

# **PUBLIC DISCLOSURE**

January 7, 2002

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

Bank of Washtenaw  
RSSD#: 2960742

450 E. Michigan Ave  
Saline, Michigan 48176

Federal Reserve Bank of Chicago

230 S. LaSalle Street  
Chicago, Illinois 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.

**TABLE OF CONTENTS**

Institution’s CRA Rating ..... 1

Description of Institution ..... 1

Description of Assessment Area ..... 2

Conclusions with Respect to Performance Criteria.....4

Loan-To-Deposit Ratio.....4

Lending in Assessment Area .....5

Lending to Borrowers of Different Incomes and to Businesses of Different Sizes .....6

Geographic Distribution of Loans.....8

Response to Complaints.....9

## 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 **Bank of Washtenaw, Saline, Michigan** prepared by the **Federal Reserve Bank of Chicago**, the institution's supervisory agency, as of **January 7, 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

Bank of Washtenaw is a *de novo* bank; it opened in January of 2001. It is owned by bank holding company Lenawee Bancorp Inc. The bank had total assets of \$36.6 million as of December 31, 2001. Bank of Washtenaw has three offices in Michigan: two in Ann Arbor and the main office in Saline. The bank's branches are located in census tracts 4045.00 and 4041.00. The main office is located in tract 4230.00. Saline, Michigan, is primarily a rural area approximately ten miles south of Ann Arbor, Michigan.

The bank provides traditional deposit services. It is primarily a commercial lender, by dollar volume, and a consumer lender by number of transactions. Based on the bank's December 31, 2001 Report of Condition and Income, the bank's loan portfolio is broken down as follows: 13.9% one-to-four family real estate, 7.2% multi-family dwelling, 30.3% commercial real estate, 37.4% commercial loans, 5.9% consumer loans, 4.9% construction loans, and loans secured by farmland and loans to finance agricultural productions equal 0.4%. The bank's primary competitors are large institutions with offices in Ann Arbor. National City Bank, Charter One Bank, FSB, and TCF National Bank provide competition. 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**

**Ann Arbor MSA - 440**

Bank of Washtenaw has included in its assessment all the census tracts in Washtenaw County and five tracts in Lenawee County. The tracts in Washtenaw County are: 0006.00, 4001.00, 4002.00, 4003.00, 4004.00, 4005.00, 4006.00, 4007.00, 4008.00, 4021.00, 4022.00, 4023.00, 4024.00, 4025.00, 4026.00, 4027.00, 4028.00, 4031.00, 4032.00, 4033.00, 4034.00, 4035.00, 4041.00, 4042.00, 4043.00, 4044.00, 4045.00, 4046.00, 4051.00, 4052.00, 4053.00, 4054.00, 4055.00, 4060.00, 4070.00, 4072.00, 4101.00, 4102.00, 4103.00, 4104.00, 4105.00, 4106.00, 4107.00, 4108.00, 4109.00, 4110.00, 4111.00, 4112.00, 4121.00, 4122.00, 4123.00, 4124.00, 4125.00, 4126.00, 4127.00, 4128.00, 4140.00, 4142.00, 4144.00, 4146.00, 4148.00, 4200.00, 4202.00, 4210.00, 4219.00, 4220.00, 4229.00, 4230.00, 4232.00, 4240.00, 4310.00, 4320.00, 4410.00, 4420.00, 4430.00, 4510.00, 4520.00, 4610.00, 4620.00, 4630.00, 4640.00. The tracts in Lenawee County include: 602.00, 603.00, 604.00, 608.00, 609.00.

Lenawee County is primarily an agricultural area. The largest city in Lenawee County is Adrian which is located between Adrian College, Siena Heights University, and Jackson Community College Lenawee Campus. Washtenaw County accommodates a competitive business environment including print and publishing, software, automotive, and biotechnology. Washtenaw County is also home to the University of Michigan in Ann Arbor.

