

PUBLIC DISCLOSURE

October 10, 2006

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Goshen Community Bank
RSSD# 2929075

511 West Lincoln Avenue
Goshen, Indiana 46527

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 is rated **satisfactory**.

Goshen Community Bank's (GSB) performance under the small bank CRA criteria is satisfactory given its asset size and community it serves. The bank's loan-to-deposit ratio (LTD) for the last eight quarters was more than reasonable. GSB originates a majority of its residential real estate and small business loans inside its assessment area. The level of residential real estate loans to low- and moderate-income borrowers is reasonable. Lending to businesses having annual revenues of less than \$1 million is also reasonable. The dispersion of loans within the assessment area is reasonable despite no low- or moderate-income tracts. Neither GSB nor this Reserve Bank received any CRA-related complaints related to this institution since the previous examination.

The institution was rated **satisfactory** under the CRA at its previous evaluation conducted on July 22, 2002.

DESCRIPTION OF INSTITUTION

GSB is a wholly-owned subsidiary of Capitol Bancorp, Lansing, Michigan. Capitol Bancorp is a publicly-traded, multi-bank holding company located in Lansing, Michigan. It has a network consisting of 48 individually chartered community banks located in 14 states. GCB is located at 511 West Lincoln Avenue, Goshen, Indiana, and does not have any other branches. GCB has one automated teller machine (ATM) at this location. GCB provides its customers with the ability to conduct a variety of banking transactions through its interactive website at www.goshenbank.com.

GCB does not have any lending subsidiaries, but originates a substantial number of residential mortgage loans through its affiliate, Amera Mortgage. According to the June 30, 2006 Uniform Bank Performance Report, the bank had \$74.3 million in total assets.

GCB offers a traditional line of financial products and services for individual and commercial customers. In addition to various personal checking and savings accounts, the bank offers real estate mortgages, refinances, home equity loans and lines of credit, and personal installment loans and lines of credit. Business products and services include term loans, lines of credit, checking and NOW accounts, SBA loans, and leasing services.

GCB is predominantly a real estate lender. According to the June 30, 2006 Call Report, the bank's loan portfolio is approximately \$57.2 million; real estate loans comprise a significant portion of the portfolio. The majority of the real estate loans are nonfarm, nonresidential loans (small business loans) which comprise approximately 42% of all real estate loans. GCB maintains a significantly smaller amount of residential real estate loans in its portfolio because most of these loans are originated through its mortgage affiliate, Amera Mortgage Corporation. Exhibit 1 below depicts the bank's loan portfolio mix as of June 30, 2006.

Exhibit 1		
Loan Portfolio Mix		
Loan Category	Bank Loan Mix*	Peer Group
	%	%
Construction & Development	7.69	11.61
1-4 Family	22.56	25.90
<i>Home Equity</i>	11.52	3.03
Other Real Estate Loans	44.40	32.40
<i>Farmland</i>	0.52	2.16
<i>Multifamily</i>	2.32	1.84
<i>Non-Farm, Non-Residential</i>	41.56	26.61
Total Real Estate	74.65	74.06
Agricultural Loans	0.00	1.45
Commercial & Industrial Loans	23.48	15.14
Loans to Individuals	1.80	5.86
All other loans	0.07	0.13
* Excludes Financial Institution Loans, Credit Card Loans, Municipal Loans, Acceptances of Other Banks, Foreign Office Loans & Leases, Lease Financing Receivables.		

Source: Schedule RC-C

Compared to its peer group, GCB has a higher concentration of small business and commercial and industrial (C&I) loans. This is reflective of the bank's commercial lending strategy. GCB's peer group includes all commercial banks with assets between \$50 and \$100 million, with two or fewer banking offices, and located in a metropolitan area.

GCB competes with many larger, well-established financial institutions in Elkhart County. The bank's local competitors for loans and deposits include:

- JPMorgan Chase Bank, N.A. (Columbus, OH);
- Keybank N.A. (Cleveland, OH);
- Lake City Bank (Warsaw, IN);
- 1st Source Bank (South Bend, IN); and
- First State Bank (Middlebury, IN).

Of the 15 Federal Deposit Insurance Corporation (FDIC) insured institutions in Elkhart County, GCB ranks 8th in deposit market share according to data compiled by the FDIC as of June 30, 2005. The top five institutions listed above command over 82% of the \$2 billion deposit market in Elkhart County.

