

## **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 **Chemical Bank-Bay Area, Bay City, Michigan**, prepared by the **Federal Reserve Bank of Chicago**, the institution's supervisory agency, as of **August 4, 1997**. The evaluation does not reflect any CRA-related activities that may have been initiated or discontinued by the institution after the completion of the examination. 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**.

Chemical Bank-Bay Area generally promotes economic revitalization and growth, consistent with its size, financial capacity, location, and assessment area's current economic conditions. Although the bank's loan-to-deposit ratio is below its peer group, the bank's volume of lending is considered satisfactory in meeting the credit needs of its community. A substantial majority of the loans the bank generated during 1996 and the first half of 1997 are within the bank's assessment area and are reasonably distributed among low- and moderate-income geographies. The bank extends credit to consumers of all income levels including significant lending to applicants of low- and moderate-incomes. Virtually all business and farm credit was to small businesses and small farms. The bank's branch locations and level of deposit services meets the needs of the community including low and moderate-income areas and individuals. There were no CRA-related complaints received by the bank since the previous examination.

The following table shows the performance of **Chemical Bank-Bay Area, Bay City, Michigan**, with respect to the lending, investment and service tests. Based on the component test ratings for large banks, the assigned composite rating is Satisfactory.

| LARGE INSTITUTION<br>PERFORMANCE<br>CRITERIA | CHEMICAL BANK-BAY AREA<br>PERFORMANCE TESTS |                 |              |
|--|---|-----------------|--------------|
|  | Lending Test*                               | Investment Test | Service Test |
| Outstanding                                  |   |                 | X            |
| High Satisfactory                            | X   |                 |              |
| Low Satisfactory                             |   | X               |              |
| Needs to Improve                             |   |                 |              |
| Substantial Noncompliance                    |   |                 |              |

\* Note: The lending test is weighted more heavily than the investment and service tests when arriving at an overall rating.

**DESCRIPTION OF INSTITUTION:**

Chemical Bank-Bay Area, with total assets of \$205 million as of June 30, 1997, is a subsidiary of Chemical Financial Corporation, Midland, Michigan, a multi-bank holding company. The bank's main office is located in downtown Bay City in northcentral Michigan. In addition to its main office, the bank operates 10 full service branches, a limited service drive-up/ATM facility, and two off-site ATM facilities. Credit products and services are available at the main office and all full service branches.

Competition in the assessment area is provided by Mutual Savings Bank FSB, Bay City, as well as branch offices of Citizens Bank, Flint; First of America Bank-Michigan NA, Grand Rapids; Great Lakes Bancorp, FSB Ann Arbor; and Standard Federal Bank, Troy. Competition is also provided by several area credit unions and mortgage companies.

The bank offers a wide range of mortgage, consumer, commercial and agricultural credit products. Review of the bank's loan portfolio as of June 30, 1997, showed that mortgage loans represented 74.0% of the bank's outstanding loans. By comparison, consumer loans represented 16.0% of the portfolio, commercial loans 9.0%, and agriculture and other loans 1%. There are no factors relative to the bank's financial condition, size or local economic conditions which would prevent the bank from meeting community credit needs.

**DESCRIPTION OF THE ASSESSMENT AREA:**

The bank has defined its assessment area as a single area encompassing portions of 4 contiguous counties in northcentral Michigan, including: Bay County which is part of the Saginaw/Bay City/Midland Metropolitan Statistical Area (MSA); and, Arenac, Ogemaw, and Iosco counties.

According to the 1990 census, the total population of the bank's assessment area was 134,288. Demographically, Whites represent 95.4% of the population compared to 0.9% Blacks, 0.3% Asians, 0.6% American Indians and 2.8% Hispanics.

The income distribution of households within the MSA portion, nonMetroState portion, and overall assessment area is illustrated in the following chart:

| Assessment Area Segment | Population | Percent of Total Population | Median Family Income \$ | Low-Income Families | Moderate-Income Families | Middle-Income Families | Upper-Income Families |
|-------------------------|------------|-----------------------------|-------------------------|---------------------|--------------------------|------------------------|-----------------------|
| MSA                     | 105,319    | 78.4%                       | 33,810                  | 28.1%               | 15.4%                    | 17.9%                  | 38.7%                 |
| nonMetroState           | 28,969     | 21.6%                       | 22,255                  | 31.1%               | 19.2%                    | 19.1%                  | 30.6%                 |
| Overall Assessment Area | 134,288    | 100.0%                      | 30,949                  | 28.7%               | 16.2%                    | 18.2%                  | 36.9%                 |

The percentage of households below the poverty level for the MSA, nonMetroState, and overall portions of the assessment area is 14.0%, 20.5%, and 15.5% respectively.

