

**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 the **Bank of Lakeview, Lakeview, Michigan** prepared by the **Federal Reserve Bank of Chicago**, the institution's supervisory agency, as of **April 7, 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 of Lakeview's overall performance rating is supported by a more than adequate loan-to-deposit ratio and a reasonable percentage of loan originations within its assessment area. Strong loan penetration among borrowers of various income levels, and businesses and farms of different sizes within the assessment area further support the outstanding rating. The bank's geographic distribution of loans and loan penetration in the moderate-income area located within its assessment area is reasonable. The bank promotes economic revitalization and growth, consistent with its size, financial capacity, location, and current economic conditions. These efforts are primarily accomplished through the origination of agricultural, small business, consumer, and real estate loans. No CRA-related complaints have been received by the bank since the previous examination.

**DESCRIPTION OF INSTITUTION**

The Bank of Lakeview, with total assets of \$86.2 million as of December 31, 1996, is a subsidiary of Lakeview Financial Corporation, a one-bank holding company. The institution offers a full range of deposit and loan services at its main office in Lakeview, Michigan, and at each of its four branch offices, located in Howard City, Morley, Canadian Lakes, and Remus. The bank operates a drive-up facility in Lakeview that does not take loan applications. The Canadian Lakes branch office opened in the fall of 1995. Senior bank management hopes that this office will be the first choice of Mecosta residents when they look for loan and deposit services. These residents have been patronizing the Remus branch, which is about the same distance from Mecosta as the Canadian Lakes office. The latter branch is somewhat easier to get to than the former and the bank is hoping that convenience will prevail. Since its inception, loans from the Canadian Lakes office have grown tremendously. In March of 1996, loans totaled \$872,696. A year later, that number grew to \$3,939,559, a more than 350% increase.

The institution offers credit cards through MBNA American Bank, N.A. A substantial portion (37.80%) of the bank's loan portfolio is comprised of one-to-four family residential lending. Significant activity was also noted in agricultural loans (15.42%), which the bank has consistently exceeded its peer group in this category in over the past four years.

The bank's primary competitors include: the Lakeview branch of Chemical Bank Montcalm, Stanton; the Howard City branch of Independent Bank - West Michigan, Rockford; the Stanwood branch of Chemical Bank Central, Big Rapids; the Stanwood and Remus branches of Old Kent Bank, Grand Rapids; and the Six Lakes branch of Isabella Bank and Trust, Mt. Pleasant.

**DESCRIPTION OF BANK OF LAKEVIEW'S ASSESSMENT AREA**

The bank's assessment area includes portions of Montcalm and Mecosta Counties and includes the Cities of Stanwood, Mecosta, Barryton, Morley, Lakeview, Howard City, Canadian Lakes, and Pierson. The area encompasses Block Numbering Areas (BNAs) 9601, 9602, 9608, 9609, 9610, and 9803 - 9807. BNA 9602 is designated as a moderate-income area while the other nine are designated as middle-income. According to 1990 Census data, the total population of the assessment area is 32,998, of which non-Hispanic Whites account for 96.4%. Minorities represent 3.6% of the total population, with American Indians (1.3%) and Hispanics (1.2%) making up the largest of that percentage.

The median family income for the assessment area is \$26,647, compared to the nonmetro State of Michigan median family income of \$27,894. The median housing age for the assessment area is 35 years, while the median housing value is \$42,924, compared to community representatives estimates of \$40,000 to \$70,000. According to the U.S. Census, owner-occupied units comprise 57.4% of the assessment area housing stock, and vacant units and rental units account for 32.3% and 10.3%, respectively.

Agriculture is the primary industry in Montcalm and Mecosta Counties, with potatoes and corn as the dominant crops. Major employers in the assessment area include Frigidaire, Hitachi, Parker Brass (a plumbing supply manufacturer), the local hospital, and the local school system.

According to the Michigan Department of Employment Security, the February unemployment rates for Montcalm and Mecosta Counties were 10.1% and 6.6%, respectively; compared to a 5.1% unemployment rate for the State of Michigan.

**CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:**

A review of loans and denied credit applications revealed that the bank is in compliance with

substantive provisions of anti-discrimination laws and regulations, including the Equal Credit Opportunity Act and the Fair Housing Act. No prohibited discriminatory lending practices, or policies intended to

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**LOAN-TO-DEPOSIT RATIO**

Using the bank’s Consolidated Reports of Condition, a six-quarter review of the bank’s loan-to-deposit ratio was performed; the average loan-to-deposit ratio for the review period is 81.64%. According to the December 31, 1996 Uniform Bank Performance Report (UBPR), the bank’s ratio (85.63%) exceeds that of its peer group (69.63%). A comparative analysis of the loan-to-deposit ratios of the bank and its primary competitors is as follows (data as of 12-31-96).