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

GCB's assessment area, shown in Appendix A, consists of 18 contiguous census tracts in Elkhart County. The assessment area includes census tracts 0001.00 through 0014.00 and 0019.00 through 0022.00. Elkhart County is located in north central Indiana and represents the Elkhart-Goshen Metropolitan Statistical Area (MSA) #21140. Although GCB has not changed its delineated assessment area since the previous CRA performance evaluation, the number and income levels of the census tracts have been redefined by the Office of Management and Budget as a result of the 2000 census. The assessment area under the previous evaluation was comprised of 22 census tracts, including 1 moderate-income tract, 19 middle-income tracts, and 2 upper-income tracts. The current delineated assessment area, based on the 2000 census, consists of 18 census tracts, of which all are middle-income tracts.

Population Changes

The assessment area's population has experienced a moderate increase from 1990 to 2000. The 2000 population of 125,429 represents an 18% increase since the 1990 census and can be attributed to an increase in recreational vehicle manufacturing within the assessment area. Population estimates (195,362) for Elkhart County in 2005 rank it sixth in the State of Indiana. The largest cities, by population, in the assessment area include Goshen at 31,269, Nappanee at 6,634, and Middlebury at 3,150.

Income Characteristics

Exhibit 2 compares the income levels for the assessment area to the Elkhart-Goshen MSA #21140 based on 2000 U.S. Bureau of Census data.

Exhibit #2 Distribution of Families by Income Level ¹						
Location	Median Family Income(\$)	Percent of Families				
		Low	Moderate	Middle	Upper	Below Poverty Level
Assessment Area	\$51,189	14.86%	18.86%	28.06%	38.22%	5.02%
MSA #21140	\$50,399	16.21%	19.37%	27.06%	37.36%	5.81%
State of Indiana	\$50,261	18.08%	18.94%	24.23%	38.75%	6.69%

The median family income levels between the assessment area, MSA, and the State of Indiana is fairly consistent. By 2005, however, the median family income for the MSA increased by 12% to \$56,600, whereas the median family income for the State only increased by 4.5% to \$52,500. This indicates that income levels have risen faster in the MSA compared to the state. This may be attributable to the significant loss of manufacturing jobs statewide since 2001. Conversely, Elkhart County has experienced the largest increase in manufacturing jobs between 2001 and 2005.

Housing Characteristics and Affordability

The housing units in the assessment area are primarily owner-occupied single family homes. According to the 2000 Census, there are 45,907 housing units in the assessment area, of which 74% are single family homes. Over 71% of these units are owner-occupied and 24% are rented. In the City of Goshen, where 25% of the housing units are located, the owner-occupancy rate is only 68%. The average selling price of homes in Elkhart County during 2005 was \$127,049 according to the Indiana Economic Digest. The median age of homes in the assessment area is 29 years and 24% of the housing stock was built prior to 1950. Given the relatively high owner-occupancy rates and age of the housing stock, opportunities for purchase, refinance, and home improvement lending are present.

Affordability ratios, developed by dividing the median family income by the median household value for a given area or groups of geographies, are helpful in comparing costs for different areas.

¹ 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.

An area with a high ratio generally has more affordable housing than an area with a low ratio. The affordability ratios for the assessment area and Elkhart County are .518 and .528, respectively. The affordability ratios for the adjacent St. Joseph and LaGrange Counties are .579 and .470 respectively, indicating that housing is generally less affordable in the assessment area when compared to St. Joseph County and more affordable when compared to LaGrange County.

Labor and Employment

Unemployment rates in Elkhart County historically have been lower than the State; manufacturing accounts for more than half of all jobs in the area. In 2005, of the 122,784 jobs in Elkhart County, 63,085 were manufacturing-related (www.incontext.indiana.edu). Between 2001 and 2005, Elkhart County had the largest increase in the number of manufacturing jobs in the state. The county is home to manufacturers such as Bayer, Fairmont Homes, Home Crest, Monaco Coach, and Supreme Industries. Major employers in the assessment area are listed in Exhibit 3.

Exhibit #3			
Major Employers in the Assessment Area			
Company	Location	Employees	Description
Keystone RV Company	Goshen	2,600	Manufacturer of travel trailers
Elkhart General Hospital	Elkhart	2,243	Medical Services
Forest River Industries, Inc.	Goshen, Elkhart, and Millersburg	1,648	Recreational vehicle manufacturer
Coachmen Industries, Inc.	Middlebury, Elkhart	1,600	Manufacturer of recreational vehicles and modular homes
Jayco	Middlebury	1,400	Manufacturer of recreational vehicles and motor homes

Source: Economic Development Corporation of Elkhart

Unemployment rates in Elkhart County have been below 5% since 2003, and in 2006, the unemployment rate is 4.2%. Unemployment rates in the State of Indiana have been above 5% since 2003, and in 2006, the unemployment rate decreased to 4.9%. Compared to the State, Elkhart County has far more employment opportunities for its residents.