There are 26 census tracts in the MSA portion of the assessment area, and 11 block numbering areas (BNAs) in the nonMetroState area. The MSA portion includes 7.7% low-income tracts, 26.9% moderate-income, 53.8% middle-income, and 11.5% upper-income. The nonMetroState portion includes 54.5% moderate-income BNAs and 45.5% middle-income.

The following charts illustrates various housing information:

| Occupancy Status        |                         |                        |                         |
|-------------------------|-------------------------|------------------------|-------------------------|
| Assessment Area Segment | Number of Housing Units | Percent Owner Occupied | Percent Renter Occupied |
| MSA                     | 41,882                  | 72.8%                  | 22.5%                   |
| nonMetroState           | 18,703                  | 48.5%                  | 11.6%                   |
| Overall Assessment Area | 60,585                  | 65.3%                  | 19.1%                   |

| Distribution of Owner Occupied Units By Geography Income Levels |            |                  |               |              |
|---|------------|------------------|---------------|--------------|
| Assessment Area Segment   | Low-Income | Moderate- Income | Middle-Income | Upper-Income |
| MSA   | 1.2%       | 14.9%            | 69.3%         | 14.6%        |
| nonMetroState   | *N/A       | 50.7%            | 49.3%         | N/A          |
| Overall Assessment Area   | 0.9%       | 23.1%            | 64.7%         | 11.0%        |

\*Not applicable

| <b>Distribution of Renter Occupied Units By Geography Income Levels</b> |            |                 |               |              |
|---|------------|-----------------|---------------|--------------|
| Assessment Area Segment   | Low-Income | Moderate-Income | Middle-Income | Upper-Income |
| MSA   | 8.8%       | 28.0%           | 51.9%         | 1.3%         |
| nonMetroState   | N/A        | 50.1%           | 49.9%         | N/A          |
| Overall Assessment Area   | 7.2%       | 32.1%           | 51.5%         | 9.2%         |

The June 1997 employment and labor statistics provided by the Michigan Employment Security Commission showed that the unemployment rate for the state of Michigan was 4.3% compared to 4.5% for the Saginaw/BayCity/Midland MSA, 7.7% for Arenac and Ogemaw Counties and 6.8% for Iosco County.

Contacts with community members revealed an ongoing need for small business loans and affordable senior housing. Contacts also indicated that future community needs include the revitalization of an older industrial park in Standish, and facade improvement loans for revitalizing the downtown business district of Au Gres.

### **CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS:**

The bank is in compliance with the substantive provisions of the antidiscrimination laws and regulations, including the Equal Credit Opportunity and Fair Housing Acts. No evidence of prohibited discriminatory credit practices was detected.

### **LENDING TEST**

#### **Loan Volume**

The bank's Consolidated Report of Condition, Uniform Bank Performance Report, Home Mortgage Disclosure Act report, required and optional CRA Loan reports, as well as other internal reports were reviewed to determine the bank's volume of lending and how that compares to its peer group and local competition.

A review of bank records shows that the bank originated over 3,000 loans for \$53 million during the 19 month period from January 1996 through July 1997. The majority of the lending activity was related to real estate, motor vehicle, other consumer and small business loans. A review of Home Mortgage Disclosure Act (HMDA) data showed that there were 140 financial institutions that reported HMDA data in the Bay County portion of the bank's assessment area in 1996. Chemical Bank-Bay Area ranked third in highest number of mortgage related loan originations in Bay County in 1996. The bank also ranked third in originations in each of the two preceding

years.

A review of the bank's June 30, 1996 and June 30, 1997 Consolidated Reports of Condition revealed that the bank's outstanding loan portfolio increased \$1,313,000 or 1.5% from \$88,141,000 to \$89,454,000 during the last year. Net loans increased 1.5% from \$85,477,000 to \$86,788,000. By comparison, deposits increased \$5,447,000 or 3.2% from \$170,217,000 to \$175,664,000 during the same one year period. Although outstanding loans increased, faster growth in deposits caused the bank's loan-to-deposit ratio to decline slightly from 50.2% to 49.4%. Also reducing outstanding loan totals, the bank periodically sells mortgages to an affiliate; eventually to be sold in the secondary market.

