

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 **The Garrett State Bank, Garrett, Indiana** prepared by the **Federal Reserve Bank of Chicago**, the institution's supervisory agency, as of **November 12, 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 **Outstanding**.

The Garrett State Bank maintains a high level of performance in meeting the credit needs of its community. The bank strongly promotes economic revitalization and growth, given its size, financial capacity, location and current economic conditions of the assessment area. A review of the bank's lending activity indicates that the bank originates credit, by general type, consistent with the types of credit listed in its CRA statement, and reflects its commitment to meeting the credit needs of the entire assessment area.

The bank's efforts is evidenced by a consistently high loan-to-deposit ratio. The bank has exhibited sufficient performance concerning the percentage of loans originated and geographic dispersion of loans in its assessment area. Management is knowledgeable of antidiscrimination laws and has developed adequate policies, procedures and training programs to prevent prohibited discriminatory lending practices or policies intended to discourage loan applications. Further, no complaints were received by the institution regarding its CRA performance, since the previous examination.

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

SMALL INSTITUTION ASSESSMENT CRITERIA	THE GARRETT 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	There Are no low- or moderated-income census tracts or BNAs in the assessment area.		
Response to Complaints	No CRA-related complaints were received since the previous examination.		

DESCRIPTION OF INSTITUTION

The Garrett State Bank, with \$58.8 million in total assets as of June 30, 1996, is a subsidiary of G.S.B. Financial Corporation, a one-bank holding company. The bank's main office is located in Garrett, Indiana, approximately 25 miles north of Fort Wayne in DeKalb County. The bank has one branch office located in the Pine Valley area of Fort Wayne, in Allen County. Additionally, the bank operates two on-premise proprietary Automated Teller Machines (ATMs) at each location.

The bank is a retail community bank offering traditional financial services including commercial, consumer, real estate and farm credit products. The consumer loan products offered include secured and unsecured installment, home equity lines of credit, credit cards and overdraft protection loans. Real estate loans include conventional loans with financing up to 90% loan-to-value with private mortgage insurance (PMI) coverage, mobile home and construction loans. Commercial and farm credit products include operating lines of credit, real estate, capital purchases and equipment loans.

The bank's primary competitors include branches of Peoples Federal Savings Bank of DeKalb County (Auburn), The Auburn State Bank and Campbell & Fretter Bank (Kendallville), all located in DeKalb County; Fort Wayne National Bank, Lincoln National Bank and Trust Company, NBD Bank (formerly NBD Summit Bank) and Norwest Bank Indiana NA, located in Allen County.

DESCRIPTION OF THE BANK'S ASSESSMENT AREA

The Garrett State Bank's assessment area includes a portion of DeKalb and Allen Counties, located within the Fort Wayne Metropolitan Statistical Area (MSA). The bank has defined its assessment area to include whole census tracts 201 through 208 in DeKalb County and 102, 103.01, 103.02, 104, 107.01, 107.02 and 108.06 located in Allen County.

The bank's assessment area has been revised since the previous examination. The current assessment area was formally adopted by the bank's board of directors and was implemented on January 1, 1996, based on the results of a market area analysis, and a deposit and loan geo-coded analysis.

According to 1990 census data, the population within the bank's assessment area is 71,498, with minorities comprising 1,416 or 2% of the population. The total number of families within the assessment area is 19,878 and has an adjusted median family income of \$40,323; 2,439 or 12.3% are low-income; 3,301 or 16.6% are moderate-income; 5,497 or 27.7% are middle-income; and 8,641 or 43.5% are upper-income families. There are no low- or moderate-income or minority census tracts within the assessment area.

According to the 1990 census data, the assessment area has a total of 26,529 housing units, of which 21,122 (79.6%) are owner-occupied, 3,934 (14.8%) are renter occupied, and 1,473 (5.6%) are vacant units. The number of housing units is comprised of 22,165 (83.6%) single family dwellings, 1,146 (4.3%) multi-family dwellings and 3,055 (11.5%) mobile homes. The median housing value and age are \$66,440 and 35 years, while the median gross monthly rent is \$374.

Community representatives stated The Garrett State Bank is an active lender in the community. The bank was credited as a leader in attracting small business development, and helping to improve and expand local schools. The bank assisted in the development of new affordable housing (in the \$30,000 range), for low- or moderate-income families.

The following chart illustrates the major employers in the bank's assessment area.

