

PUBLIC DISCLOSURE

July 14, 1997

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Citizens State Bank of Petersburg
RSSD #1014040**

P.O. Box 98

Petersburg, Indiana 47567

Federal Reserve Bank of St. Louis

P.O. Box 442

St. Louis, Missouri 63166-0442

NOTE:

This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the Federal Reserve concerning the safety and soundness of this financial institution.

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 operation 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 Community Reinvestment Act (CRA) performance of **Citizens State Bank of Petersburg** prepared by the **Federal Reserve System**, the institution's supervisory agency, as of July 14, 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 CRA RATING: This institution is rated Satisfactory .

Citizens State Bank of Petersburg meets the necessary criteria to receive a satisfactory rating. The loan-to-deposit ratio is reasonable given the institution's size, its financial condition, and the credit needs of the assessment area. A majority of the bank's loans and other lending related activities are located within its assessment area. The distribution of loans reflects outstanding penetration among individuals of different income levels, including low- and moderate-income borrowers.

DESCRIPTION OF INSTITUTION

Citizens State Bank is owned by CSB Bancorp, Incorporated, a one-bank holding company. The bank operates two full-service banking facilities (the main office and one branch) located in Petersburg, Indiana. The bank provides automated teller machine (ATM) services at the branch office location only. In addition, the bank maintains a home-page on the World Wide Web. Currently, the web-site is used for advertising and informational purposes only. Citizens State Bank is a commercial and retail institution whose primary loan products include residential real estate loans, motor vehicle secured loans, and other loans to individuals.

As of March 31, 1997, the bank reported \$75.9 million in total assets. The bank exists in a moderately competitive environment. Currently, the bank considers itself to be competing with at least two other financial institutions in the city of Petersburg, as well as several others in surrounding communities. The structure and size of financial institutions competing in the Petersburg market and surrounding areas vary widely. As of March 31, 1997, competing institutions' assets range from \$46.5 million for an independently owned institution to \$449.1 million for a subsidiary of a large, regional bank holding company with several offices in nearby communities.

DESCRIPTION OF ASSESSMENT AREA

The bank defines its assessment area as Pike County, which encompasses four Block Numbering Areas (BNAs), 9539.00 through 9542.00. The assessment area includes the city of Petersburg, which is the county seat, as well as the surrounding communities of Otwell, Spurgeon, Stendal, Velpen, and Winslow. The city of Petersburg has a population of approximately 2,400, and is the largest city in the assessment area. Local government is contemplating additional annexations which would raise the city's population to 4,200. Based on 1990 census data, the total population of the assessment area is 12,509.

As of the 1990 census, the median family income for the assessment area was \$27,934, compared to the statewide nonmetropolitan median family income of \$30,800. Based on these figures, the four BNAs included in the assessment area are classified as middle-income geographies.¹ Although the assessment area includes no low- or moderate-income geographies, low- and moderate-income families are present throughout the community. The following represents the income characteristics of the population in the assessment area per the 1990 census:

Income Characteristics of Assessment Area Population				
Income Level	Low-	Moderate-	Middle-	Upper-
Population Percentage	20.4%	22.5%	23.5%	33.6%

According to bank management, a community contact, and independent research, the local economy is best described as stressed. Historically, the area's economy has been largely dependent on agriculture and coal-based industries. Lack of diversification in the economy has

¹Low-income is defined as individual income, or in the case of a geography, a median fa

Moderate-income is defined as individual income, or in the case of a geography, a median family income that is at least 50 percent and less than 80 percent of the statewide nonmetropolitan median family income.

Middle-income is defined as individual income, or in the case of a geography, a median family income that is at least 80 percent and less than 120 percent of the statewide nonmetropolitan median family income.

Upper-income is defined as individual income, or in the case of a geography, a median family income that is 120 percent or more of the statewide nonmetropolitan median family income.

impeded economic expansion. Current unemployment rates fluctuate seasonally between 6.5 and 7.5 percent, with the lowest jobless rates found during the summer months. While unemployment rates are higher than statewide averages, they have shown a downward trend in the Pike County area over the past three years. The future for the local economy appears brighter as new industries move into surrounding communities. The arrival of a Toyota plant and a grain processing facility in nearby communities is expected to bring 8,000 new jobs to the region over the next two years. Currently, the area's major employers include Indianapolis Power and Light Company, Pike County School System, Buchta Trucking Company, and the government sectors.

CONCLUSIONS WITH RESPECT TO THE PERFORMANCE CRITERIA:

Lending to Borrowers of Different Incomes

To complete this review, statistical samples of motor vehicle loans and residential real estate first mortgages, two of the bank's primary lending products, were evaluated for penetration among individuals of different income levels.² The samples included loans originated during the six-month period ending July 11, 1997. Consideration of the demographics of the assessment area and the dispersion of loans originated by the institution reveals the bank achieves exceptional loan penetration among individuals of different income levels. The following table reflects the results of the review for the loan products sampled.