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 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 above 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 (LTD) Ratio

Based on the GCB’s LTD ratios relative to its peer group and a sample of competitors, the bank exceeds the standards for satisfactory performance under this criterion. Exhibit 4 shows the comparison for the eight-quarters ending June 30, 2006.

Exhibit #4									
LTD Ratios									
Bank Name, City, 6/06 Assets \$(Millions)	6/06 (%)	3/06 (%)	12/05 (%)	9/05 (%)	6/05 (%)	3/05 (%)	12/04 (%)	9/04 (%)	Avg.
Peer Group	80.40	79.76	79.00	79.66	79.86	79.82	79.46	79.15	79.64
Goshen Community Bank, Goshen, IN, \$74.3	85.38	89.93	79.24	94.59	115.13	113.32	101.26	108.26	93.39
St. Joseph Capital Bank, Mishawaka, \$488.7	91.61	103.28	97.17	97.88	91.80	87.32	88.71	102.20	94.99
First State Bank of Middlebury, Middlebury, \$337	105.56	100.03	99.57	100.75	101.09	100.42	95.47	97.40	100.04
Elkhart Community Bank, Elkhart, \$81.9	112.60	120.51	121.63	104.75	114.85	113.18	112.50	109.40	113.68

GCB’s LTD ratio is heavily influenced by the concentration of small business loans and commercial and industrial (C&I) loans which are typically larger in size. Although the bank’s average LTD ratio is lower than its competitors, it is more than reasonable given the bank’s size, financial condition, and the credit needs of the assessment area.

Lending in the Assessment Area

The distribution of HMDA and CRA (small business) loans originated during the sample period from January 1, 2004 to December 31, 2005 is illustrated in Exhibit 5 below.

Exhibit #5 Distribution of Loans in the Assessment Area			
Loan Type	# in Sample Period	# in AA	% in AA
Total HMDA	64	53	82.8
Total Small Business	400	336	84.0
Total Loans	464	389	83.8

A majority of the loans were originated within the assessment area. The bank meets the standards for satisfactory performance under this criterion.

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

Given the demographics of GCB’s assessment area, the loan distribution across borrowers of different income levels and businesses of different sizes meets the standards for satisfactory performance under this criterion. The distribution of HMDA and small business loans reflects reasonable penetration among borrowers of different income levels and businesses of different revenue levels. An analysis of HMDA and small business loans is provided below.

HMDA Loans

Exhibit 6 illustrates the distribution of loans originated from January 1, 2004 and December 31, 2005 by income level.

Exhibit #6 Loan Distribution of HMDA Loans by Income Level			
Income Level	Total Number of Loans	Percent of Total Loans*	Percent of Families by Income
Low	2	3.77	14.9
Moderate	9	16.98	18.9
Middle	7	13.21	28.1
Upper	24	45.28	38.1
Unknown	11	20.76	N/A
Totals	53	100.0	100.0

* HUD’s estimated 2002 median family income was used to determine the income level of the applicants.

GCB originated 20.75% of its loans to low- and moderate-income borrowers, which is reasonable based on the bank’s business strategy and the level of competition in the area. GCB’s distribution of loans to low- and moderate-income families is below demographic levels, however, as low-to-moderate-income families account for 33.8% of all families in the assessment area. This is well below aggregate distribution levels of 35%; 10% to low-income and 25% to moderate-income families. Primary factors attributing to this performance are Amera Mortgage Corporation originating and reporting on its LAR a substantial majority of the GCB’s HMDA loans and competition in the assessment area. GCB is one of 352 institutions that originated a mortgage loan in the assessment area.

Small Business Loans

The distribution of commercial loans reflects a reasonable penetration among businesses with revenues of less than \$1 million, which are considered to be small businesses. Loans to small businesses comprised 66.3% of commercial loans from January 1, 2004 to December 31, 2005. This performance is reasonable as 82.9% of all businesses in the area are small businesses. Additionally, GCB’s performance compares favorably to aggregate levels in 2004 and 2005, as the percentage of loans to small businesses was 38.3% in 2004 and 39.5% in 2005.

Commercial loans with origination amounts of \$1 million or less are considered to be small business loans. Small businesses typically seek loans in smaller amounts. A higher volume of loans in smaller loan amounts is indicative of stronger performance in meeting the credit needs of small businesses. As Exhibit 7 shows, loan originations in the \$100,000 or less category in 2004 and 2005 represent 53.2% and 57.2%, respectively, of all small business loans. The distribution of all small business loans by size is depicted below.