EMPLOYER	NUMBER OF EMPLOYEES	TYPE OF BUSINESS OR INDUSTRY
Cooper Engineered Products, Auburn	700	Molded Rubber Automotive Products
Guardian Industries Inc., Auburn	500	Laminated & Tempered Auto Glass
Auburn Foundry, Inc., Auburn	450	Gray Iron Casting
Spicer Clutch, Auburn	400	Metal Stamping
Universal Tool & Stamping Co., Butler	385	Automobile Jacks & Accessories
Therma-Tru Corp., Butler	350	Door Components
Rieke Corp, Auburn	350	Industrial Plastic & Steel Container Closures
Renaissance Publishing Co., Inc., Auburn	350	Calendar and Funeral Supplies
Auburn Gear, Inc., Auburn	300	Limited Slip & Open Differential, Ring Gears
Fleetwood Homes of Indiana Inc, Garrett	280	Mobile Homes
Doty Lithograph, Auburn	275	Commercial Lithographic Printing
Foamex L. P., Auburn	265	Polyurethane Foam Products
Nucor Building Systems, Waterloo	250	Prefabricated Steel Buildings
Electronic Motors Inc., Garrett	200	Electric Motors and Fans
Zanxx Inc., Garrett	120	Plastic Injection Molding
Mossberg Industries Inc., Garrett	100	Plastic & Metal Spools
Garrett Products Inc., Garrett	100	Metal Fabrication & Powder Coating

According to the Department of Work Force Development, DeKalb County's unemployment rate for the month of September, 1996, was 3.1% and Allen County's was 3.3%, which compares favorably to the State of Indiana rate of 3.8%, and the national unemployment rate of 5%.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

The bank is in compliance with the substantive provisions of anti-discrimination laws and regulations, including the Equal Credit Opportunity Act and the Fair Housing Act. No practices were noted that would discourage applications for the type of credit products offered by the bank.

Loan-to-Deposit Ratio

A review of the bank's June 30, 1996, Consolidated Report of Condition revealed a loan-to-deposit ratio of 77.71%, an increase of 9.27% (from 68.44%) since June 30, 1995. An analysis of the bank's Consolidated Reports of Condition, from March 31, 1995, through June 30, 1996, revealed an average loan-to-deposit ratio of 70.01%.

According to the June 30, 1996 and June 30, 1995, Uniform Bank Performance Report (UBPR), The Garrett State Bank's loan-to-deposit ratio exceeded the peer group by 9.84% and 2.04%, respectively. According to the June 30, 1996 UBPR, the bank's performance compared to peer is illustrated in the following chart.

LOAN TYPE	BANK AVERAGE LOAN MIX (%)	PEER AVERAGE LOAN MIX (%)
REAL ESTATE LOANS		
Construction/Development	4.38	4.54
1 - 4 Family Residential	56.80	26.57
Home Equity	2.34	1.26
Other Real Estate	3.96	23.40
Farmland	0.81	0.43
Multi-family	0.04	1.12
Commercial	3.10	19.40
TOTAL REAL ESTATE LOANS	65.13	62.05
LOANS TO INDIVIDUALS	11.93	10.78
CREDIT CARD LOANS	0.64	0.28
COMMERCIAL & INDUSTRIAL LOANS	21.71	18.31
AGRICULTURAL LOANS	1.22	0.31
MUNICIPAL LOANS	0.00	0.05
OTHER LOANS*	0.00	0.17
*Excludes Financial Institution Loans, Acceptances of Other Banks, Foreign Office Loans and Leases, and Lease Financing Receivables		

The bank's loan-to-deposit ratio is high and is considered outstanding given the institution's size,

financial condition and assessment area credit needs.

Lending in Assessment Area

A sample of loans was reviewed regarding lending activity within the bank's assessment area. An analysis of the examination loan sample revealed the following distribution.

LOAN TYPE	TOTAL NUMBER SAMPLED	WITHIN THE ASSESSMENT AREA	PERCENT OF TOTAL
Single Payment	10	9	90%
Overdraft Line	10	9	90%
Credit Cards	11	9	82%
Home Equity Line	9	7	78%
Indirect Installment	10	9	90%
Direct Installment	20	19	95%
Commercial	12	9	75%
Real Estate	10	9	90%
Total Approved Loans	92	80	87%

As the preceding chart illustrates, 87% of the loans were made within the assessment area.

The bank conducts a self analysis of lending activity within its assessment area on a semi-annual basis. The following chart illustrates the bank's analysis of lending within its assessment area for the period of June 1, 1996 through November 12, 1996.

LOAN TYPE	TOTAL LOANS	WITHIN THE ASSESSMENT AREA	PERCENT OF TOTAL
Consumer Installment Loans	263	219	83.27%
Real Estate Mortgage Loans	83	74	89.16%
Commercial Loans	76	65	85.53%
Total Originations	431	358	88.06%

As the preceding chart illustrates, 88% of loans were within the bank's assessment area.

