

PUBLIC DISCLOSURE

February 3, 2003

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Farmers State Bank of Breckenridge
RSSD# 691145

316 East Saginaw St.
P.O. Box 186
Breckenridge, MI 48615

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**.

Farmers State Bank of Breckenridge has provided credit consistent with its size, financial capacity, location, economic conditions, and the competitive factors within its assessment areas. The bank's loan-to-deposit ratio meets the standards for satisfactory performance. Of those loans made in the assessment area, the bank shows a reasonable level of lending to borrowers of different incomes and to businesses and farms of different revenue levels.

The geographic distribution of the bank's loans also demonstrates a reasonable level of lending throughout the assessment area, especially in moderate-income census tracts. The examination revealed no patterns or practices intended to discriminate or discourage loan applications from any member of a protected class. Additionally, no CRA-related complaints have been received by the bank or this Reserve Bank since the previous examination.

The institution was rated **satisfactory** under the CRA at its previous evaluation conducted on February 1, 1999 by the Federal Reserve Bank of Chicago.

DESCRIPTION OF INSTITUTION

Farmers State Bank of Breckenridge (FSB) is a commercial banking institution based in Breckenridge, Michigan. According to the Uniform Bank Performance Report, FSB had assets of \$125.8 and \$116.9 as of September 30, 2002 and December 31, 2001 respectively. FSB operates three offices, one in Hemlock, Michigan, one in Ithaca, Michigan, and the main office in Breckenridge, Michigan. Each office has a drive-up window and an automated teller machine (ATM). All three offices accept loan applications and take consumer deposits.

The bank is a whole-owned subsidiary of IBT Bancorp, Inc.(IBT), Mount Pleasant, Michigan. IBT also owns Isabella Bank & Trust, Mount Pleasant, Michigan. FSB owns 100% of FSB Mortgage Company. FSB Mortgage Company underwrites all consumer home purchase and refinance mortgages.

The bank offers a full range of lending, but is primarily a real estate lender and agricultural lender. Real estate lending and agricultural lending comprise 63% and 22%, respectively, of the bank's loans. The bank offers the following types of credit: consumer installment, single payment, fixed rate home purchase mortgages, fixed rate refinance mortgages, home equity, overdraft protection, commercial term, commercial lines of credit, commercial real estate, agricultural term, commercial lines of credit, and agricultural real estate.

The bank offers a full range of checking and NOW accounts; U.S. savings bonds, savings accounts; certificates of deposit; and Roth, Education, SEP and traditional IRA retirement accounts. The bank also offers, direct deposit/automatic payments (ACH); wire transfers; ATM & debit cards; NYCE, Tyme, Cirrus, Pulse, Star, and Plus ATM networks; fax services; government check cashing services free of charge; Bank by Mail; and Internet

banking.

Additionally, the bank issues letters of credit, provides foreign exchange services, issues travelers checks, and offers safe deposit boxes, servicing of land contracts, night depository, and escrow services.

The bank's peer group includes all commercial banks having assets between \$100 and \$300 million, with three or more banking offices, and located in a non-metropolitan area. The bank identified its local competitors as Firstbank, Mount Pleasant, Michigan; Commercial Bank, Ithaca, Michigan; and Chemical Bank & Trust, Midland, Michigan.

DESCRIPTION OF ASSESSMENT AREA

An institution's assessment area(s) will include the towns, counties, or other political subdivisions where its branches are located and a substantial portion of its loans are made. Assessment area(s) must consist of one or more geographies defined by block numbering areas (BNAs) or census tracts, which are statistical subdivisions of a county. Census tracts are primarily used in metropolitan areas, while BNAs are used in non-metropolitan areas. 1990 U.S. Bureau of Census data is used in this evaluation, unless stated otherwise.

FSB's assessment area, shown in Appendix A, consists of 15 census tracts. The census tracts are comprised of two moderate-income tracts, 12 middle-income tracts, and one upper-income tract. All three offices are located in middle-income census tracts. There have been no changes in the assessment area since the previous examination.

