

# **PUBLIC DISCLOSURE**

September 26, 2005

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

Knisely Bank  
RSSD# 224749

200 South Broadway  
Butler, IN 46721

Federal Reserve Bank of Chicago

230 South LaSalle Street  
Chicago, IL 60604-1413

NOTE: This document is an evaluation of this 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. 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 financial supervisory agency concerning the safety and soundness of this financial institution.

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**INSTITUTION'S COMMUNITY REINVESTMENT ACT (CRA) RATING:** This institution's performance is rated **Satisfactory**.

Knisely Bank is satisfactorily meeting the credit needs of its community based upon an analysis of the bank's lending activities and information provided by community contacts. The bank's loan-to-deposit ratio is reasonable given the characteristics of the bank, its local competitors, and the credit needs of its assessment area. A majority of the bank's loans are originated in the assessment area. The loan distribution across borrowers of different income levels, especially low- and moderate-income (LMI) borrowers and small businesses, shows reasonable penetration and meets the standard for satisfactory performance. There were no CRA-related complaints received by the institution or this Reserve Bank since the previous examination.

The institution was rated **Satisfactory** under the CRA at its previous evaluation conducted by the Office of the Comptroller of the Currency on August 20, 2001.

### **SCOPE OF EXAMINATION**

The bank's CRA performance was evaluated in the context of information about the institution and assessment area, such as asset size, financial condition, competition, and economic and demographic characteristics. Performance within the designated assessment area was evaluated using small bank, full-scope examination procedures based on the following performance standards.

- **Loan-to-Deposit Ratio** – An eight-quarter average loan-to-deposit ratio was calculated for the bank and compared to its peer group, as well as a sample of competitors.
- **Lending in the Assessment Area** – All HMDA-reportable loans originated in 2003 and small business loans originated from July 1, 2004, to June 30, 2005, were reviewed to determine the percentage of loans originated in the assessment area.
- **Geographic Distribution of Lending in the Assessment Area** – Because the assessment area contains only middle- and upper-income geographies, a limited analysis was performed to determine the dispersion of loans within the assessment area and to ensure that low- or moderate-income geographies were not arbitrarily excluded from the assessment area.
- **Lending to Borrowers of Different Incomes and to Businesses and Farms of Different Sizes** – All HMDA-reportable loans originated in 2003 and small business loans originated from July 1, 2004, to June 30, 2005, were analyzed to assess the loan distribution among borrowers of different income levels and to businesses with different revenue levels.
- **Response to Substantiated Complaints** – Neither Knisely Bank nor this Reserve Bank received any CRA-related complaints since the previous examination.

2003 HMDA data were the last available for Knisely Bank. Due to OMB changes resulting from the 2000 census, effective January 1, 2004, Knisely no longer had an office in a metropolitan statistical area (MSA) and was, therefore, no longer required to collect and report HMDA data.

In addition to the above criteria, information obtained through discussions with two community representatives was considered in the overall evaluation.

**DESCRIPTION OF INSTITUTION**

Knisely Bank is a subsidiary of Knisely Financial Corporation, a one-bank holding company located in Butler, Indiana. Knisely Bank’s main location is in Butler, which is approximately 32 miles Northeast of Fort Wayne, Indiana. The full service main location has an automated teller machine (ATM) with a drive-up window. The other full service branch is in Auburn, which is approximately thirteen miles away. The Auburn facility also has a drive-up window and an ATM. There is an additional ATM in Auburn that is a cash-dispensing only unit. The Saint Joe facility is a drive-up only.

According to the Uniform Bank Performance Report, the bank had \$53.4 million in total assets as of June 30, 2005. The bank offers standard loan and deposit products. The loan portfolio is comprised of 56.9% residential real estate loans followed by 26% commercial and commercial real estate loans and 11% closed-end consumer loans.

The bank’s peer group includes all commercial banks with assets between \$50 and \$100 million, with 3 or more full service offices, and located in a metropolitan area. Exhibit 1 lists the banks that Knisely considers to be significant competitors for loans and deposits and the cities where the competitor branches are located. There are several financial institutions located in DeKalb County, Indiana.

