

**PUBLIC DISCLOSURE**

August 22, 2002

**COMMUNITY REINVESTMENT ACT  
PERFORMANCE EVALUATION**

State Bank of Caledonia  
RSSD # 703440

620 E. Main St.  
Caledonia, MI 49316

Federal Reserve Bank of Chicago  
230 S. LaSalle St.  
Chicago, IL 60618

**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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## 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 **State Bank of Caledonia; Caledonia, Michigan** prepared by the **Federal Reserve Bank of Chicago**, the institution's supervisory agency, as of **August 22, 2002**. 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.

## DESCRIPTION OF INSTITUTION

State Bank of Caledonia has total assets of \$199,924,000 as of June 30, 2002. The bank has four full service offices, two in Kent County, One in Barry County, and one in Kalamazoo County. The bank's offices are located in census tracts 148.02, 148.01, 002.01, 103.00. Based on the 1990 Census, three of the four offices are located in upper income census tracts and the branch located in tract 002.01 does not have income information. The main office is located in Caledonia, Michigan, which is primarily a rural area approximately 10 miles Southeast of Grand Rapids, Michigan.

The bank is primarily a commercial lender, it originates consumer real estate loans through the bank's mortgage subsidiary SBC Mortgage. According to the March 31, 2002 Uniform Bank Performance Report (UBPR), the bank's loan portfolio compared to peer is depicted in the following table.

Table 1. STATE BANK OF CALEDONIA LOAN PORTFOLIO MIX		
Loan Type	Bank Loan Mix	Peer Loan Mix
<b>Real Estate Loans</b>	<b>62.45%</b>	<b>71.20%</b>
Construction & Development	11.47%	8.53%
1-4 Family Residential	20.07%	27.32%
<i>Home Equity</i>	<i>2.69%</i>	<i>2.59%</i>
Other Real Estate Loans	30.91%	32.08%
<i>Farmland</i>	<i>0.13%</i>	<i>1.04%</i>
<i>Multi Family</i>	<i>4.74%</i>	<i>1.65%</i>
<i>Non-Farm, Non-Residential</i>	<i>26.03%</i>	<i>28.01%</i>
<b>Loans to Individuals</b>	<b>2.73%</b>	<b>7.76%</b>
<b>Credit Card Loans</b>	<b>0.19%</b>	<b>0.12%</b>
<b>Commercial &amp; Industrial Loans</b>	<b>34.08%</b>	<b>16.78%</b>
<b>Agricultural Loans</b>	<b>0.67%</b>	<b>0.83%</b>
<b>Municipal Loans</b>	<b>0.08%</b>	<b>0.26%</b>
<b>Other Loans*</b>	<b>0.00%</b>	<b>0.25%</b>

\* Excludes Financial Institution Loans, Acceptances of Other Banks, Foreign Office Loans and Leases, and Lease Financing Receivables

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

## DESCRIPTION OF ASSESSMENT AREA

State Bank of Caledonia's assessment area includes portions of four counties; Allegan, Barry, Kent, and Kalamazoo. The counties making up the assessment area are largely agricultural; however, manufacturing is also a major industry in the area. The service industry has recently increased due to the abundance of state parks and recreation areas that have attracted people from all over the region. The bank's assessment area includes 77 tracts in the Grand Rapids and Kalamazoo Metropolitan Statistical Area (MSA) and seven tracts in non-MSA areas. The tracts in State Bank of Caledonia's assessment area are: MSA 3000, Grand Rapids MSA – Allegan County – 304.01, 304.02, 305.00; Kent County – 119.02, 120.01, 120.02, 122.01, 122.02, 122.03, 126.02, 127.01, 127.02, 146.02, 147.02, 148.01, 148.02, 148.03; MSA 3720, Kalamazoo MSA – Kalamazoo County – 1.00, 2.01, 2.02, 3.00, 4.02, 5.00, 6.00, 7.00, 8.01, 8.02, 9.00, 10.00, 11.00, 12.00, 13.00, 14.01, 14.02, 15.01, 15.02, 15.03, 15.04, 15.06, 15.07, 16.01, 16.03, 16.04, 17.01, 17.02, 18.01, 18.02, 18.03, 19.02, 19.04, 19.05, 19.06, 19.07, 20.01, 20.02, 21.01, 21.02, 22.01, 22.02, 23.00, 24.00, 25.00, 26.01, 27.00, 28.00, 29.01, 29.02, 29.03, 30.01, 30.02, 31.01, 31.02, 32.00, 33.01, 33.02, 34.00, 35.98. Non MSA assessment area Barry County – 102.00, 103.00, 104.00, 105.00, 106.00, 113.00, 114.00.