The distribution of the bank's loan portfolio as of June 30, 1997, is illustrated in the following chart:

| SUMMARY OF BANK LOAN PORTFOLIO AS OF JUNE 30, 1997 |                   |                |
|--|-------------------|----------------|
| LOAN TYPE  | AMOUNT            | % OF PORTFOLIO |
| Real Estate  | 65,758,000        | 73.5           |
| Commercial   | 8,452,000         | 9.5            |
| Individual   | 13,984,000        | 15.6           |
| Agricultural                                       | 537,000           | 0.6            |
| Other Offices                                      | 723,000           | 0.8            |
| <b>TOTAL LOANS</b>                                 | <b>89,454,000</b> | <b>100.0</b>   |

Further review of the loan portfolio revealed that over 90.0% of commercial loans were to small businesses while all of the agricultural related loans were to small farms.

A review of the Uniform Bank Performance Report (UBPR) dated March 31, 1997, revealed that the bank's net loan-to-deposit ratio was 51.3% compared to the bank's peer group ratio of 70.6%.

Analysis of the bank's quarterly UBPR data from June 30, 1996, through March 31, 1997, revealed an average loan-to-deposit ratio of 51.3% compared to the peer group's average of 70.3%. The loan-to-deposit ratios of the bank and its peer group from the last four quarters is illustrated in the following table:

| BANK & PEER LOAN-TO-DEPOSIT RATIO HISTORY |                             |                                |
|---|-----------------------------|--------------------------------|
| RATIO DATE                                | BANK RATIOS<br>LOAN/DEPOSIT | PEER RATIOS<br>LOAN-TO-DEPOSIT |
| 3/31/97                                   | 51.3                        | 70.6                           |
| 12/31/96                                  | 52.5                        | 70.7                           |
| 9/30/96                                   | 51.0                        | 70.5                           |
| 6/30/96                                   | 50.2                        | 69.6                           |
| <b>QUARTER AVERAGE</b>                    | <b>51.3</b>                 | <b>70.3</b>                    |



The bank's loan-to-deposit ratio was also compared to local competitors as illustrated in the following table:

| <b>BANK AND COMPETITORS- LOAN-TO-DEPOSIT RATIOS</b> |              |               |                       |
|---|--------------|---------------|-----------------------|
| BANK NAME   | Date of Data | Assets (000s) | Loan-to-Deposit Ratio |
| Chemical Bank Bay-Area                              | 3/31/97      | 198,222       | 51.3                  |
| Standard Federal Bank                               | 12/31/96     | 15,636,234    | 105.4                 |
| First of America Bank-Mi                            | 3/31/97      | 12,573,411    | 80.1                  |
| Citizens Bank                                       | 3/31/97      | 3,258,707     | 88.7                  |
| Great Lakes Bancorp                                 | 12/31/96     | 2,171,092     | 120.5                 |
| Mutual Savings Bank                                 | 12/31/96     | 664,718       | 62.1                  |

Although lower than both national peer and local competition, the bank's level of lending is considered adequate. This reduced level of loan volume reflects management's conservative approach to asset mix and recognizes that most competing financial institutions in the area are significantly larger.

**Loans in Assessment Area**

The bank's internal report of loan originations from January 1996 through July 1997 was reviewed to determine the level of lending within the assessment area. Specific loan products reviewed included: home mortgage loans for the purchase, improvement, or refinance of residential real estate; loans to small businesses and farms; and consumer loans grouped as motor vehicle, home equity, other secured, and unsecured. The results of the analysis are illustrated in the following table:

