
GENERAL INFORMATION

This document is an evaluation of the Community Reinvestment Act (CRA) performance of **The Auburn State Bank** prepared by the **Federal Reserve Bank of Chicago**, the institution's supervisory agency.

The evaluation represents the agency's current assessment and rating of the institution's CRA performance based on an examination conducted as of **January 29, 1996**. It does not reflect any CRA-related activities that may have been initiated or discontinued by the institution after the completion of the examination.

The purpose of the Community Reinvestment Act of 1977 (12 U. S. C. 2901), as amended, is to encourage each financial institution to help meet the credit needs of the communities in which it operates. The Act requires that in connection with its examination of a financial institution, each federal financial supervisory agency shall (1) assess the institution's record of helping to meet the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operations of the institution, and (2) take that record of performance into account when deciding whether to approve an application of the institution for a deposit facility.

The Financial Institutions Reform, Recovery and Enforcement Act of 1989, Pub. L. No. 101-73, amended the CRA to require the Agencies to make public certain portions of their CRA performance assessments of financial institutions.

Basis for the Rating

The assessment of the institution's record takes into account its financial capacity and size, legal impediments and local economic conditions and demographics, including the competitive environment in which it operates. Assessing the CRA performance is a process that does not rely on absolute standards. Institutions are not required to adopt specific activities, nor to offer specific types or amounts of credit. Each institution has considerable flexibility in determining how it can best help to meet the credit needs of its entire community. In that light, evaluations are based on a review of 12 assessment factors, which are grouped together under 5 performance categories, as detailed in the following section of this evaluation.

ASSIGNMENT OF RATING

Identification of Ratings

In connection with the assessment of each insured depository institution's CRA performance, a rating is assigned from the following groups:

Outstanding record of meeting community credit needs.

An institution in this group has an outstanding record of, and is a leader in, ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Satisfactory record of meeting community credit needs.

An institution in this group has a satisfactory record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Needs to improve record of meeting community credit needs.

An institution in this group needs to improve its overall record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Substantial noncompliance in meeting community credit needs.

An institution in this group has a substantially deficient record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

DISCUSSION OF INSTITUTION'S PERFORMANCE

Institution's Rating:

This institution is rated **satisfactory record of meeting community credit needs**, based on the findings presented below.

COMMUNITY PROFILE

The bank's main office is located in Auburn, Indiana which is near the center of DeKalb County and approximately 20 miles north of Fort Wayne, Indiana. The bank also has one branch office located in Waterloo, Indiana, approximately 7 miles northeast of Auburn. The bank has delineated its community as all of DeKalb County, which includes the Cities of Auburn, Ashley, Corunna, Waterloo, Butler, Garrett, St. Joseph, and part of Hamilton. According to the 1990 Census, DeKalb County, Auburn and Waterloo have populations of 35,324, 9,379, and 2,040, respectively. Whites represent 34,877 or 98.7% of the delineation's population compared to 248 or 0.7% for Hispanics and 199 or 0.6% for all others. Minorities represent 1.42% of the population in Auburn and 2.06% in Waterloo. Auburn and Waterloo are the two largest cities in DeKalb County; the total population of all other towns combined is less than 1,000 people.

According to community contacts the economy is growing. Its focus appears to be shifting from agricultural to manufacturing, small businesses and fast-food restaurants. In general, agriculture is not a major sector of the economy. According to the Auburn Chamber of Commerce, manufacturing is the largest industry in DeKalb County and the major employers in DeKalb County are listed in the following chart:

Company	Products	Number of Employees
Auburn Foundry, Inc.	Gray Iron Castings	550
Cooper Engineered Products	Molded Rubber Products	800
Guardian Industries, Inc.	Laminated Auto Glass	600
Renaissance Publishing Co., Inc.	Calendars & Funeral Supplies	350
Spicer Clutch	Metal Stamping & Clutches	530
Universal Tool & Stamping Co., Inc.	Auto Jacks & Accessories	370
DeKalb Memorial Hospital	Hospital & Health Care Services	400
Therma Tru Corp.	Door Components	350
DeKalb Central School System	Education	350
Vulcraft	Steel Joists, Floor & Roof Decks	320

According to the Indiana Department of Workforce, the unemployment rate for DeKalb County was approximately 3.8% as of December, 1995, compared to 4.2% for the State of Indiana. The average cost of housing in Auburn is \$87,000; the average age of housing stock in the delineated community is 38 years; and 81.2% of the homes in the delineation are owner-occupied.

