

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 **Grant State Bank, Grant, Michigan** prepared by the **Federal Reserve Bank of Chicago**, the institution's supervisory agency, as of **May 13, 1996**. 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 RATING: This institution is rated Satisfactory.

Grant State Bank generally promotes economic revitalization and growth, consistent with its size, financial capacity, location, and assessment area's current economic conditions. The bank's efforts are accomplished primarily through the origination of real estate, consumer installment, and small business and farm loans. The bank's loan-to-deposit ratio supports these efforts. The majority of the bank's loans are within the assessment area and are reasonably distributed geographically and among applicants of different income levels. Management has developed adequate policies, procedures, and training programs to support nondiscrimination in credit activities. The examination revealed no patterns or practices intended to discriminate or discourage any protected class. Finally, there were no CRA-related complaints received by the bank, since the previous examination. The board and senior management are advised to review the examiner's comments under each performance criterion.

The following table indicates the performance level of **Grant State Bank, Grant, Michigan** with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	GRANT STATE BANK PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does Not Meet Standards for Satisfactory Performance
Loan-to-Deposit Ratio	X		
Lending in Assessment Area		X	
Lending to Borrowers of Different Incomes and to Businesses of Different Sizes		X	
Geographic Distribution of Loans		X	
Response to Complaints	No complaints have been received since the previous examination		

DESCRIPTION OF INSTITUTION

Grant State Bank, with total assets of \$26.4 million as of March 31, 1996, is a subsidiary of Community Bank Corporation, a one-bank holding company. The bank serves the assessment area through its main office, and a branch in Newaygo. The bank operates a 24-hour automated teller machine (ATM) in the drive up facilities at both the main and Newaygo offices.

Grant State Bank is the only financial institution in Grant, Michigan. The bank's primary competitors include: Independent Bank-West Michigan, Fremont Branch; FMB Old State Bank, Fremont Branch; Sparta State Bank; and Gerber Employees Federal Credit Union in Fremont.

The bank is a full-service lender with a significant portion of its loans distributed in consumer installment, residential real estate and agricultural (non-real estate) loans. The bank does not have any agreements with secondary market resources to sell originated real estate loans. Because of this and the rate risks associated with originating long-term real estate loans, many of the real estate loans made by the bank are short-term, balloon obligations. Management attributes its continued refinancing of current obligations to the service and costs associated with closing a loan with a new mortgage provider. There are no apparent factors relating to the bank's financial condition and size, products offered, prior performance, legal impediments or local economic conditions that would prevent the bank from meeting various community credit needs.

DESCRIPTION OF ASSESSMENT AREA

The bank is located approximately 35 miles north of Grand Rapids, and operates in the southern portion of Newaygo County. The assessment area includes six block numbering areas (BNAs), which are not included in an metropolitan statistical area (MSA); and two census tracts which are located within the Grand Rapids MSA. The BNAs make up the southern portion of Newaygo County, while one census tract is located in Muskegon County and one census tract is in Kent County. The six BNAs are considered moderate-income areas while both census tracts are considered middle-income. Major cities within the bank's assessment area include Grant, Newaygo, White Cloud, Fremont, Kent City and Casnovia. According to the 1990 census data, the bank's assessment area has a population of 27,528. The total minority population for the assessment area includes 739 (2.7%) Hispanics, 290 (1.1%) Blacks, 192 (.7%) American Indians, and 53 (.2%) Asian. According to the census data, the median family income for the assessment area is \$27,475. Approximately 30.9% of the assessment area population has income less than 50% of combined BNA (CBNA) median and 22.5% of the population has income less than 80% of the CBNA median. The median age of housing stock is 33 years. In 1990, the median home value was \$44,179. The following chart represents additional housing information.

HOUSING DATA	ASSESSMENT AREA	Percent of Total
Owner Occupied Units	7,841	62.83%
Total Rental Units	1,623	13.00%
Vacant Units	<u>3,016</u>	24.17%
Total Housing Units	<u>12,480</u>	

The assessment area is primarily rural, and relies on a number of onion and carrot packaging/distribution farms. In addition to vegetable farms, dairy farms and apple orchards are also located throughout Newaygo County. Significant employers in Newaygo County, according to the West Central Community Growth Alliance, are shown in the following chart.

Employer	City	# of Employees	Product\Service
Gerber Products	Fremont	1370	Baby Food
Spartan Engineered Products	White Cloud	202	Fabricated metals & Stamping
Sundor Brands	Fremont	170	Fruit Juice
N American Refractories	White Cloud	135	Magnesite refractories
Midwest Components	Newaygo	125	Electronic components

The county's farms and orchards employ many seasonal migrant workers, some of whom have assimilated into the local population as permanent residents. According to the Michigan Employment Security Council, as of April 30, 1996, unemployment in Newaygo County was 10.4%, compared to the state unemployment rate of 5.2%. Community representatives indicated that the high unemployment rate reflects the seasonal nature of the local industry.

Since the previous examination, the bank has revised its assessment area to consist of one or more contiguous political subdivisions, to contain all geographies where it has offices or deposit-taking ATM's, and to consist of only whole BNAs. The assessment area was revised to comply with new requirements of the CRA. In addition, the assessment area does not reflect illegal discrimination, does not arbitrarily exclude any low-income or moderate-income areas, and appears to meet the requirements of the regulation.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Management has developed adequate policies, procedures, and training programs to support nondiscrimination in lending activities. The institution is in compliance with the substantive provisions of antidiscrimination laws and regulations, including the Equal Credit Opportunity and Fair Housing Acts.