| <b>LENDING IN ASSESSMENT AREA</b> |              |               |                 |               |             |             |
|-----------------------------------|--------------|---------------|-----------------|---------------|-------------|-------------|
| LOAN TYPE                         | UNIVERSE     |               | ASSESSMENT AREA |               | PERCENT     |             |
|                                   | #            | \$(000s)      | #               | \$(000s)      | #           | \$          |
| Real - Purchase                   | 189          | 10,971        | 158             | 9,318         | 83.6        | 84.9        |
| Home Imprvmnt                     | 388          | 3,572         | 345             | 3,204         | 88.9        | 89.7        |
| Real - Refi                       | 318          | 14,798        | 256             | 11,823        | 80.5        | 79.9        |
| Small Business                    | 195          | 5,622         | 154             | 4,647         | 79.0        | 82.7        |
| Small Farm                        | 44           | 786           | 12              | 309           | 27.3        | 39.3        |
| Motor Vehicle                     | 1,366        | 12,919        | 985             | 9,141         | 72.1        | 70.8        |
| Home Equity                       | 132          | 1,886         | 110             | 1,562         | 83.3        | 82.8        |
| Other Secured                     | 356          | 1,921         | 280             | 1,477         | 78.7        | 76.9        |
| Unsecured                         | 234          | 580           | 196             | 475           | 83.8        | 81.9        |
| <b>TOTAL</b>                      | <b>3,222</b> | <b>53,055</b> | <b>2,496</b>    | <b>41,956</b> | <b>77.5</b> | <b>79.1</b> |



The above table shows that a substantial majority of the bank's lending was within the assessment area. The relatively low level of small farm loans in the assessment area is the result of a change in the bank's assessment area. The bank adopted its current assessment area on May 1, 1996, with the opening of an affiliate bank, Chemical Bank Thumb Area in Caro, Michigan. The bank's previous assessment area included the Thumb area of Michigan which is now served by Chemical Bank Thumb Area. As a result of this change, any loans to previously established small farm loan customers located in the Thumb area of Michigan are now outside of the bank's assessment area.

**Geographic Distribution of Loans**

A review of bank's internal loan report shows that the bank originated loans in all geographies of its assessment area. The table below shows the geographic distribution of loans in the assessment area, and in the MSA and nonMetroState portions of the assessment area, by geography income levels. The table also compares loan distribution to the geographic distribution of area households.

| <b>GEOGRAPHIC DISTRIBUTION THROUGHOUT ASSESSMENT AREA</b> |              |                     |                          |                        |                       |
|---|--------------|---------------------|--------------------------|------------------------|-----------------------|
| <b>LOAN TYPE</b>  | <b>TOTAL</b> | <b>% Low-Income</b> | <b>% Moderate-Income</b> | <b>% Middle-Income</b> | <b>% Upper-Income</b> |
| Real - Purchase   | 158          | 1.3                 | 26.6                     | 59.5                   | 12.7                  |
| Home Improvement  | 345          | 0.9                 | 20.9                     | 69.6                   | 8.7                   |
| Real - Refinance  | 256          | 1.6                 | 26.2                     | 65.2                   | 7.0                   |
| Small Business  | 154          | 8.5                 | 22.7                     | 64.9                   | 3.9                   |
| Small Farm  | 12           | NA                  | 33.3                     | 66.7                   | NA                    |
| Motor Vehicle   | 985          | 1.5                 | 21.4                     | 71.4                   | 5.7                   |
| Home Equity   | 110          | 0.9                 | 18.2                     | 70.9                   | 10.0                  |
| Other Secured   | 280          | 1.8                 | 25.4                     | 65.4                   | 7.5                   |
| Unsecured   | 196          | 2.0                 | 27.6                     | 65.3                   | 5.1                   |
| <b>TOTAL</b>  | <b>2,496</b> | <b>1.9</b>          | <b>23.1</b>              | <b>68.1</b>            | <b>6.9</b>            |
| Percentage of Households                                  | 51,129       | 2.2                 | 25.4                     | 61.6                   | 10.8                  |

| <b>GEOGRAPHIC DISTRIBUTION THROUGHOUT MSA PORTION</b> |              |              |                   |                 |                |
|---|--------------|--------------|-------------------|-----------------|----------------|
| LOAN TYPE   | TOTAL        | % Low-Income | % Moderate-Income | % Middle-Income | % Upper-Income |
| Real - Purchase                                       | 108          | 1.9          | 17.6              | 62.0            | 18.5           |
| Home Improvement                                      | 263          | 1.1          | 14.8              | 72.6            | 11.4           |
| Real - Refinance                                      | 166          | 2.4          | 18.7              | 68.1            | 10.8           |
| Small Business  | 117          | 11.1         | 17.9              | 65.9            | 5.1            |
| Small Farm  | 6            | NA           | NA                | 100.0           | NA             |
| Motor Vehicle   | 704          | 2.1          | 11.6              | 78.3            | 8.0            |
| Home Equity   | 87           | 1.2          | 12.6              | 73.6            | 12.6           |
| Other Secured   | 206          | 2.4          | 19.4              | 68.0            | 10.2           |
| Unsecured   | 114          | 3.5          | 21.1              | 66.7            | 8.8            |
| <b>TOTAL</b>  | <b>1,771</b> | <b>2.7</b>   | <b>15.1</b>       | <b>72.6</b>     | <b>9.7</b>     |
| Percentage of Households                              | 39,802       | 2.9          | 18.2              | 65.1            | 13.9           |