Population Changes

The assessment area has remained relatively unchanged. According to the 2000 Census, Gratiot County, which comprises a majority of the bank's assessment area, had a population of 38,982 and 42,285 for 1990 and 2000, respectively.

Income Characteristics

Exhibit 1 shows the income levels for the assessment area in comparison to the Saginaw/Midland metropolitan statistical area (MSA), the State of Michigan, and Non-metropolitan Michigan based on 1990 U.S. census data. In contrast to the 1990 data, the 2002 HUD adjusted median family income for the Saginaw/Midland MSA is \$55,100, the State of Michigan is \$60,600 and Non-metropolitan Michigan is \$44,800.

Exhibit 1 – Distribution of Families by Income Level

Location	Median Family Income(\$)	Percent of Families				
		Low	Moderate	Middle	Upper	Below Poverty Level
Assessment Area	\$31,037	20.1	18.0	22.2	39.7	10.9
MSA: 6960	\$34,727	22.7	16.1	22.0	39.2	12.3

State: Michigan	\$36,652	20.9	17.3	23.0	38.8	10.2
MSA: 9999	\$27,893	19.7	18.8	22.4	39.2	11.0

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

According to the 1990 U.S. census, a total of 58,336 people live in the assessment area. Of the 21,373 total housing units in the assessment area, 74.9% are owner-occupied, 19.1% are rental units, and 6% are vacant units. The median housing value is \$41,490, compared to \$48,539 for the Saginaw/Midland MSA and \$60,062 for the State of Michigan. The median age of housing stock in the assessment area is 30 years.

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 higher ratio generally has more affordable housing than an area with a lower ratio. The affordability ratios for the assessment area, Saginaw/Midland MSA, the State of Michigan, and Non-metropolitan Michigan are 64.8, 60.1, 51.6, and 52.7, respectively, indicating that housing is generally more affordable in the assessment area.

Labor and Employment

The average unemployment rate for 2002 for the State of Michigan, Saginaw/Midland MSA, and Gratiot County were 6.1%, 6.5%, and 5.6% respectively. Major employers in the assessment area are listed in Exhibit 2.

Exhibit 2 – Major Employers in the Assessment Area

Company	Location	Employees	Description
Alma Products Co.	Alma	708	OEM motor vehicle parts
Bear Truss & Components Co.	Saint Louis	190	Wooden roof & floor trusses
Gratiot Community Hospital	Alma	820	Health Care
B&W Co-op Inc.	Ithaca	116	Grain processing & fertilizer blending
Mid-Michigan Correctional Facility	Saint Louis	240	Correctional Institution
Danly Die Set Corp	Ithaca	108	Die Set
Hemlock Semiconductor Corp	Hemlock	475	Polycrystalline Silicon
Dow Corning Corp	Hemlock	175	Silicone elastomer medical tubing
County of Gratiot	Ithaca	130	Executive Offices

Source: www.medc.michigan.org – economic profiles

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Performance standards for small banks consist of the following, as applicable: the bank's

loan-to-deposit 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 incomes and farms and businesses of different revenue levels, 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 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 loan-to-deposit (LTD) ratios relative to its peer group, the bank meets the standards for satisfactory performance under this criterion. A sample of competitor's ratios demonstrates a relatively high average LTD in comparison to FSB. The higher LTD ratios can be attributed to different markets served by the other institutions. Exhibit 3 shows the comparison for the eight-quarters ending September 30, 2002.