<b>Exhibit 1</b>	
<b>Competitors in the Assessment Area</b>	
<b>Bank Name, Headquarters Location</b>	<b>Location of branches within Knisely Bank’s Assessment Area</b>
Lake City Bank, Warsaw, IN	Auburn
National City Bank of Indiana, Cleveland, OH	Auburn
Wells Fargo Bank, NA, San Francisco, CA	Auburn
Hicksville Bank, Hicksville, OH	Auburn
Campbell & Fetter Bank, Kendalville, OH	Auburn
Standard Federal Bank, Troy, MI	Auburn

Of the nine institutions with offices located within DeKalb County, Knisely Bank is the 5th largest holder of deposits at 11.43%, according to the June 30, 2004 FDIC Deposit Market Share Report.

There are no apparent factors relating to the bank’s financial condition, size, products offered, prior performance, legal impediments, or local economic conditions that would prevent the bank from meeting the credit needs of the community.

**DESCRIPTION OF ASSESSMENT AREA**

Knisely Bank’s assessment area, shown in Appendix A, consists of the majority of DeKalb County, Indiana, a non-metropolitan area. The assessment area is comprised of seven census tracts: six middle-income and one upper-income geography. The bank’s main office and one branch are located in a middle-income geography. The remaining branch is located in an upper-income geography. The bank has not opened or closed any branches or ATMs since the prior examination.

**Population Changes**

Population in the assessment area is 36,860 as of the 2000 U.S. Census Bureau data. This is an increase of 13.8% as compared to the 1990 U.S. Census. The number of households increased 17.4% over the same time period. This could increase the demand for housing loans.

**Income Characteristics**

Exhibit 2 compares the income levels for the assessment area to DeKalb County and the State of Indiana based on 2000 U.S. Bureau of Census data. In contrast to the 2000 data, the 2003 HUD adjusted median family income for non-metropolitan Indiana was \$52,000 and increased to \$52,500 in 2005.

<b>Exhibit 2</b>						
<b>Distribution of Families by Income Level</b>						
<b>Location</b>	<b>Median Family Income(\$)</b>	<b>Percent of Families</b>				
		<b>Low</b>	<b>Moderate</b>	<b>Middle</b>	<b>Upper</b>	<b>Below Poverty Level</b>
Assessment Area	51,479	11.30	15.81	27.45	45.45	3.81
DeKalb County	51,676	10.91	15.79	27.48	45.81	3.69
State of Indiana	50,261	18.08	18.94	24.23	38.75	6.69

*Low-income is defined as less than 50% of median family income; moderate-income as 50% to less than 80% of median family income; middle-income as 80% to less than 120% of median family income; and upper-income as 120% or more of median family income.*

**Housing Characteristics and Affordability**

<b>Exhibit 3</b>							
<b>Housing Summary</b>							
<b>Location</b>	<b>Total Housing Units</b>	<b>Percent</b>			<b>Median Housing Value (\$)</b>	<b>Median Age of Housing Stock</b>	<b>Affordability Ratio *</b>
		<b>Owner-Occupied Units</b>	<b>Rental Units</b>	<b>Vacant Units</b>			
Assessment Area	14,880	75.50	18.10	6.40	84,718	39	52.2
DeKalb County	16,144	76.44	17.30	6.26	87,300	37	51.4
State of Indiana	2,532,319	65.91	26.35	7.74	92,500	34	44.9

Exhibit 3 shows housing statistics for the assessment area, DeKalb County, and the State of Indiana. Housing in the assessment area is predominantly owner-occupied. The home ownership in the assessment area (75.50%) is higher than in the State of Indiana (65.91%). The affordability ratios for the assessment area, DeKalb County, and the State of Indiana indicate that housing is generally more affordable in the assessment area.