<b>Exhibit #1</b>			
<b>ANN ARBOR ASSESSMENT AREA BANK OF WASHTENAW</b>			
	<b>Assessment Area</b>	<b>Ann Arbor MSA</b>	<b>State of Michigan</b>
<b>Tract Summary</b>			
Total Number of Census Tracts	84*	-	-
Number of Low-Income Census Tracts	9	-	-
Number of Moderate-Income Census Tracts	17	-	-
Number of Middle-Income Census Tracts	34	-	-
Number of Upper-Income Census Tracts	23	-	-
<b>Income Summary</b>			
Median Family Income	\$47,539	\$45,123	\$36,652
Percent Low-Income Families	19.0%	18.6%	20.9%
Percent Moderate-Income Families	17.4%	18.5%	17.3%
Percent Middle-Income Families	24.3%	25.4%	23.0%
Percent Upper-Income Families	39.3%	37.5%	38.8%
Percent of Families Below Poverty	6.2%	5.8%	10.2%
HUD Adjusted Median Family Income	-	\$71,600**	\$57,600**
<b>Unemployment Summary</b>			
Total Population	306,215	490,058	9,295,297
Labor Force Population	169,940	264,593	4,554,160
Percent Unemployment	2.6%	2.7%	4.0%
<b>Housing Summary</b>			
Total Housing Units	121,411	188,223	3,847,926
Percent Owner-Occupied Units	57.4%	65.3%	70.9%
Percent Rental Units	45.2%	36.8%	31.2%
Percent Vacant Units	7.8%	7.5%	12.5%
Percent Boarded-Up Units	0.1%	0.1%	0.5%
Median Housing Value	\$98,227	\$87,057	\$60,062

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

\*Count Includes 1 tract with no income information available

\*\* Source: 2001 HUD Adjusted Median Family Income – [www.huduser.org](http://www.huduser.org)

<b>Exhibit #2</b>			
<b>MAJOR EMPLOYERS ANN ARBOR ASSESSMENT AREA</b>			
<b>FIRM</b>	<b>LOCATION</b>	<b>EMPLOYEES</b>	<b>PRODUCT</b>
University of Michigan	Ann Arbor	24,059	Education
U of M Medical Center	Ann Arbor	6,742	Health care
General Motors Corp.	Ypsilanti	6,000	Automatic Car Transmissions
St. Joseph Mercy Hospital	Ann Arbor	3,698	Health Care
Ford Motor Co.	Saline	2,700	Automotive parts.

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

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

A sample of the bank's loans and denied applications were reviewed to determine whether loan policies and lending standards were in compliance with all applicable laws and regulations and implemented on a fair and equitable basis. No evidence of prohibited discriminatory credit practices was detected. The bank is in compliance with the substantive provisions of anti-discrimination laws and regulations, including the Equal Credit Opportunity and Fair Housing Acts.

### 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 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.

### Loan-To-Deposit Ratio

Bank of Washtenaw's loan portfolio 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 87.20% for the four quarters ending December 31, 2001. The LTD ratios and trend for the bank as well as a sample of five competitors and peer group are reflected in Exhibit #3.


<i>Exhibit #3</i>						
<b>Loan-To-Deposit Ratio Summary</b>						
Financial Institution	Assets as of 12/31/2001 (000's)	LTD Ratio as of 12/30/2001	LTD Ratio as of 09/30/2001	LTD Ratio as of 06/30/2001	LTD Ratio as of 03/31/2001	Four-Quarter Average LTD Ratio
Bank of Washtenaw	\$36,564	95.97%	90.88%	79.61%	82.32%	87.20%
Charter One Bank, F.S.B.	\$35,822,033	103.95%	109.46%	117.79%	120.39%	112.90%
TCF National Bank	\$11,368,681	119.90%	122.76%	123.90%	123.22%	122.45%
National City		95.06%	94.16%	94.70%	95.32%	94.81%

Bank	\$17,423,863					
Peer	-	80.66%	77.51%	76.69%	72.58%	75.60%

As illustrated in the preceding chart, the bank’s average LTD ratio is below that of its competitors. However, the competitors are considerably larger in asset size. When measured to the peer group, the bank exceeds the peer group ratio in all quarters from March 31, 2001 through December 31, 2001.

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

**Lending In Assessment Area**

A sample of 175 loans  for the 22-month period from January 8, 2001 to December 31, 2001 was reviewed to determine lending patterns in the assessment areas. The sample used does not contain residential real estate or agriculture loans due to the small number of originations in both categories. The sample consisted of 57 consumer installment loans from January 8, 2001 to December 31, 2001, totaling \$717,359, and 118 commercial loans from January 8, 2001 to December 31, 2001 totaling \$27.9 million. The distribution of loans within the bank’s assessment area is explained in Exhibit #4.