Exhibit 3 – LTD Ratios

Bank Name, City, 12/01 Assets \$(Millions)	9/02 (%)	6/02 (%)	3/02 (%)	12/01 (%)	9/01 (%)	6/01 (%)	3/01 (%)	12/00 (%)	Avg.
Peer Group	77.5	77.3	75.8	76.0	77.4	77.6	76.7	78.0	77.04
Farmers State Bank of Breckenridge, \$126	91.4	91.6	86.5	87.6	96.3	96.6	93.5	97.7	92.65
First Bank, Mt. Pleasant, MI \$162.5	99.8	103.9	103.7	110.8	106.8	113.5	113.4	114.5	108.3
Commercial Bank, Ithaca, MI \$226.1	108.1	107.3	106.2	98.7	100.3	102.1	103.7	108.2	104.3
Chemical Bank, Midland, MI \$1,611.8	56.29	58.2	57.0	62.4	63.2	63.9	61.5	63.1	60.7

LENDING IN THE ASSESSMENT AREA

To assess the extent of lending within the assessment area, the following were reviewed: Home Mortgage Disclosure Act (HMDA) data and small business loans. The sample period for each loan product consisted of all loans originated in 2002. Information from the performance context, such as economic conditions present within the assessment area, loan demand, bank size, financial condition, branching network, and business strategies, were considered when evaluating the bank's performance.

Overall, residential real estate and small business lending within the bank's assessment area meets the standards for satisfactory performance under this criterion.

The majority of FSB's loans were originated within the assessment area. The distribution of all HMDA reportable loans from 2002 and all small business loans originated during the year ended December 31, 2002, is illustrated in Exhibit 4.

Exhibit 4 – Distribution of Loans in/out of Assessment Area (AA)

Loan Type	Number of Loans		
	# in Sample	# in AA	% in AA
Residential Real Estate	379	298	78.63
Small Business	431	346	80.28
Totals	810	644	79.51

LENDING TO BORROWERS OF DIFFERENT INCOME LEVELS AND TO BUSINESSES AND FARMS OF DIFFERENT SIZES

The distribution of loans among borrowers of different income levels was determined by reviewing Home Mortgage Disclosure Act (HMDA) data, and small business loans. The sample period for each loan product consisted of originations from 2002. Information from the performance context, such as economic conditions present within the assessment area, demographics, loan demand, bank size, financial condition, branching network, and business strategies, were considered when evaluating the bank's performance.

Given the demographics of the bank's assessment area, the loan distribution across borrowers of different income levels and farms and businesses of different revenue levels meets the standards for satisfactory performance under this criterion.

The distribution of Farmers State Bank of Breckenridge loans reflects a reasonable penetration among borrowers of different income and revenue levels.

2002 HMDA Reportable Loans

Exhibit 5 shows the distribution of the HMDA reportable loans, originated during 2002, by income level. As shown, the percentage of loans to low- and moderate-income borrowers is 46.6%, which exceeds the percentage of low- and moderate-income families in the assessment area.

Exhibit 5 – Loan Distribution of Residential Real Estate Loans by Income Level

Income Level	Total Number of Loans	Percent of Total Loans	Percent of Families in Assessment Area
Low	46	15.44	20.1
Moderate	93	31.21	18.0

Low & Moderate	139	46.64	38.1
Middle	74	24.83	22.2
Upper	82	27.52	39.7
NA	3	1.01	NA
Totals	298	100.0	100.0

Agricultural and Commercial Loans

The distribution of commercial and agricultural loans reflects a reasonable penetration among small businesses and small farms. The distribution, based on information from the Consolidated Report of Condition as of June 30, 2002, is shown in Exhibits 6 and 7.

Exhibit 6 – Distribution of Small Farm Loans

Original Dollar Amount	Outstanding Number	Outstanding Dollar Amount (000's)
Loans Secured by Farmland		
Less than or equal to \$100,000	143	5,630
Greater than \$100,000 through \$250,000	79	9,952
Greater than \$250,000 through \$500,000	26	7,975
Total	248	23,557
Loans to Finance Agricultural Production and Other Loans to Farmers		
Less than or equal to \$100,000	389	8,268
Greater than \$100,000 through \$250,000	34	4,903
Greater than \$250,000 through \$500,000	24	7,965
Total	447	21,136
Loans Secured by Farmland and Loans to Finance Agricultural Production and Other Loans to Farmers		
Grand totals	695	44,693

As Exhibit 6 shows, originations in the \$100,000 or less category represent 76.5% of the number and 31.1% of the dollar amount of small farm loans.

