the HMDA data revealed lending in only one of the bank's four low-income census tracts. As noted previously, these census tracts are heavily industrial with a high concentration of rental property and few creditworthy borrowers.

Based on the above analysis, the geographic distribution of loans throughout the bank's assessment area is reasonable and **meets** the standards for satisfactory performance under this criterion.

RESPONSE TO COMPLAINTS

No complaints were received by the institution regarding its CRA performance 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 and Fair Housing Act.