Loan-To-Deposit Ratio Analysis

The bank's average quarterly loan-to-deposit ratio since the previous exam is 77.66%. According to the Uniform Bank Performance Report (UBPR) dated December 31, 1995, the bank's level of lending ranks in the 79 percentile of its peer group and exceeds that of its peers average of 64.65%.

The bank's loan-to-deposit ratio, considering the bank's capacity to lend, demographic and economic factors present in the assessment area, and the lending opportunities available in the institution's assessment area, exceeds the standards for satisfactory performance.

Lending in Assessment Area

A six-month sample of consumer installment loans and real estate loans was reviewed to determine the bank's level of lending within the assessment area and revealed the following.

LOAN TYPE	TOTAL SAMPLED	WITHIN THE LOCAL DELINEATED COMMUNITY	PERCENT OF TOTAL
Conventional	9/\$445,766	6/\$250,650	66.67%/56.23%
Refinancing	32/\$952,971	17/\$507,217	53.13%/53.22%
Real Estate Total	42/\$1,458,737	23/\$757,867	54.76%/51.95%
Consumer Installment	122/\$454,532	81/\$293,370	66.39%/64.54%
Total	164/\$1,913,269	104/\$1,051,237	63.41%/54.94%

As the preceding chart illustrates, 63.41% of the total number of loans and 54.94% of the total dollar amount of loans were made within the assessment area. According to the requirements of the regulation, which requires only that the majority of loans be made within the assessment area for a satisfactory rating, the bank's loan distribution within its assessment area is considered reasonable.

Lending Analysis Based Upon Borrower Income and Size of Business

LOAN TYPE	LOW-INCOME \$/Number	MODERATE- INCOME \$/Number	MIDDLE-INCOME \$/Number	UPPER-INCOME \$/Number
Real Estate Purchases	\$35,700 / 1	\$15,000 / 1	\$143,950 / 4	\$251,116 / 3
Home Improvement	\$0 / 0	\$0 / 0	\$60,000 / 1	\$0 / 0
Refinance	\$102,117 / 5	\$171,053 / 6	\$214,725 / 6	\$465,076 / 15
Consumer Installment	\$62,749 / 28	\$108,494 / 35	\$76,789 / 28	\$206,500 / 31
Total Originations	\$200,566 / 34	\$294,547 / 42	\$495,464 / 39	\$922,926 / 49

As the preceding chart illustrates, 22.95% and 28.69% of the consumer installment loans were made to low-income and moderate-income individuals, respectively. The distribution of real estate loans indicates that 11.11% of purchases and 15.62% of refinancings were to low-income individuals, while 11.11% of purchases and 18.75% of refinancings were to moderate-income individuals.

A six-month sample of commercial and agricultural loans was reviewed. Although annual revenue information was not available for the majority of the commercial loans sampled, management indicated that the loans were to small family farm operations. The loans ranged from \$534 to \$225 thousand with 107 loans or 64.07% in amounts less than \$20 thousand. Because the bank made a substantial majority of its loans in amounts below \$100,000 it is exempt from including this information on the June call reports.

The loan penetration to borrowers of different income levels, given the demographics of the assessment area, meets standards for satisfactory performance.

Geographic Distribution of Loans

According to census information, the bank’s assessment area consists of six block numbering areas, all of which are moderate-income areas (below 80% of median), and two census tracts, which are considered middle-income tracts (80% to 120% of median). The following chart represents the distribution of the loan sample throughout the bank’s assessment area.

Census Tract #	Population	Number of Loans/ Real Estate	Dollar Amount / Real Estate (000's)	Number of Loans Installment	Dollar Amount / Installment (000's)	Total Number of Loans as a % of Total	Total \$ Amount as a % of Total
30	3,904	2	55	8	37	9.62%	8.75%
103.01	4,052	1	44	2	2	2.88%	4.38%
* 9703	3,021	1	29	0	0	0.96%	2.76%
* 9706	3,361	3	98	0	0	2.88%	9.32%
* 9707	3,143	0	0	4	7	3.85%	0.67%
* 9709	3,163	1	33	16	49	16.35%	7.80%
* 9711	3,391	4	140	24	78	26.92%	20.74%
* 9712	3,493	11	359	27	120	36.54%	45.58%

To tal s	27528	23	758	81	293	100.00%	100.00%
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*Moderate income tracts.

The bank made loans in all of the tracts within its assessment area, including moderate-income tracts. Generally, lending activity in each tract is consistent with the population of the tract. In three (all of which are moderate-income census tracts) of the eight census tracts and BNA's combined, the lending activity, as a percentage of the total activity, is significant (i.e., CT 9709 - 16.35%; CT 9711 - 26.92%; and CT 9712 - 36.54%).

The bank's lending penetrated all areas of the assessment area. The bank's credit distribution profile, which includes a significant portion of real estate lending, is consistent with its business focus. There is no evidence of irregular lending patterns. The bank's geographic distribution throughout the assessment area is considered reasonable.

Response to Complaints

No complaints were received by the institution regarding its CRA performance since the previous examination.