| <b>GEOGRAPHIC DISTRIBUTION THROUGHOUT NONMETROSTATE PORTION</b> |            |              |                   |                 |                |
|---|------------|--------------|-------------------|-----------------|----------------|
| LOAN TYPE   | TOTAL      | % Low-Income | % Moderate-Income | % Middle-Income | % Upper-Income |
| Real - Purchase   | 50         | NA           | 46.0              | 54.0            | NA             |
| Home Improvement  | 82         | NA           | 40.2              | 59.8            | NA             |
| Real - Refinance  | 90         | NA           | 40.0              | 60.0            | NA             |
| Small Business  | 37         | NA           | 37.8              | 62.2            | NA             |
| Small Farm  | 6          | NA           | 66.7              | 33.3            | NA             |
| Motor Vehicle   | 281        | NA           | 45.9              | 54.1            | NA             |
| Home Equity   | 23         | NA           | 39.1              | 60.9            | NA             |
| Other Secured   | 74         | NA           | 41.9              | 58.1            | NA             |
| Unsecured   | 82         | NA           | 36.6              | 63.4            | NA             |
| <b>TOTAL</b>  | <b>725</b> | <b>NA</b>    | <b>42.6</b>       | <b>57.4</b>     | <b>NA</b>      |
| Percentage of Households  | 11,327     | NA           | 50.8              | 49.2            | NA             |

The above data shows that the bank's loan distribution among geographies of different income levels compares favorably to the distribution of households within those geographies. This level of lending reflects excellent penetration throughout the assessment area.

**Lending Analysis Based Upon Size of Business and Borrower Income**

The tables below show the distribution of consumer loans to borrowers of different income levels within the entire assessment area and within the MSA and nonMetroState portions of the assessment area. This distribution is also compared to the income level distribution of households for each portion of assessment area.

| <b>ASSESSMENT AREA LOAN DISTRIBUTION BY CONSUMER INCOME</b> |              |              |                   |                 |                |
|---|--------------|--------------|-------------------|-----------------|----------------|
| LOAN TYPE   | TOTAL        | % Low-Income | % Moderate-Income | % Middle-Income | % Upper-Income |
| Real - Purchase   | 158          | 7.6          | 13.9              | 22.2            | 56.3           |
| Home Improvement  | 345          | 12.5         | 18.0              | 25.8            | 43.8           |
| Real - Refinance  | 256          | 5.1          | 10.5              | 26.6            | 57.8           |
| Motor Vehicle   | 985          | 24.1         | 22.2              | 24.4            | 29.3           |
| Home Equity   | 110          | 10.0         | 11.8              | 29.1            | 49.1           |
| Other Secured   | 280          | 34.6         | 27.9              | 14.3            | 23.2           |
| Unsecured   | 196          | 50.0         | 21.4              | 11.7            | 16.8           |
| <b>TOTAL</b>  | <b>2,330</b> | <b>21.9</b>  | <b>19.9</b>       | <b>22.6</b>     | <b>35.6</b>    |
| Percentage of Households                                    | 51,129       | 28.7         | 16.2              | 18.2            | 36.9           |

| <b>LOAN DISTRIBUTION BY CONSUMER INCOME - MSA PORTION</b> |              |              |                   |                 |                |
|---|--------------|--------------|-------------------|-----------------|----------------|
| LOAN TYPE   | TOTAL        | % Low-Income | % Moderate-Income | % Middle-Income | % Upper-Income |
| Real - Purchase   | 108          | 8.3          | 15.7              | 19.4            | 56.5           |
| Home Improvement  | 263          | 14.1         | 18.3              | 27.0            | 40.7           |
| Real - Refinance  | 166          | 6.0          | 12.0              | 28.3            | 53.6           |
| Motor Vehicle   | 704          | 26.6         | 22.3              | 24.7            | 26.4           |
| Home Equity   | 87           | 10.3         | 9.2               | 32.2            | 48.3           |
| Other Secured   | 206          | 37.9         | 24.8              | 14.6            | 22.8           |
| Unsecured   | 114          | 53.5         | 21.1              | 9.6             | 15.8           |
| <b>TOTAL</b>  | <b>1,648</b> | <b>23.7</b>  | <b>19.7</b>       | <b>23.2</b>     | <b>33.4</b>    |
| Percentage of Households                                  | 39,802       | 28.1         | 15.4              | 17.9            | 38.7           |