<b>Table #2</b>					
<b>ASSESSMENT AREA CHARACTERISTICS</b>					
<b>STATE BANK OF CALEDONIA</b>					
	Assessment Area	MSA 3000	MSA 3720	Michigan Non-MSA	State, MI
<b>Tract Summary</b>					
Total Number of Census Tracts	84	24	53	7	84
Low-Income Census Tracts	8	-	8	-	8
Moderate-Income Census Tracts	8	-	8	-	8
Middle-Income Census Tracts	31	10	19	2	31
Upper-Income Census Tracts	34	14	15	5	34
Income Not Available	3	-	3	-	3
<b>Income Summary</b>					
Median Family Income	\$40,274	\$37,722	\$34,702	\$27,893	\$36,652
Percent Low-Income Families	15.5	17.7	21.0	19.7	20.9
Percent Moderate-Income Families	14.9	18.3	17.2	18.8	17.3
Percent Middle-Income Families	22.5	26.8	22.6	22.4	23.0
Percent Upper-Income Families	47.1	37.2	39.3	39.2	38.8
Percent of Families Below Poverty	7.1	7.2	10.1	11.0	10.2
HUD Adjusted Median Family Income *	-	\$61,300	\$53,800	\$44,800	\$60,600
<b>Unemployment Summary</b>					
Total Population	346,458	937,891	429,453	1,597,654	9,295,297
Labor Force Population	183,091	478,697	216,093	719,008	4,554,160
Percent Unemployment**	-	5.1	4.8	-	5.3
<b>Housing Summary</b>					
Total Housing Units	137,353	357,679	176,104	834,587	3,847,926
Percent Owner-Occupied Units	63.7	68.7	62.6	54.3	63.1
Percent Rental Units	28.9	24.6	28.8	16.2	25.8
Percent Vacant Units	7.4	6.6	8.6	29.5	11.1
Percent Boarded-Up Units	0.1	0.2	0.3	0.7	0.5
Median Housing Value	\$64,372	\$65,347	\$53,550	\$44,414	\$60,062

Source: 1990 Census Data – U.S. Census Bureau

\* Source: 2001 HUD Adjusted Median Family Income – <http://www.huduser.org/>

\*\* Source: 2001 US Department of Labor: Bureau of Labor Statistics <http://stats.bls.gov/home.htm>

<b>Table #3</b>			
<b>MAJOR EMPLOYERS</b>			
<b>KALAMAZOO, BARRY, KENT, AND ALLEGAN COUNTIES</b>			
Firm	Location	Employees	Product
Pharmacia & Upjohn Inc.	Kalamazoo	6,400	Pharmaceutical Co.
Amway Corp.	Ada	5,000	Clothing
Perrigo Co.	Allegan	4,000	Pharmaceuticals
Butterworth Hospital	Grand Rapids	3,200	Health Care
Haworth Inc.	Holland	3,000	Office Furniture

Source: Michigan Economic Development Corporation – <http://medc.michigan.org>

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## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

### Performance Standards

Performance standards for small banks consist of the following as applicable: the bank's loan-to-deposit ratio; percentage of loans and other lending-related activities within the bank's assessment area; record of lending to borrowers of different incomes and businesses and farms of different sizes; geographic distribution of loans; and record of taking action in response to written complaints. To determine CRA performance, these standards are analyzed and evaluated within the assessment area context, which includes, but is not limited to, a comparative analysis of assessment area and metropolitan statistical area demographic data on population, income, housing, and any other relevant data pertaining to the bank's assessment area. In assigning the overall rating, the greatest weight was placed on the following three criteria: lending activities within the bank's assessment area; loans to borrowers of different income levels and businesses of different sizes; and the net loan-to-deposit ratio.