Exhibit 7 – Distribution of Small Business Loans

Original Dollar Amount	Outstanding Number	Outstanding Dollar Amount (000's)
Loans Secured by Non-Farm Nonresidential Properties		
Less than or equal to \$100,000	243	5,540
Greater than \$100,000 through \$250,000	42	5,543
Greater than \$250,000 through \$1 million	8	2,788
Total	293	13,871
Commercial and Industrial Loans		
Less than or equal to \$100,000	24	438
Greater than \$100,000 through \$250,000	4	385
Greater than \$250,000 through \$1 million	4	2,176
Total	32	2,999
Loans Secured by Non-Farm Nonresidential Properties and Commercial and Industrial Loans		
Grand totals	325	16,870

As Exhibit 7 shows, small business loan originations of \$100,000 or less represent 82.2% of the number and 35.4% of the dollar amount of small business loans.

Other Lending-Related Activities

FSB participates in three major types of community outreach activities. These include active participation with local community organizations, working in conjunction with professional organizations and communication to the public the numerous banking services and special credit related programs available through FSB.

FSB participates in several state and federal guaranteed commercial loan programs, including, but not limited to, Small Business Administration (SBA) loans and Farm Service Agency loans. FSB also offers guaranteed student loans.

Greater Gratiot Development Inc. strives to relocate and/or assist businesses in the Gratiot County area. Two bank officers serve on the Greater Gratiot Development, Inc. board. Greater Gratiot supplies capital that allows banks to finance new businesses when capital is needed and bank financing is not available. FSB supplies bank financing in conjunction with Greater Gratiot loans.

Since May of 1992, the bank has offered the 5-5-5 (Triple Nickel) Loan Program to spur urban revitalization within its community. This program offers loans with terms up to five years at a rate of 5% for a maximum loan amount of \$5,000. The program is designed for business owners who wish to improve, expand, or otherwise enhance their businesses. Each year the Bank has allocated \$100,000 to be used in generating loans under this program.

GEOGRAPHIC DISTRIBUTION OF LOANS

The distribution of lending activities among geographies of different income levels within the assessment area, particularly those defined as low- and moderate-income, was reviewed. To assess the bank's performance, the following were reviewed: Home Mortgage Disclosure Act (HMDA) data and small business loans. The sample period for each loan product consisted of all loans originated in 2002. Those loans for which census tracts were unknown were not included in the analysis. Demographic characteristics of census tracts, such as housing types and income level, were considered in the evaluation.

Given the demographics of the bank's assessment area, the geographic distribution of loans meets the standards for satisfactory performance under this criterion.

FSB's assessment area, shown in Appendix A, consists of 15 census tracts. The census tracts are comprised of 2 moderate-income tracts, 12 middle-income tracts, and 1 upper-income tract. No low- or moderate-income census tracts were arbitrarily excluded from the assessment area.

Exhibit 8 illustrates the number and percentage of residential real estate and small business loans to geographies for the sample period of 2002.

Exhibit 8 – Loan Distribution by Census Tract Income Level

Tract Level	2002 HMDA Loans		Small Business		% of	% of Families in AA
	#	%	#	%	AA	
Moderate	39	13.09	30	8.67	13.3	13.9
Middle	254	85.23	307	88.73	80.0	78.9
Upper	5	1.68	9	2.60	6.7	7.2
Totals	298	100.00	346	100.00	100.00	100.00

FSB originated 13.1% of 2002 HMDA reportable loans and 8.67% of small business loans to moderate-income census tracts, as illustrated in Exhibit 8.

COMPLAINTS

Neither the 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 banks' lending activity was reviewed to determine whether loan policies and lending standards were in compliance with the fair lending laws and regulations, and implemented on an equitable basis. No evidence of prohibited discriminatory credit practices was detected.

Appendix A – Map of Farmers State Bank of Breckenridge’s Assessment Area