| <b>LOAN DISTRIBUTION BY CONSUMER INCOME - NONMETROSTATE PORTION</b> |            |              |                   |                 |                |
|---|------------|--------------|-------------------|-----------------|----------------|
| LOAN TYPE   | TOTAL      | % Low-Income | % Moderate-Income | % Middle-Income | % Upper-Income |
| Real - Purchase   | 50         | 6.0          | 8.3               | 28.0            | 56.0           |
| Home Improvement  | 82         | 7.3          | 17.1              | 22.0            | 53.7           |
| Real - Refinance  | 90         | 3.3          | 7.8               | 23.3            | 65.6           |
| Motor Vehicle   | 281        | 17.8         | 22.1              | 23.5            | 36.7           |
| Home Equity   | 23         | 8.7          | 21.7              | 17.4            | 52.2           |
| Other Secured   | 74         | 25.7         | 36.5              | 13.5            | 24.3           |
| Unsecured   | 82         | 45.1         | 22.0              | 14.6            | 18.3           |
| <b>TOTAL</b>  | <b>682</b> | <b>17.6</b>  | <b>20.2</b>       | <b>21.3</b>     | <b>40.9</b>    |
| Percentage of Households  | 11,327     | 31.1         | 19.2              | 19.1            | 30.6           |

The charts show that the bank's overall level of lending to individuals of different income levels compares favorably to the demographic distribution of household incomes.

Loans to small businesses represents approximately 96.0% of the bank's commercial loan portfolio, and loans to small farms represents all of the bank's agricultural loan portfolio as of June 30, 1997.

The overall distribution of consumer, small business and small farm loans reflects a reasonable level of lending to borrowers of different income levels.

### **Responsiveness to Credit Needs**

The bank's general loan volume, its ranking among HMDA originators, and the level of small business lending indicates that the bank has been reasonably responsive to community credit needs.

### **Community Development Loans**

The bank's commercial and real estate loan portfolios were reviewed to determine the level of community development lending activity. Discussions with bank management and community contacts indicated that there were limited opportunities to make qualified community development loans. Most local development credit needs are such that they can be met within the scope of the bank's general commercial and real estate lending activities. In this regard, the bank made a \$90,000 commercial real estate loan to Bay Arenac Community Living Facilities Inc. Community Living is a non-profit organization which provides residential facilities for the physically and mentally challenged. The loan proceeds were used by Community Living to purchase and renovate a local property to provide housing for women with special physical and mental needs. All Community Living residents are considered low-income as their sources of income are limited to various federal insurance funds.

While opportunities to make qualified community development loans are limited, the bank's loan to Community Living demonstrates its willingness to make such loans. Community development efforts are demonstrated further through the bank's loans to local government. Review of the bank's June 30, 1997 Consolidated Report of Condition indicated that the bank's loans to local governments totaled \$551,000. Further review indicated that the bank provided \$170,000 in loans to local governments to purchase school buses and a fire truck during the examination review period.

Given the limited lending opportunities for qualified community development projects, the bank's level of community development lending is adequate.

### **Innovative Lending Practices**

The bank offers a wide range of standard loan products which meet the general credit needs of the community.

**Conclusion**

The bank's lending performance is considered high satisfactory. The bank's overall level of lending reflects adequate responsiveness to assessment area credit needs. The vast majority of loans originated by the bank are within the assessment area and were reasonably distributed among geographies of different income levels. The bank's distribution of consumer, small business and small farm loans reflects a reasonable level of lending to borrowers of different incomes, that is consistent with the demographics of the assessment area. A substantial majority of commercial and agricultural loans were made to small businesses and small farms respectively.

