

**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 **Tri-County Bank, Brown City, Michigan**, prepared by the **Federal Reserve Bank of Chicago**, the institution's supervisory agency, as of **June 30, 1997**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 228.

**INSTITUTION'S RATING:** This institution is rated **Outstanding**.

The bank serves the credit needs of its assessment area consistent with its size, financial capacity, location and current economic conditions. Specifically, the credit needs of the assessment area are served by the bank through the origination of loans to consumers, small businesses and small farms. These efforts are evidenced by a 69.62% average loan-to-deposit ratio. Approximately 92% of loans sampled were made within the bank's assessment area. Lending to borrowers of different incomes and businesses of different sizes is strong. Geographic distribution of lending is strong. There is no evidence of any prohibited discriminatory lending practices or policies. No CRA-related complaints were received since the previous examination.

**DESCRIPTION OF INSTITUTION**

Tri-County Bank, with \$91 million in assets as of March 31, 1997, is a subsidiary of Tri-County Bancorp, Inc., a one-bank holding company. The bank's main office, mortgage center and drive-up facility are located in Brown City. Full service branches are located in Almont, Imlay City, Peck and Yale.

The bank offers the following types of loans: personal, automobile, consumer, agricultural, crop, mobile homes, business, Small Business Administration (SBA) and Farmers Home Administration (FmHA). Real estate mortgages offered by the bank include: construction, farm, vacant land, three- or five-year balloons, long-term fixed rate, home improvement and home equity line of credit. The majority of the bank's loan portfolio is comprised of residential real estate loans, while 31.25% of the portfolio is comprised of commercial and agricultural-related loans. The credit products offered are consistent with the credit needs in the assessment area.

The bank's primary competitors are branches of First of America Bank-Michigan, National Association of Grand Rapids (located in Imlay City and Almont) and Citizens Federal Savings Bank of Port Huron (located in Imlay City).

**DESCRIPTION OF ASSESSMENT AREA**

The bank's main office is located in Brown City, Michigan, approximately 75 miles northeast of Detroit, Michigan, in an area known as the "Thumb of Michigan." The bank's assessment area is comprised of census tracts and block numbering areas (BNAs) in portions of Lapeer, St. Clair, Tuscola and Sanilac Counties. Lapeer and St. Clair Counties are located in the Detroit Metropolitan Statistical Area (MSA) and are predominately rural. Two of the census tracts located within the MSA portion of the assessment area are moderate-income. Communities located within the assessment area include; Almont, Attica, Brown City, Capac, Clifford, Dryden, Emmett, Imlay City, Lapeer, Marled, Mayville, Melvin, Memphis, Metamora, North Branch, Peck, Sandusky and Yale.

According to 1990 U.S. Census data, the population of the bank's assessment area is 151,610. Minorities comprise 4,987, or 3.3% of the population of the assessment area. A total of 51,662 households comprise the bank's assessment area with a median family income of \$34,523. Low-income families represent 8,256 (20%), moderate-income families 7,807 (18.9%), middle-income families 10,331 (25.1%), and upper-income families 14,845 (36%). The assessment area contains 57,962 housing units, of which 41,662 (71.9%) are owner-occupied, 9,796 (16.9%) are renter-occupied, and 6,504 (11.2%) are vacant units. The number of housing units is comprised of 45,753 (78.9%) single-family dwellings, 4,909 (8.4%) multi-family dwellings and 6,751 (11.6%) mobile homes. The median housing value is \$54,668 and the median rent is \$373 in the assessment area.