*\*Affordability ratios, developed by dividing the median household income by the median household value for a given area or groups of geographies, are helpful in comparing costs for different areas. An area with a high ratio generally has more affordable housing than an area with a low ratio.*

**Labor and Employment**

The unemployment rate for DeKalb County is 4.24%. Community contacts state that no major employers have entered or left the area recently. Major employers in the assessment area are listed in Exhibit 4.

<b>Exhibit 4</b>			
<b>Major Employers in the Assessment Area</b>			
<b>Company</b>	<b>Location</b>	<b>Employees</b>	<b>Description</b>
Steel Dynamics, Inc. (SDI)	Butler, IN	650	Rolled Steel
Therma-Tru	Butler, IN	430	Manufacturer of entry doors
Pullman Industries	Butler, IN	83	Metal automotive assemblies
Dura Automotive	Butler, IN	250	Automotive jacks
DeKalb Molded Plastics	Butler, IN	78	Custom injected molded products

Community representatives, contacted during the examination to determine the credit needs of the assessment area, indicated that local financial institutions are actively involved in the community and are adequately meeting the credit needs of the community.

**CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

*Performance standards for small banks consist of the following, as applicable: the bank's loan-to-deposit (LTD) ratio, the percentage of loans and other lending-related activities located in the bank's assessment area, the record of lending to borrowers of different income levels and farms and businesses of different sizes, the geographic distribution of loans, and the record of taking action in response to written complaints. To determine CRA performance, the preceding standards are analyzed and evaluated within the assessment area context, which includes, but is not limited to, comparative analyses of the assessment area and the state and the non-metropolitan portions of the state demographic data on median income, nature of housing stock, housing costs, and other relevant data pertaining to the bank's assessment area.*

**Loan-to-Deposit Ratio**

*The bank's average loan-to-deposit ratio, calculated from data contained in the Consolidated Reports of Condition, was evaluated giving consideration to the bank's capacity to lend, competitor and peers' loan-to-deposit ratios, as well as demographic factors, economic conditions and lending opportunities present in the assessment area.*

Based on the bank's LTD ratios relative to its peer group and a sample of competitors, the bank meets the standard for satisfactory performance under this criterion. The LTD ratio is reasonable given the bank's size, financial condition, and assessment area credit needs. Exhibit 5 shows the comparison for the eight quarters ending June 30, 2005.

<b>Exhibit 5</b>									
<b>LTD Ratios</b>									
<b>Bank Name, City, 6/05 Assets (\$ in Millions)</b>	<b>9/03 (%)</b>	<b>12/03 (%)</b>	<b>3/04 (%)</b>	<b>6/04 (%)</b>	<b>9/04 (%)</b>	<b>12/04 (%)</b>	<b>3/05 (%)</b>	<b>6/05 (%)</b>	<b>Avg.</b>
<b>Knisely Bank Butler, IN \$50,305</b>	<b>63.34</b>	<b>64.70</b>	<b>64.13</b>	<b>61.24</b>	<b>65.18</b>	<b>65.68</b>	<b>65.46</b>	<b>69.27</b>	<b>64.87</b>
Peer Group	69.31	76.20	75.30	76.60	76.61	76.57	77.30	77.23	75.64
Lake City Bank branch, Auburn, IN , \$1,537,061	84.53	93.09	87.04	90.39	90.47	89.17	89.28	96.37	90.04
National City branch, Auburn, IN , \$28,502,373	210.39	235.16	201.63	180.79	196.12	149.17	187.69	198.82	194.97
Wells Fargo Bank branch, Auburn, IN , \$ 364,120,000	124.10	106.66	101.86	99.17	96.99	98.32	99.95	98.45	103.18
Hicksville Bank branch, Auburn, IN \$151,075	73.61	72.16	70.35	74.37	75.66	79.17	81.06	80.71	75.88
Campbell & Fetter Bank branch, Auburn, IN \$318,273	63.35	59.97	53.97	55.80	58.31	57.99	56.73	56.98	57.88
Standard Federal Bank branch, Auburn, IN, \$39,198, 743	127.96	108.30	98.53	99.04	101.09	104.26	103.46	113.31	106.99

**Lending in the Assessment Area**

Overall, lending within the bank’s assessment area meets the standard for satisfactory performance under this criterion. The majority of Knisely Bank’s loans are originated within the assessment area. The distribution of a sample of the bank’s primary loan products, originated during the year ended June 30, 2005, is illustrated in Exhibit 6.