**INVESTMENT TEST**

**Community Development Investments**

The bank's investment portfolio was reviewed to determine the level of community development investments. Discussions with bank management and community contacts revealed no opportunities for qualified community development investments since the previous examination. The bank, however, continued to provide support for local government through the purchase of municipal bonds. Review of the bank's investment portfolio as of June 30, 1997, showed that municipal bonds totaled \$5.2 million, or 6.2% of total investments, including \$2.2 million since the previous examination.

The bank's donations were also reviewed and identified contributions totaling \$4,000 to the Bay Economic Development Corporation. Bay Economic Development Corporation was organized to promote the economic growth and stability of the Bay City area focusing on the development of commercial/industrial areas within the community. These areas are located in low- and moderate-income census tracts. The review also identified donations to several organizations that provide services to low- and moderate-income residents. Examples include donations to the United Way of Bay County, Ogemaw County United Way, Bay Area Community Foundation, and Arenac County Council on Aging.

There was no evidence of opportunities for the bank to participate in a qualified community development investment. Additional donations to a local Economic Development Corporation and community service organizations whose efforts are directed at serving the needs of low- and moderate-income residents further supports the bank's willingness to participate in community development investments. Given limited opportunity for qualified community development investments, the bank's level of such investments appears to be adequate.

**Conclusion**

There were no identified community development needs that resulted in opportunities for the bank to participate in qualified community development investments. Most local development credit needs can be met within the scope of the bank’s general commercial and real estate lending activities. The bank continued however to provide support for local government through purchase of municipal bonds. Given limited opportunity to participate in qualified investments, the bank’s level of community development investments reflects an adequate response to investment needs.

**SERVICE TEST**

**Branch Distribution and Alternative Services**

The geographic distribution of the bank’s branch network and alternative methods of providing banking services was reviewed. The review showed that in addition to its branches, the bank provides deposit services through 24 hour ATMs, drive-in tellers, and a separate drive-up facility.

The bank also offers bank-by-mail and direct deposit services. The table below shows the geographic distribution of the bank’s deposit facilities among geographies of different income levels for the entire assessment area and for the MSA and nonMetroState portions of the assessment area. The tables compare branch distribution to the geographic distribution of area households.

| <b>DISTRIBUTION OF BANK FACILITIES IN ASSESSMENT AREA</b> |              |                     |                          |                        |                       |
|---|--------------|---------------------|--------------------------|------------------------|-----------------------|
| <b>TYPE OF FACILITY</b>                                   | <b>TOTAL</b> | <b>% Low-Income</b> | <b>% Moderate-Income</b> | <b>% Middle-Income</b> | <b>% Upper-Income</b> |
| Branch w/ATM  | 7            | 0 / NA              | 2 / 28.6                 | 5 / 71.4               | 0 / NA                |
| Branch no ATM   | 4            | 1 / 25.0            | 3 / 75.0                 | 0 / NA                 | 0 / NA                |
| Drive-Up Facility   | 1            | 1 / 100.0           | 0 / NA                   | 0 / NA                 | 0 / NA                |
| Off-site ATM Facility                                     | 2            | 0 / NA              | 1 / 50.0                 | 1 / NA                 | 0 / NA                |
| <b>TOTAL FACILITIES</b>                                   | <b>14</b>    | <b>2 / 14.2</b>     | <b>6 / 42.9</b>          | <b>6 / 42.9</b>        | <b>0 / NA</b>         |
| Household Distribution                                    | 51,129       | 2.2                 | 25.4                     | 61.6                   | 10.8                  |

| <b>DISTRIBUTION OF BANK FACILITIES IN MSA</b> |           |                 |                   |                 |                |
|---|-----------|-----------------|-------------------|-----------------|----------------|
| TYPE OF FACILITY                              | TOTAL     | % Low-Income    | % Moderate-Income | % Middle-Income | % Upper-Income |
| Branch w/ATM                                  | 5         | 0 / NA          | 1 / 40.0          | 4 / 60.0        | 0 / NA         |
| Branch no ATM                                 | 3         | 1 / 33.3        | 2 / 66.7          | 0 / NA          | 0 / NA         |
| Drive-Up Facility                             | 1         | 1 / 100.0       | 0 / NA            | 0 / NA          | 0 / NA         |
| Off-site ATM Facility                         | 2         | 0 / NA          | 1 / 50.0          | 1 / 50.0        | 0 / NA         |
| <b>TOTAL FACILITIES</b>                       | <b>11</b> | <b>2 / 18.2</b> | <b>4 / 36.4</b>   | <b>5 / 45.5</b> | <b>0 / NA</b>  |
| Household Distribution                        | 39,802    | 2.9             | 18.2              | 65.1            | 14.0           |