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

<b>EMPLOYER</b>	<b>NUMBER OF EMPLOYEES</b>	<b>TYPE OF INDUSTRY</b>
Cambridge Industries, Lapeer	500	Furniture, Household, Misc.
Durakon Industries Inc., Lapeer	499	Motor Vehicle Parts & Accessories
Albar Industries Inc., Lapeer	425	Plastic Film & Sheet, Unsupported
Vlasic Foods Inc., Imlay City	325	Pickles, Sauces, Dressings
Frank Industries Inc., Brown City	249	Motor Homes
Champion Motor Coach Inc, Imlay City	240	Truck & Bus Bodies
Lapeer Metal Products, Lapeer	230	Stampings, Automotive
Howell Industries Inc., Lapeer	190	Stampings, Automotive
Deco Plate, Lapeer	150	Plating, Polish., Elec.Plating, Anod
Toyo Seat U S A, Imlay City	135	Motor Vehicle Parts & Accessories
Chambers Co., M. K., North Branch	135	Machine Tools, Metal Forming
Camtron Coatings Co., Lapeer	133	Plating, Polish., Elec.Plating., Anod
Ligon Bros Manufacturing Co, Almont	130	Plastic Film & Sheet, Unsupported
Du-Pont Inc., G B, Lapeer	115	Bolts, Nuts, Screws, Rivets, Washers

According to the Michigan Employment Security Agency, the unemployment rate in May 1997, for Sanilac County was 4.8%, Tuscola County 4.6%, Lapeer County 3.5% and St. Clair County 4.2%, which, at an average rate of 4.3%, is slightly higher than the State of Michigan's unemployment rate of 3.7% and slightly below the national unemployment rate of 4.7%.

**CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:**

The bank is in compliance with the substantive provisions of anti-discrimination laws and regulations, including the Equal Credit Opportunity Act and the Fair Housing Act.

**LOAN-TO-DEPOSIT RATIO**

A review of the bank's March 31, 1997 Consolidated Report of Condition revealed a loan-to-deposit ratio of 77.58%, an increase of 20.13% (from 57.45%) since March 31, 1996. The distribution by loan type was as follows:

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LOAN TYPE	DOLLAR AMOUNT OUTSTANDING (000s)	PERCENT OF TOTAL LOANS
REAL ESTATE		
Construction	6,497	10.15%
Residential (1-4)	25,109	39.22%
Commercial	435	0.68%
Agricultural	2,686	4.20%
CONSUMER		
Open-end Credit	17	0.03%
All Other	10,390	16.23%
COMMERCIAL AND INDUSTRIAL	11,018	17.21%
AGRICULTURAL	6,161	9.62%
STATE AND POLITICAL OBLIGATIONS	1,649	2.58%
OTHER	59	0.09%

The bank's loan distribution as of March 31, 1997 was compared to the bank's loan distribution as of March 31, 1996. This comparison revealed increases in construction, agricultural and commercial and industrial lending. Overall, total loans increased by \$21.8 million or 51.70% since the previous examination.

According to the March 31, 1997, Uniform Bank Performance Report (UBPR), Tri-County Bank's loan-to-deposit ratio exceeded its peer group ratio of 69.56%. As reflected in the UBPR, the bank's loan composition compared to peer is illustrated in the following chart:

LOAN TYPE	BANK AVERAGE LOAN MIX (%)	PEER AVERAGE LOAN MIX (%)
REAL ESTATE LOANS		
Construction & Development	10.41	1.71
1-4 Family Residential	39.30	31.33
Home Equity	0.00	0.26
Other Real Estate	5.13	21.24
Farm land	4.38	5.74
Multi-family	0.00	0.38
Commercial	0.75	11.94
TOTAL REAL ESTATE LOANS	54.84	57.44
LOANS TO INDIVIDUALS	16.23	14.87
CREDIT CARD LOANS	0.03	0.29
COMMERCIAL & INDUSTRIAL	16.51	13.84
AGRICULTURAL LOANS	9.61	6.59
MUNICIPAL LOANS	2.67	0.33
OTHER LOANS*	0.13	0.16
*Excludes Financial Institution Loans, Acceptances of Other Banks, Foreign Office Loans and Leases, and Lease Financing Receivables		

An analysis of the bank's Consolidated Reports of Condition for the five quarters from March 31,

1996, through March 31, 1997, revealed an average loan-to-deposit ratio of 69.62%. This ratio exceeds the standards for satisfactory performance given the ratio's upward trend, the institution's size, financial condition and the credit needs of the assessment area.