<b>Exhibit 6</b>			
<b>Distribution of Loans In Assessment Area (AA)</b>			
<b>Loan Type</b>	<b>Number of Loans</b>		
	<b># in Sample</b>	<b># in AA</b>	<b>% in AA</b>
2003 HMDA	81	59	72.8
2004-5 Housing-related	152	86	56.6
2004-5 Commercial	109	48	44.0
2004-5 Consumer	650	448	68.9
Totals	992	641	64.6

**Lending to Borrowers of Different Income Levels and to Businesses and Farms of Different Sizes**

Given the demographics of the bank’s assessment area, Knisely Bank’s loan distribution across borrowers of different income levels and businesses of different sizes meets the standard for satisfactory performance under this criterion. The distribution of loans reflects reasonable penetration among borrowers of different income and revenue levels, as supported by a review of residential real estate and commercial loan data.

**Residential Real Estate Loans**

Exhibit 7 shows the distribution of 2003 HMDA loans by borrower’s income level. 38.9% of loans were made to LMI borrowers and exceeds the percentage of LMI families in the assessment area by 0.9%. In addition, aggregate lenders in the assessment area made 25.2% of their loans to LMI borrowers.

<b>Exhibit 7</b>			
<b>Loan Distribution of Residential Real Estate Loans by Income Level</b>			
<b>Income Level</b>	<b>Total Number of Loans</b>	<b>Percent of Total Loans*</b>	<b>Percent of families by tract income</b>
Low	11	18.7	16.3
Moderate	12	20.3	21.8
Middle	20	33.9	31.5
Upper	16	27.1	30.4
Totals	59	100.0	100.0

\* HUD’s estimated 2003 median family income was used to determine the income level of the applicants.



**Commercial Loans**

The distribution of commercial loans reflects a reasonable penetration among small businesses. The distribution, based on information from the Consolidated Report of Condition as of June 30, 2005, is shown in Exhibit 8.

<b>Exhibit 8</b>		
<b>Distribution of Small Business Loans</b>		
<b>Original Dollar Amount</b>	<b>Outstanding Number</b>	<b>Outstanding Dollar Amount (000's)</b>
<b>Loans Secured by Non-Farm Nonresidential Properties</b>		
Less than or equal to \$100,000	31	1,350
Greater than \$100,000 through \$250,000	11	1,203
Greater than \$250,000 through \$1 million	9	3,670
Total	51	6,223
<b>Commercial and Industrial Loans</b>		
Less than or equal to \$100,000	50	996
Greater than \$100,000 through \$250,000	2	380
Greater than \$250,000 through \$1 million	1	111
Total	53	1,487
<b>Loans Secured by Non-Farm Nonresidential Properties and Commercial and Industrial Loans</b>		
Grand totals	104	7,710

As Exhibit 8 shows, small business loan originations in the \$100,000 or less category represent 77.9 of the number and 30.4% of the dollar amount of small business loans.

According to community contacts, area financial institutions are meeting the needs of the business owners in the area.

**Geographic Distribution of Loans**

The geographic distribution of loans meets the standard for satisfactory performance under this criterion. There are no LMI census tracts in the assessment area. Loans are reasonably dispersed throughout the entire assessment area, and no census tracts have been arbitrarily excluded from the assessment area.

**Complaints**

Neither Knisely Bank nor this Reserve Bank has received any CRA-related complaints since the previous examination.

**Fair Lending**

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

lending activity was reviewed to determine whether loan policies and lending standards were in compliance with the fair lending laws and regulations and that these are being consistently applied to all applicants. No evidence of prohibited discriminatory or other illegal credit practices was detected.

Appendix A