- Net loan-to-deposit ratio meets the standard for *outstanding* performance.
- Lending activities within the bank's assessment area meets the standard for *satisfactory* performance.
- Lending to borrowers of different income levels and businesses of different sizes meets the standard for *satisfactory* performance.
- The distribution of the bank's loans to low and moderate geographies meets the standard for *satisfactory* performance.

### Loan-To-Deposit Ratio


The loan portfolio of State Bank of Caledonia was reviewed to evaluate its lending, loan mix and how the bank's performance compares to a sample of local competitors and the peer group. The bank's net loan-to-deposit ratio (LTD) averaged 106.20% for the four quarters ending June 30, 2002. The LTD ratios and trend for the bank as well as a sample of three competitors and peer group are reflected in Exhibit #1.

<b>Exhibit #1</b>						
<b>LOAN-TO-DEPOSIT RATIO SUMMARY</b>						
Financial Institution	Assets as of 06/30/2002 (000's)	LTD Ratio as of 06/30/2002	LTD Ratio as of 03/31/2002	LTD Ratio as of 12/31/2001	LTD Ratio as of 09/30/2001	Four-Quarter Average LTD Ratio
<b>State Bank of Caledonia</b>	<b>\$199,924</b>	<b>102.26%</b>	<b>103.55%</b>	<b>114.84%</b>	<b>104.14%</b>	<b>106.20%</b>
Byron Center State Bank	\$514,495	102.83%	103.96%	106.99%	105.49%	104.82%
Hastings City Bank	\$219,941	82.05%	79.61%	80.19%	88.41%	82.57%
Founders Trust Personal Bank	\$161,219	103.06%	103.16%	105.21%	103.63%	103.95%
Peer	-	77.45%	77.02%	77.38%	77.50%	77.34%

As illustrated in the preceding chart, the bank’s average LTD ratio is comparable to its competitors. When measured against the peer group the bank’s performance exceeds in all quarters from September 30, 2001 through June 30, 2002.

The bank’s LTD ratio, considering its asset size, capacity to lend, demographic and economic factors present in the assessment area, meets the standard for an outstanding performance rating.

**Lending In Assessment Area**

A sample of 152 loans was reviewed  to determine lending patterns in the assessment areas. The sample consisted of 89 consumer installment loans from January 1, 2001 to December 31, 2001 totaling \$1,006,280 and 63 commercial loans from January 1, 2000 to December 31, 2001 totaling \$17,849,832. The sample used does not contain residential real estate or agriculture loans due to the small number of originations in both categories. The distribution of loans within the bank’s assessment area is explained in Exhibit #2.

<b>Exhibit #2</b>			
<b>STATE BANK OF CALEDONIA</b>			
<b>LENDING WITHIN THE ASSESSMENT AREA</b>			
Loan Type	Total Sample #/\$ (000)	Within the Assessment Area #/\$ (000)	Percent of Total #/\$
Consumer Installment	89 / \$1,006	74 / \$826	83.15% / 82.11%
Commercial Loans	63 / \$17,850	58 / \$15,053	92.06% / 84.33%
Total	152 / \$18,856	132 / \$15,879	86.84% / 84.21%

As shown in Exhibit #2, 132 or 86.84% of the bank’s loans were made within the assessment area. Commercial loans represent the largest percentage (92.1%) of loans in the assessment area. As shown in the above table, \$15,879,000 or 84.21% of loan dollars were with in the assessment area.