**LENDING IN ASSESSMENT AREA**

A review of the bank's 1996 Home Mortgage Disclosure Act (HMDA) data revealed that the bank originated 59.5% (160 of 269) of reportable loans within its assessment area.

A sample of loans was reviewed regarding lending activity within the bank's assessment area. An analysis of the loan sample revealed the following distribution:

<b>LOAN TYPE</b>	<b>TOTAL NUMBER OF LOANS SAMPLED</b>	<b>NUMBER WITHIN ASSESSMENT AREA</b>	<b>PERCENT OF TOTAL</b>
Single Payment	20	19	95
Installment	20	15	75
Real Estate	26	25	96
Home Equity	16	16	100
Commercial/Agricultural	20	19	95
Total	102	94	92

As the preceding chart indicates, a substantial majority (92%) of the loans reviewed during the examination were made within the bank's assessment area.

Based on the above analysis of the bank's 1996 HMDA data and the examination loan sample, the bank exceeds the standards for satisfactory performance for lending within its assessment area.

**LENDING TO BORROWERS OF DIFFERENT INCOMES AND TO BUSINESSES OF DIFFERENT SIZES**

A review of the bank's 1996 HMDA data revealed that 38.71% of all HMDA-reportable loans were to low- or moderate-income applicants. As discussed in the **Description of the Assessment Area**, 39% of the households in the bank's assessment area are considered low- or moderate-income.

A review of the examination loan sample revealed the following distribution of loans among borrowers of different income levels:

LOAN TYPE	LOW-INCOME BORROWERS \$/Number	MODERATE- INCOME BORROWERS \$/Number	MIDDLE-INCOME BORROWERS \$/Number	UPPER-INCOME BORROWERS \$/Number
Single Payment	2,095/1	18,227/7	0/0	19,305/5
Installment	12,433/6	29,429/6	36,276/3	27,755/3
Real Estate	83,000/2	112,500/4	322,000/6	1,350,850/14
Home Equity	30,000/1	81,000/2	55,000/2	443,500/10
Total Originations	127,528/10	241,156/19	413,276/11	1,841,410/32

The preceding chart indicates that 40% (29 of 72) of the loans sampled were to low- or moderate-income borrowers.

A sample of commercial loans was also reviewed. The sample revealed that a majority of the commercial lending activity was to businesses with annual revenues less than \$1 million. The loan balances of the 20 loans reviewed ranged from \$1,500 to \$80,000 with one loan balance of \$300,000. A small business loan is defined as having an original balance of \$1 million or less. The bank's commercial and agricultural lending activity is consistent with the composition of businesses and farms in the bank's assessment area.

The bank participates in the Farmers Home Administration (FmHA) program and the Small Business Administration (SBA) program. The following chart summarizes the bank's participation in these programs:

PROGRAM	OUTSTANDING		SINCE PREVIOUS EXAMINATION	
	NUMBER	DOLLAR AMOUNT	NUMBER	AMOUNT
FmHA	20	\$1,462,648	10	\$1,366,000
SBA	3	\$219,860	1	\$100,000

Based on HMDA-reportable loans, the examination loan sample and government guaranteed lending activity, the bank's efforts in lending to borrowers of different incomes and to businesses of different sizes exceeds the standards for satisfactory performance.

### GEOGRAPHIC DISTRIBUTION OF LOANS

Two out of 17 census tracts in the MSA portion of the bank's assessment area are moderate-income; there are no low-income census tracts. According to the bank's 1996 HMDA data, 17% (26 of 155) of the bank's 1996 loan originations were within these two moderate-income census tracts. A review of the bank's internal analysis of all loans originated since the previous examination and a review of the loans sampled revealed an excellent level of penetration

throughout the bank's entire assessment area that is consistent with the population composition of the assessment area. Consequently, the geographic distribution of the bank's loan portfolio exceeds the standards for satisfactory performance.

**RESPONSE TO SUBSTANTIATED COMPLAINTS**

No CRA-related complaints have been received since the previous examination.