| <b>DISTRIBUTION OF BANK FACILITIES IN NONMETROSTATE</b> |          |              |                   |                 |                |
|---|----------|--------------|-------------------|-----------------|----------------|
| TYPE OF FACILITY  | TOTAL    | % Low-Income | % Moderate-Income | % Middle-Income | % Upper-Income |
| Branch w/ATM  | 2        | NA           | 1 / 50.0          | 1 / 50.0        | NA             |
| Branch no ATM   | 1        | NA           | 1 / 100.0         | 0 / NA          | NA             |
| Drive-Up Facility                                       | 0        | NA           | NA                | 0 / NA          | NA             |
| Off-site ATM Facility                                   | 0        | NA           | NA                | 0 / NA          | NA             |
| <b>TOTAL FACILITIES</b>                                 | <b>3</b> | <b>NA</b>    | <b>2 / 66.7</b>   | <b>1 / 33.3</b> | <b>NA</b>      |
| Household Distribution                                  | 11,327   | NA           | 50.8              | 49.2            | NA             |

The data shows that the distribution of the bank's deposit facilities among geographies of different income levels compares favorably to the geographic distribution of households.

### **Opening and Closing Branches**

The bank's record of opening and closing branch facilities was reviewed. The bank has not closed any of its facilities since the previous examination. The bank has installed a 24-hour ATM at its drive-up banking facility in Bay City. This facility is located in a low-income census tract near the bank's main office. Adding the ATM to this facility increases the availability of services in low- or moderate-income areas of the bank's community.

### **Range of Services**

The range of services available at branch locations, the availability of deposit products or services designed to meet the basic banking needs of lower income residents, and the convenience of banking hours for all areas of the community were reviewed.

This review showed that consumers could obtain information about the bank's consumer credit products and apply for credit at all bank branches during lobby hours. Lobby and drive-in hours at all bank facilities offer convenient banking opportunities for the public, including extended

hours Thursday - Friday.

In addition to the convenience of its banking locations and hours, the bank also offers a low-cost checking account designed to meet the needs of the lower income population. The account has no minimum balance requirement and requires \$0.30 per check fee. The account also offers unlimited ATM service with the first 5 withdrawals in a month free. The bank has 2,484 Thrifti Checking Accounts as of June 30, 1997. Approximately 40.0% of Thrifti checking account owners reside in low- or moderate-income areas of the community.

The level of deposit and credit services available at branch locations, extended banking hours, and low cost checking products that provide basic banking services for low- or moderate-income residents, demonstrates that the bank's services are tailored to meet the convenience and needs of the assessment area.

### **Community Development Services**

The bank's products and services, and officer involvement with community service organizations was reviewed to determine the level of community development services.

In this regard the bank's Electronic Rent Payment service for the Bay City Housing Commission (BCHC) was reviewed. BCHC provides rental housing for senior and disabled Bay City residents. Rents are based on individual incomes and the majority of BCHC clients have incomes considered low or moderate. The bank provides a free automated rent payment program to BCHC residents. Under this program the BCHC renter authorizes payment of rent electronically.

The bank originates the automated payments making it possible for BCHC tenants to have their rent paid through a direct debit of their accounts at any area bank or credit union. There are currently 141 BCHC tenants using the automated rent payment program.

The bank also provides local housing and community development organizations with financial expertise. Bank officers serve with the following organizations who serve the housing needs of low- or moderate-income residents : Housing Task Force of Bay County, Bay Area Housing Development Corp., and Arenac County Housing Commission. Bank officers also serve with the following economic development organizations; Bay Economic Development Corporation, Arenac County Economic Development Corporation, and Pinconning Downtown Development Association.

### **Conclusion**

The distribution of the bank's branches and ATMs provides an adequate system of delivering services to all portions of the assessment area. The bank increased the availability of services in low-income areas by installing a 24-hour ATM at its drive-up banking facility in Bay City. Branch hours and services are tailored to meet the convenience and needs of the assessment area. Both deposit and consumer credit services are available at all branch locations. The bank also offers products designed specifically to meet the basic banking needs of lower-income residents.