The bank’s percentage of loans in the assessment area meets the standard for satisfactory performance.

**Lending to Borrowers of Different Incomes and to Businesses of Different Sizes**

**Consumer Loans**

A 12-month sample of consumer loans originated in the assessment area, was relied on to evaluate the bank’s loan distribution to the different income levels. The sample from January 1, 2001 to December 31, 2001 consisted of 74 consumer loan originations in the assessment area, totaling \$826,000. The Grand Rapids MSA and Kalamazoo MSA will be combined for the purposes of this review due to the small number of originations in the Kalamazoo MSA. The distribution of the bank’s loans to the different income levels, as defined by 2001 HUD adjusted median family income, is shown in Exhibit #3, 4, and 5.

<i>Exhibit #3</i>				
STATE BANK OF CALEDONIA				
DISTRIBUTION OF LOANS BY APPLICANT INCOME				
GRAND RAPIDS MSA AND KALAMAZOO MSA				
Borrower Income	Number of Families	Percent of Total Families	Number of Loans	Percent of Total Loans
Low – 0 to 49%	12,638	16.0%	15	28.3%
Moderate – 50 to 79%	11,887	15.0%	16	30.2%
Middle – 80 to 119%	17,824	22.5%	11	20.8%
Upper – > 120%	36,763	46.5%	9	17.0%
Totals	79,112	100.0%	51*	96.2%*

Source: 1990 Census Data – U.S. Census Bureau

\*For 2 loan income not available

<i>Exhibit #4</i>				
STATE BANK OF CALEDONIA				
DISTRIBUTION OF LOANS BY APPLICANT INCOME				
NON-METRO MICHIGAN				
Borrower Income	Number of Families	Percent of Total Families	Number of Loans	Percent of Total Loans
Low – 0 to 49%	1,245	12.1%	3	14.3%
Moderate – 50 to 79%	1,416	13.8%	7	33.3%
Middle – 80 to 119%	2,265	22.1%	4	19.1%
Upper – > 120%	5,338	52.0%	5	23.8%
Totals	10,264	100.0%	19*	90.5%*

Source: 1990 Census Data – U.S. Census Bureau

\*For 2 loans income not available



<b>Exhibit #5</b>				
<b>STATE BANK OF CALEDONIA</b>				
<b>DISTRIBUTION OF LOANS BY APPLICANT INCOME</b>				
<b>COMBINED ASSESSMENT AREA – STATE OF MICHIGAN</b>				
<b>Borrower Income</b>	<b>Number of Families</b>	<b>Percent of Total Families</b>	<b>Number of Loans</b>	<b>Percent of Total Loans</b>
Low – 0 to 49%	13,883	15.5%	24	32.4%
Moderate – 50 to 79%	13,303	14.9%	21	28.4%
Middle – 80 to 119%	20,089	22.5%	14	18.9%
Upper – > 120%	42,101	47.1%	11	14.9%
<b>Totals</b>	<b>89,376</b>	<b>100.0%</b>	<b>70</b>	<b>94.6%</b>

Source: 1990 Census Data – U.S. Census Bureau

\*For 4 loans income not available

As illustrated in Exhibit #5, the bank made 45, or 60.8%, of consumer loans to low- and moderate-income borrowers. By comparison, 30.4% of families in the assessment area are low- and moderate-income. A total of 14.9% of consumer loans were made to upper-income borrowers. Upper-income borrowers comprise 47.1% of families in the assessment area.

**Small Business**

*Small business loans are those loans with an original loan balance of less than \$1 million made to businesses with less than \$1 million in gross annual revenues.*

A 24-month sample of commercial loans originated in the bank’s assessment area for the period from January 1, 2000 to December 31, 2001 was reviewed to determine the bank’s level of lending to small businesses. The sample consisted of 58 commercial loans of those 50 or 86.2% of commercial loans were small business loans. Nineteen commercial loans in amounts of \$100,000 or less were originated in the assessment area this represents 38.0% of the bank’s small business loans. A detailed break down of small business loans is illustrated in Exhibit #6.