<b>Exhibit #4</b>			
<b>Bank Of Washtenaw Lending Within the Assessment Area</b>			
Loan Type	Total Sample #/\$ (000)	Within the Assessment Area #/\$ (000)	Percent of Total #/\$
Consumer Installment Loans	57/\$717	44/\$594	77.2%/82.9%
Commercial Loans	118/\$27,880	84/\$19,732	71.2%/74.1%
Totals	175/\$28,597	128/\$20,326	73.1%/71.1%

As shown in Exhibit #4, 128 or 73.1% of the bank's loans were made within the assessment area. Consumer installment loans represent the largest percentage (77.2%) of loans in the assessment area. As shown in the above table, \$20,326,000 or 71.1% 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 installment loans originated within the assessment area was relied on to evaluate the bank's loan distribution to the different income levels. From January 8, 2001 to December 31, 2001 the bank originated 44 consumer installment loans in its assessment area, totaling \$594,000. 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 #5.

<b>Exhibit #5</b>				
<b>Bank of Washtenaw Distribution of Loans by Applicant Income HUD Adjusted Median Family Income – Ann Arbor MSA \$71,600</b>				
Borrower Income	Number of Families	Percent of Total Families	Number of Loans	Percent of Total Loans
Low – 0 to 49% (\$35,793)	13,508	19.0%	11	28.9%
Moderate – 50 to 79% (\$57,273)	12,374	17.4%	7	18.4%
Middle – 80 to 119% (\$85,913)	17,322	24.3%	6	15.8%
Upper – > 120%	28,022	39.3%	14	36.8%
Totals	71,226	100.0%	38*	100.0%*

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

\*For six loans income was not recorded


As illustrated in Exhibit #5, the bank made 18, or 47.4%, of total loans to low- and moderate-income borrowers. By comparison, 36.3% of families in the assessment area are low- and moderate-income. A total of 36.8% of total loans were made to upper-



income borrowers. Upper-income borrowers comprise 39.3% of families in the assessment area. The distribution of the bank’s loans to the different income levels marginally exceeds the standards for satisfactory performance.

**Small Business Lending**

*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 12-month sample of commercial loans originated in the bank’s assessment area for the period from January 8, 2001 to December 31, 2001 was reviewed to determine the bank’s level of lending to small businesses. The sample consisted of 84 commercial loans totaling \$19,732,000. Fifty-seven or 67.9% of the total number of commercial loans and \$8,723,000 or 44.2% of total commercial loan dollars were made to small businesses.  Thirty-seven commercial loans of amounts of \$100,000 or less were originated in the assessment area this represents 49.4% of the bank’s commercial loans. A detailed breakdown of small business loans are illustrated in Exhibit #6

<b>Exhibit #6</b>							
<b>Small Business Lending Distribution Ann Arbor Assessment Area</b>							
Loan Origination Amount (in 000s)						TOTAL	
≤ \$100		> \$100 ≤ \$250		> \$250 < \$1,000			
#	%	#	%	#	%	#	%
34	59.6%	15	26.3%	8	14.1%	57	100.0%

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 bank has defined its assessment area as all census tracts in Washtenaw County and five census tracts in Lenawee County, Michigan. A twelve-month sample of 44 consumer installment loans, and 84 commercial loans originated within the assessment area, was 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.

<b>Exhibit #7</b>				
<b>Bank of Washtenaw</b>				
<b>Distribution of Loans Based on Geography Income</b>				
	<b># of Geographies</b>	<b>% of Total Geographies</b>	<b># of Loans</b>	<b>% of Total Loans</b>
Low – 0 to 49%	9	10.8%	7	5.6%
Moderate – 50 to 79%	17	20.5%	8	6.4%
Middle – 80 to 119%	34	41.0%	64	51.2%
Upper - > 120%	23	27.7%	46	36.8%
Totals	83*	100.0%	125**	100.0%**

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

\*Count does not include 1 tract with no income information available.

\*\*Count does not include 3 loans with no tract geography income

There are twenty-six low- and moderate-income geographies included in Bank of Washtenaw's assessment area. As illustrated in Exhibit #7, 15 or 12.0% of the bank's loans were made in low- and moderate-income geographies. The bank is predominantly a commercial lender. While not shown in the above table, an analysis of the geographic distribution of the bank's business loans revealed that 10 or 11.9% of all business loans were made in low- and moderate-income geographies.

The geographic distribution of the bank's loans marginally meets the standards for satisfactory performance.

### **Response to Complaints**

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