Distribution of Loans (Number and Dollar Volume) Inside Assessment Area by Income Level of Borrower					
Loan Type	Borrower Income Classification ³				Totals
	Low-	Moderate-	Middle-	Upper-	
Motor Vehicle	28 33.3%	28 33.3%	13 15.5%	15 17.9%	84 100%
	\$133,226 21.6%	\$178,768 29.0%	\$152,973 24.8%	\$151,758 24.6%	\$616,725 100%
Residential Real Estate First Mortgages	15 25.9%	12 20.7%	15 25.9%	16 27.5%	58 100%
	\$279,275 13.7%	\$371,862 18.3%	\$499,404 24.6%	\$881,023 43.4%	\$2,031,564 100%

²The borrowers' income levels were compared to the 1997 statewide nonmetropolitan median family income.

³Distribution percentages exclude loans where income information was unavailable.

Distribution of Loans (Number and Dollar Volume) Inside Assessment Area by Income Level of Borrower					
Total Loans Sampled	43 30.3%	40 28.2%	28 19.7%	31 21.8%	142 100%
	\$412,501 15.6%	\$550,630 20.8%	\$652,377 24.6%	\$1,032,781 39.0%	\$2,648,289 100%
Assessment Area Population	20.4%	22.5%	23.5%	33.6%	100%

As illustrated in the table above, 66.6 percent of the number of motor vehicle loans originated and 46.6 percent of residential real estate mortgages were made to low- and moderate-income borrowers. In comparison, less than 43 percent of the assessment area population is classified as low- and moderate-income. As such, the analysis reveals the bank's lending to borrowers of different income levels exceeds the criteria for satisfactory performance.

Loan-to-Deposit Ratio

The bank's average net loan-to-deposit ratio for the six quarters from December 31, 1995 through March 31, 1997, is 70.4 percent. For the same period, net loan-to-deposit ratios for competing institutions in the city of Petersburg and surrounding communities ranged from 66.2 percent to 83.4 percent. The bank's loan-to-deposit ratio is considered reasonable given the bank's performance context. The performance context includes the bank's capacity to lend, the capacity of other similarly-situated banks to lend, demographic and economic factors, and lending opportunities available in the bank's assessment area.

While the bank's average loan-to-deposit ratio is adequate, quarterly ratios have exhibited a decreasing trend over the six quarter period. The bank's loan-to-deposit ratio has declined from 73.4 percent at December 31, 1995, to 68.3 percent at March 31, 1997. Loans have actually expanded over that six quarter period, but their growth has not kept pace with that of deposits. Over the period, net loans and leases have grown 4.4 percent, while total deposits have advanced 12.2 percent. Bank management intends to employ a strategy of accelerated loan growth with a target loan-to-deposit ratio in the range of 75.0 percent to 79.0 percent.

Lending in the Assessment Area

A review of the samples of motor vehicle loans and residential real estate first mortgages revealed that a majority of the bank's loans are located within the assessment area.

The following table identifies, by loan type, the number, dollar volume and percentage of loans located inside the assessment area.

Distribution of Loans In/Out of the Assessment Area					
Loan Type	Sample Size	Inside Assessment Area		Outside Assessment Area	
		Number	Dollar	Number	Dollar
Motor Vehicle	131	88 67.2%	\$643,659 61.0%	43 32.8%	\$411,587 39.0%
Residential Real Estate	75	59 78.7%	\$2,065,056 73.1%	16 21.3%	\$758,522 26.9%
Totals	206	147 71.4%	\$2,708,715 69.8%	59 28.6%	\$1,170,109 30.2%

As illustrated in the table above, 147, or 71.4 percent, of the 206 loans sampled were located within the assessment area. By dollar volume, nearly 70 percent of the loans sampled were located inside the assessment area. As a result, the bank's performance in this area meets the standard for satisfactory performance.

Geographic Distribution

Pike County, the bank's assessment area, includes four BNAs. According to 1990 U.S. Census Bureau data, all four BNAs are classified as middle-income. There are no low- or moderate-income geographies in the assessment area. As such, an analysis of the geographic distribution of the bank's loan originations would not provide any meaningful conclusions to this Community Reinvestment Act evaluation.

Review of Complaints

No CRA-related complaints have been received since the prior examination, conducted as of November 6, 1995.

Additional Information:

A fair lending analysis was performed to assess compliance with the Equal Credit Opportunity and the Fair Housing Acts. Results of the analysis suggested that applications were actively solicited from all segments of the bank's assessment area. However, violations of the antidiscrimination provisions of Regulation B were found but did not result in a decrease in the bank's CRA rating. The bank inadvertently collected monitoring information (sex and race of applicants) on a small number of loans and failed to provide specific reasons for loan denial on a small number of loans. There was no evidence the

bank used this information in the credit decision. Management took immediate corrective action to address the violations.