Exhibit 7				
Distribution of Small Business Loans				
Original Dollar Amount	2004		2005	
	#	%	#	%
Less than or equal to \$100,000	75	53.2	79	57.2
Greater than \$100,000 through \$250,000	34	24.1	31	22.5
Greater than \$250,000 through \$1 million	32	22.7	28	20.3
Total	141	100.0	138	100.0

Included as small business loans are those originated through the Capital Access Program (CAP). This program, which is sponsored by the Indiana Development Finance Authority, is designed to give banks a flexible tool in providing high risk financing to many businesses that do not qualify for conventional bank financing. CAP utilizes a special loss reserve to assist banks in covering losses from a portfolio of loans made under this program. From January 1, 2004 to December 31, 2005, the bank originated 11 loans totaling \$536,033.

Geographic Distribution of Loans

The geographic distribution of HMDA and small business loans within the assessment area is reasonable. GCB's assessment area is comprised of all middle-income census tracts; no low- or moderate-income geographies were arbitrarily excluded from the assessment area.

Complaints

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

Additional Activity

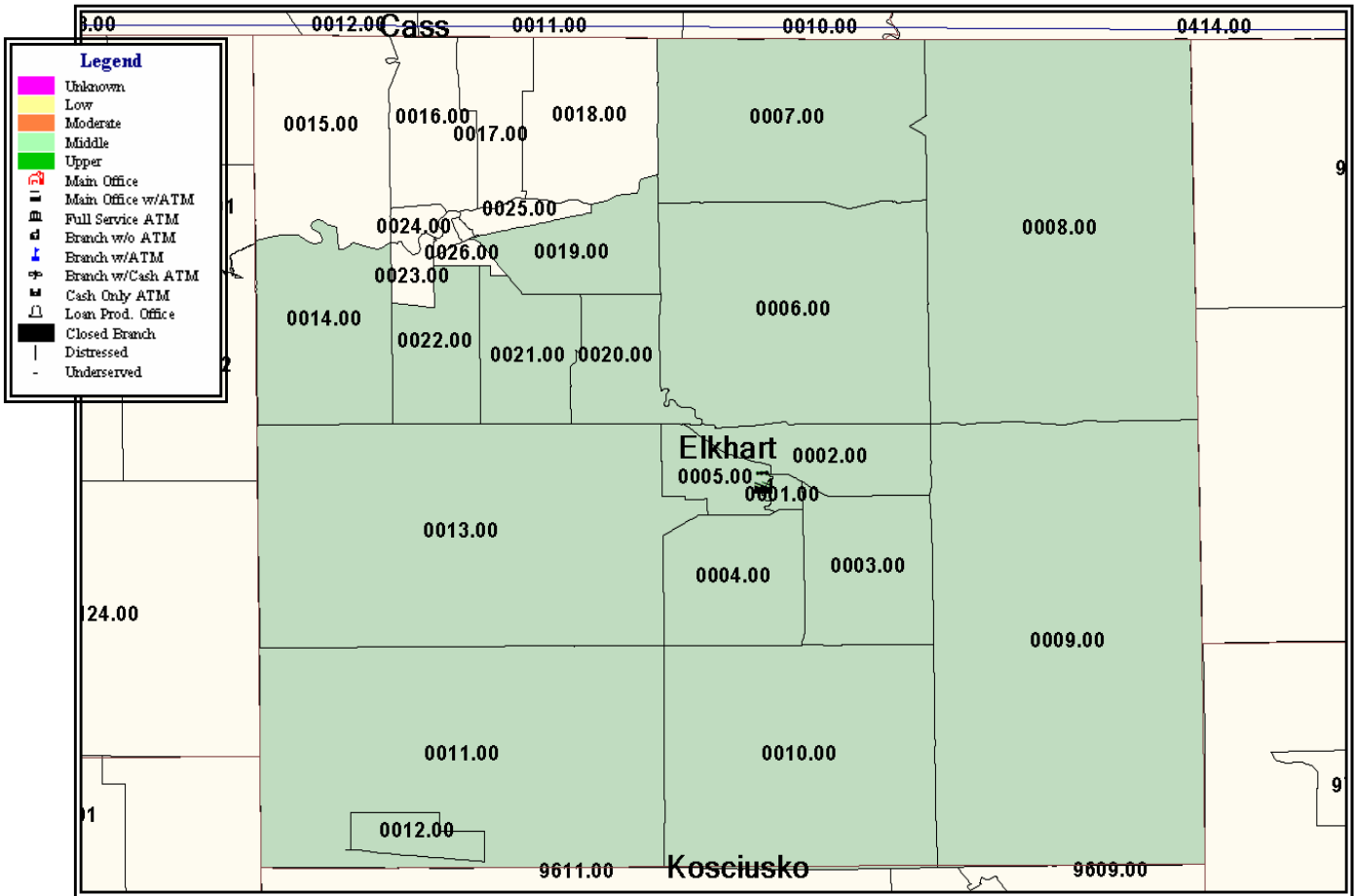
From January 1, 2004 to December 31, 2005, GCB made 25 grants totaling \$22,800, to community service groups, affordable housing initiatives, and economic development groups within Elkhart County. In addition, five GCB employees serve as board members or on loan committees for four community service organizations.