<b>LOAN-TO-DEPOSIT RATIO (LTD) ANALYSIS</b>				
<b>Bank Name</b>	<b>Main office location</b>	<b>Competitive Location(s)</b>	<b>Asset Size (\$000s)</b>	<b>LTD Ratio</b>
Independent Bank - West Michigan	Rockford, MI	Howard City, MI Sand Lake, MI	\$198,141	137.55%
<b>Bank of Lakeview</b>	<b>Lakeview, MI</b>	<b>Stanwood, MI Howard City, MI Morley, MI Remus, MI</b>	<b>\$86,278</b>	<b>85.63%</b>
Chemical Bank Central	Big Rapids, MI	Stanwood, MI	\$80,003	76.88%
Chemical Bank Montcalm	Stanton, MI	Lakeview, MI	\$112,061	65.42%

In addition to the banks listed in the preceding chart, the Bank of Lakeview also receives competition from local credit unions. According to the Michigan Department of Employment Security, the February unemployment rates for the counties in which the bank’s assessment area is located, Montcalm and Mecosta Counties, were 10.1% and 6.6%, respectively, compared to a 5.1% unemployment rate for the State of Michigan. Despite the higher than average rates, the

bank has demonstrated its commitment to meet the credit needs of its assessment area. Considering the bank's financial condition and its strong loan-to-deposit ratio, the institution's performance under this criterion exceeds the standards for a satisfactory performance.

**LENDING IN ASSESSMENT AREA**

In order to determine the bank's lending performance within its assessment area, a sample of various loans made during the six-month period (September 1996 to February 1997), were reviewed. The following chart illustrates the distribution of these loans.

<b>Loan Type</b>	<b>Total number in sample</b>	<b>Number within the assessment area</b>	<b>Percent of Total</b>
Overdraft	25	23	92%
Agriculture	49	39	80%
Home Equity	5	4	80%
Direct Consumer*	225	176	78%
Real Estate	110	79	72%
Commercial+	72	50	69%
<b>Total</b>	<b>486</b>	<b>371</b>	<b>76%</b>
*includes home equity loans, installments, and single payments. +includes lines of credit			

As the preceding chart illustrates, approximately 76% of the loans reviewed were originated within the bank's assessment area. The percentages noted for each product demonstrate the bank's commitment to serve the area's credit needs. The bank's performance in this category meets the standard for a satisfactory performance.

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

In order to assess the bank's lending performance (by income) under this criterion, an analysis of loans made to small businesses, small farms, and individuals was performed. A sample of single-payment and installment loans originated within the bank's assessment area between September 1996 and February 1997 was analyzed. The sample, which consisted of 85 loans, revealed the following distribution, by income level:

<b>Number of Loans</b>		<b>Income Level</b>	<b>Dollar Amount of Loans</b>	
<b>%</b>	<b>#</b>		<b>\$</b>	<b>%</b>
40%	34	<b>Low</b>	\$90,160	28%

25%	21	<b>Moderate</b>	\$47,678	15%
20%	17	Middle	\$64,505	20%
15%	13	Upper	\$118,776	37%
100%	85	Total	\$321,119	100%

As the preceding chart illustrates, 55% of the bank’s installment and single-payment loans originated during the CRA sample period were made to low-income and moderate-income individuals. The chart also shows that the dollar amount of these loans, \$137,838, represents 43% of the total amount of money loaned during this period. These percentages are significant and demonstrate the bank’s willingness to meet the credit needs of low- and moderate-income members of its assessment area.

The bank’s lending to small businesses and small farms was also reviewed using a bank- generated report that listed commercial and agricultural loans originated during the six-month period from September 1996 to February 1997. Of the 34 loans (not including lines of credit) made within the bank’s assessment area, 27 or 77% were for original amounts of less than \$100,000. Of the 22 agricultural loans (not including lines of credit) made within the bank’s assessment area, 20 or 91% were for original amounts of less than \$100,000.

By community representatives estimates, agriculture represents about 60% of the economy of the two counties in which the bank’s assessment area is located. According to the UBPR, the bank has historically exceeded peer in agricultural lending; by at least two times that of peer for the past four years and more than 8% for the most recent quarter (15.42% for the bank, compared to 6.80% for peer). These percentages demonstrate the bank’s efforts to make loans to the small businesses and small farms in its community.

The distribution of loans reflects a more than reasonable penetration of individuals of different income levels, and businesses and farms of different sizes. In addition, the bank’s small business and farm lending is consistent with its size, assessment area, and comments received from community representatives. The bank has exceeded the standards for a satisfactory performance in this category.

**GEOGRAPHIC DISTRIBUTION OF LOANS**

The bank's assessment area consists of 10 BNAs; one moderate-income (9602) and nine middle-income geographies. The bank's lending in these areas was analyzed using overdraft, agriculture, home equity, direct consumer, real estate, and commercial loans originated within these BNAs from September 1996 to February 1997. The total number of originations in each BNA is listed below:

9601 = 19  
9602 = 17  
9608 = 51  
9609 = 32  
9610 = 117  
9803 = 10  
9804 = 26  
9805 = 68  
9806 = 23  
9807 = 8

Of the 371 total loans originated during this period, 17 or 5% were made in the moderate-income BNA. These consisted of three installment/single-payment, six vehicle, three commercial, one overdraft protection, one home equity, one mobile home loan, and two agricultural loans. The moderate-income BNA is the third least populated (2,321 residents according to the 1990 U.S. Census) in the bank's assessment area. This BNA is located in Mecosta County, the second poorest county in the State of Michigan, according to bank personnel. The area is home to many retirees who may not have as many credit needs as younger residents, and a temporary home to many seasonal workers that assist with the farming industry.

Based on the bank's solid loan penetration of the area, and the economic and demographic factors that affect the region, the bank's performance under this criterion meets the standards for satisfactory performance.

**RESPONSE TO SUBSTANTIATED COMPLAINTS**

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