<b>Exhibit #6</b>								
<b>STATE BANK OF CALEDONIA</b>								
<b>SMALL BUSINESS LENDING DISTRIBUTION</b>								
<b>Loan Origination Amount (in 000s)</b>							<b>TOTAL</b>	
<b>&lt; \$100</b>		<b>&gt; \$100 ≤ \$250</b>		<b>&gt; \$250 &lt; \$1,000</b>				
<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	
19	38.0%	15	30.0%	16	32.0%	50	100%	

Overall, the distribution of the bank’s loans to borrowers of different incomes and to businesses of different sizes meets the standard for satisfactory performance.

**Geographic Distribution of Loans**

The 12-month sample consisting of 74 consumer loans and a 24-month sample consisting of 58 commercial loans originated within the assessment area were analyzed to determine the geographic distribution of the bank’s loans. The distribution of the bank’s loans, by geography income, is shown in Exhibit #7, 8, and 9.

<b>Exhibit #7</b>				
<b>STATE BANK OF CALEDONIA</b>				
<b>DISTRIBUTION OF LOANS BASED ON GEOGRAPHY INCOME</b>				
<b>GRAND RAPIDS MSA AND KALAMAZOO MSA</b>				
Type of Geography	# of Geographies	% of Total Geographies	# of Loans	% of Total Loans
Low – 0 to 49%	8	10.4%	5	4.6%
Moderate – 50 to 79%	8	10.4%	7	6.4%
Middle – 80 to 119%	29	37.7%	25	22.9%
Upper - > 120%	29	37.7%	68	62.4%
Totals	74*	96.2%*	105**	96.3%**

Source: 1990 Census Data – U.S. Census Bureau

\*Count does not include 3 tracts with no income information available.

\*\*Count does not include 4 loans with no tract geography income

<b>Exhibit #8</b>				
<b>STATE BANK OF CALEDONIA</b>				
<b>DISTRIBUTION OF LOANS BASED ON GEOGRAPHY INCOME</b>				
<b>NON-METRO MICHIGAN</b>				
Type of Geography	# of Geographies	% of Total Geographies	# of Loans	% of Total Loans
Low – 0 to 49%	0	0.0%	0	0.0%
Moderate – 50 to 79%	0	0.0%	0	0.0%
Middle – 80 to 119%	2	28.6%	2	8.7%
Upper - > 120%	5	71.4%	21	91.3%
Totals	7	100.0%	23	100.0%

Source: 1990 Census Data – U.S. Census Bureau

<b>Exhibit #9</b>				
<b>STATE BANK OF CALEDONIA</b>				
<b>DISTRIBUTION OF LOANS BASED ON GEOGRAPHY INCOME</b>				
<b>COMBINED ASSESSMENT AREAS – STATE OF MICHIGAN</b>				
Type of Geography	# of Geographies	% of Total Geographies	# of Loans	% of Total Loans
Low – 0 to 49%	8	9.5%	5	3.8%
Moderate – 50 to 79%	8	9.5%	7	5.3%
Middle – 80 to 119%	31	36.9%	27	20.5%
Upper - > 120%	34	40.5%	89	67.4%
Totals	81*	96.4%	128**	97.0%**

Source: 1990 Census Data – U.S. Census Bureau

\*Count does not include 3 tract with no income information available.

\*\*Count does not include 4 loans with no tract geography income

There are eight low-income geographies and eight moderate-income geographies included in the bank's assessment area. As illustrated in Exhibit #9, 12 or 9.1% of the bank's loans were made in low and moderate-income geographies.

The distribution of the bank's loans to low and moderate geographies meets the standard for satisfactory performance.

**Response to Complaints**

No CRA-related complaints were received by State Bank of Caledonia or the Federal Reserve Bank of Chicago.

**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 implemented on an equitable basis. No evidence of prohibited discriminatory credit practices was detected.