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 credit practices was detected.

APPENDIX A – ASSESSMENT AREA MAP

Goshen Community Bank – Goshen, Indiana



Assessment Area:

State: Indiana

MSA: Elkhart-Goshen #21140

County: Elkhart

Census tracts 0001.00 to 0014.00 and 0019.00 to 0022.00

APPENDIX B – CRA PUBLIC EVALUATION GLOSSARY

Aggregate lending: The number of loans originated and purchased by all lenders subject to reporting requirements as a percentage of the aggregate number of loans originated and purchased by all lenders in the MSA/assessment area.

Block numbering area (“BNA”): Statistical subdivisions of a county for grouping and numbering blocks in non-metropolitan counties where local census statistical area committees have not established census tracts. BNAs do not cross county lines.

Census tract: Small subdivisions of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan statistical areas. They usually have between 2,500 and 8,000 persons, and their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

Community development: Affordable housing for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals, activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration’s Development Company or Small Business Investment Company programs (13 CFR 121.301) or have gross annual revenues of \$1 million or less; or, activities that revitalize or stabilize low- or moderate-income geographies,

Consumer loan: A loan to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories of loans: motor vehicle, credit card, home equity, other secured loan, and other unsecured loan.

Family: Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married couple family or other

family, which is further classified into “male householder” (a family with a male household and no wife present) or “female householder” (a family with a female householder and no husband present).

Full review: Performance under the lending, investment, and service tests is analyzed considering performance context, quantitative factors (e.g., geographic distribution, borrower distribution, total number and dollar amount of investments, branch distribution) and qualitative factors (e.g., innovation, complexity).

Geography: A census tract or a block numbering area delineated by the U.S. Bureau of the Census in the most recent decennial census.

Home Mortgage Disclosure Act (“HMDA”): The statute that requires certain mortgage lenders that do business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applications, the amount of loan requested, and the disposition of the application (e.g., approved, denied, and withdrawn).

Home mortgage loans: Include home purchase and home improvement loans as defined in the HMDA regulation. This definition also includes multifamily (five or more families) dwelling loans, loans for the purchase of manufactured homes and refinancings of home improvement and home purchase loans.

Household: Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

Low-income: Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent in the case of a geography.

Limited review: Performance under the lending, investment, and service tests is analyzed using only quantitative factors (e.g., geographic distribution, borrower distribution, total number and dollar amount of investments, branch distribution).

Market share: The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all lenders in the MSA/assessment area.

Metropolitan area (MA): Any primary metropolitan statistical area ("PMSA"), metropolitan statistical area ("MSA"), or consolidated metropolitan area ("CMSA"), as defined by the Office of Management and Budget, with a population of 250 thousand or more, and any other area designated as such by the appropriate federal financial supervisory agency.

Moderate-income: Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 percent and less than 80 percent in the case of a geography.

Middle-income: Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 percent and less than 120 percent in the case of a geography.

Multifamily: Refers to a residential structure that contains five or more units.

Optional loans: Includes any unreported category of loans for which the institution collects and maintains data for consideration during a CRA examination. Also includes consumer loans and other loan data an institution may provide concerning its lending performance.

Owner-occupied units: Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

Qualified investment: A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

Small loans to business: A loan included in "loans to small businesses" as defined in the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$1 million or less and are either secured by nonfarm nonresidential properties or are classified as commercial and industrial loans.

Small loans to farms: A loan included in “loans to small farms” as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500 thousand or less and are either secured by farmland, including farm residential and other improvements, or are classified as loans to finance agricultural production and other loans to farmers.

Owner-occupied units: Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

Qualified investment: A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

Upper-income: Individual income that is more than 120 percent of the area median income, or a median family income that is more than 120 percent in the case of a geography.