A review of the 1995 Home Mortgage Disclosure Act data (HMDA) revealed that 122 of 144 (84.7%) loan originations were within the banks assessment area.

The review of the examination loan sample, 1995 HMDA data, and the bank's self analysis, demonstrates that the bank's performance in lending within its assessment area exceeds the standards for satisfactory performance.

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

A review of the bank's 1995 HMDA data revealed that lending activity to low- or moderate-income individuals comprised a substantial portion of the bank's overall mortgage activity. Application and origination percentages for the bank's low-income and moderate-income applicants were 44.83% (65 of 145) and 41.80% (51 of 122), respectively.

A review of the examination loan sample, of which 71 of 79 consumer loans (89.9%) had borrower income information available, revealed the following distribution of loans among borrowers of different income levels:

LOAN TYPE	LOW-INCOME BORROWERS \$000's/Number	MODERATE- INCOME BORROWERS \$000's/Number	MIDDLE- INCOME BORROWERS \$000's/Number	UPPER-INCOME BORROWERS \$000's/Number
Single Payment	6,500/2	10,359/2	10,783/5	3,350/1
Overdraft Line	500/1	1,100/2	1,800/3	4,000/3
Credit Cards	6,000/2	8,700/4	1,000/1	12,000/3
Home Equity Line	15,000/1	0/0	35,000/2	48,000/3
Indirect Installment	40,294/3	0/0	26,835/2	19,964/2
Direct Installment	11,130/3	36,829/4	66,852/10	20,281/2
Real Estate	0/0	112,422/3	217,700/3	367,075/4
Total Originations	79,424/12	169,410/15	359,970/26	476,670/18

The chart illustrates that of 27 of 71 (38.0%) loans sampled were to low- or moderate-income borrowers. A loan amount proxy of \$1000 was also used to determine the bank's performance in lending to borrowers of different incomes. The loan proxy revealed that 14 of 79 (17.7%) consumer loans sampled were in the amounts of \$1000 or less.

A review of the bank's June 30, 1996 Consolidated Reports of Condition revealed the following loan distribution to small businesses:

LOAN ORIGATION CATEGORY (000s)	NUMBER OF LOANS	DOLLAR AMOUNT OUTSTANDING	% OF TOTAL LOANS	% OF TOTAL OUTSTANDING
SMALL BUSINESS				
\$100 OR LESS	134	\$2,789	82.21%	28.05%
\$100 - \$250	18	\$2,868	11.04%	28.84%
\$250 - \$1 MILLION	11	\$4,287	6.75%	43.11%
TOTAL	163	\$9,944	100%	100%

The preceding chart illustrates that 82.21% of the total number of small business loans had originated amounts of \$100,000 or less. A loan amount of \$100,000 was used as a proxy for determining the bank's lending to small businesses and farms. Using this loan amount, it was determined that 134 of 163 (82.21%) of the bank's loans were to small businesses and farms. With the loan size used as a proxy, the chart further indicates that the total loans are proportionately distributed to businesses of different sizes. The examination loan sample revealed that 8 of 12 (75%) commercial/agricultural loans (with borrower income information) and that 7 of 8 (87.5%) were to small businesses and farms.

The bank offers Federal Housing Administration (FHA), Veterans Administration (VA), and Fannie Mae's Community Homebuyers Program loans, and DeKalb County's Habitat for Humanity Inc., an organization founded to provide housing for low-income individuals. The Community Homebuyers Program finances homes at 97% loan-to-value (LTV). Since the implementation of the program in November of 1994, the bank originated six loans through the Community Homebuyers Programs, one VA and two FHA loans. In addition, the bank has awarded a total of three 30-year, interest free loans in the amounts of \$30,000 or less to the DeKalb County branch of Habitat for Humanity for the purpose of new home construction. The programs mentioned previously are used to assist low- or moderate-income individuals in purchasing and financing homes.

A sample of commercial loan activity in 1995 and 1996 was also reviewed. The sample indicated that the majority of the bank's commercial lending activity is to businesses with annual sales less than \$1,000,000. This lending activity is consistent with the types of businesses located in the bank's assessment area.

Review of the loan sample and HMDA data reflects a more than reasonable distribution of lending to individuals of different income levels and to businesses of different sizes is in accordance with the market's demographics.

Geographic Distribution of Loans

Because there are no designated low- or moderate-income census tracts or BNAs within the bank's assessment area, this criterion was not rated.

Response to Substantiated Complaints

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