According to community contacts, the communities most in need of help are Garrett and Butler. The lack of housing is a major issue in these communities. The average cost of a new house is considered higher than the county, about \$105,000. Construction is underway for a low- and moderate-income rental unit to be built on the west side of town.

BANK PROFILE

The Auburn State Bank, with total assets of \$131,500,000 as of December 31, 1995, is a subsidiary of Fort Wayne National Corporation, a multi-bank holding company. The bank offers standard deposit, trust and loan products which include residential real estate, commercial, agricultural and consumer loans. The bank has one automated teller machine (ATM) located at its main facility and a full-service branch located in Waterloo. The majority of the bank's agricultural loan requests are referred to the branch, where the loan officers have more experience with agricultural loans.

Primary banking competition is provided by a number of financial institutions: the Campbell & Fetter Bank, with a branch office in Auburn; Peoples Federal Savings Bank of DeKalb County in Auburn, with a branch office in Garrett; the Knisely National Bank of Butler in Butler, with a branch office in St. Joseph; Norwest Bank Indiana, N.A., with a branch office in Auburn; Norwest Bank Angola, with a branch office in Hamilton; the Garrett State Bank in Garrett; the First National Bank of Fremont, with a branch office in Ashley; Banc One Merrillville, N.A., with a branch office in Cedar Lake; NBD Bank, N.A., with a branch office in Cedar Lake; Community State Bank in Kendallville; Society National Bank in Kendallville; and several area credit unions.

ASSESSMENT OF RECORD

I. ASCERTAINMENT OF COMMUNITY CREDIT NEEDS

Assessment Factor (a) - Activities conducted by the institution to ascertain the credit needs of its community, including the extent of the institution's efforts to communicate with members of its community regarding the credit services being provided by the institution.

Regulatory Expectation

The Statement of the Federal Financial Supervisory Agencies regarding the Community Reinvestment Act (Policy Statement) indicates that an effective CRA process must include methods to ascertain community credit needs on an ongoing basis through outreach efforts to local governments, businesses, and community members and organizations. This ascertainment effort should include a system that facilitates dialogue with these individuals and groups and enables them to communicate their concerns to an officer of the financial institution.

Scope and Findings

The bank's formal call program, the board of directors and senior management's participation in CRA outreach efforts, and related activities involving local government agencies, businesses, community members and organizations were reviewed to assess the bank's effectiveness in ascertaining the community's credit needs.

Based upon discussions with management, the most effective and frequently used ascertainment activity for the bank is direct contact with representatives from the delineated community. Therefore, the bank continues to use its formal officer call program to promote communication between the bank and members of its community regarding unmet credit needs. Officers participating in the bank's call program contact existing and prospective customers, businesses, realtors, builders and municipal officials to facilitate communication of unmet community credit needs. Calls are discussed on a monthly basis during loan committee meetings and during monthly board of directors' meetings. Since the previous examination, five bank officers made a total of 258 calls within the delineated community; however, these calls were made within Auburn and Waterloo. This distribution appears reasonable given that Auburn and Waterloo have large populations. The remaining population is scattered throughout rural areas.

The bank also relies upon the personal contact of its directors, management and staff with various members of the delineated community to identify credit needs. The following chart summarizes significant affiliations of bank representatives:

BANK REPRESENTATIVE	NAME OF ORGANIZATION	PURPOSE	MEETING FREQUENCY	CREDIT NEEDS IDENTIFIED
Senior Officer	Auburn Chamber of Commerce	Community Development	Monthly	Business and Consumer loans
Senior Officer	DeKalb Memorial Hospital	Community Outreach	Monthly	Business and Consumer Loans
Senior Officer	Auburn Lions Club	Community Development	Monthly	General Consumer Loans
Senior Officer	Auburn Downtown Business Association	Community Development	Monthly	Commercial Loans
Senior Officer	Greenhurst Estates	Community development	Monthly	Real Estate Loans
Senior Officer	DeKalb County Ducks Unlimited	Community Development	Quarterly	Consumer Loans
Senior Officer	DeKalb County 4-H Club	Community Development	Monthly	Agricultural Loans
Senior Officer	Auburn Board of Zoning Appeals	Community Development	Monthly	Commercial Loans
Senior Officer	City of Auburn Plan Commission	Community Development	Monthly	Business Loans
Senior Officer	DeKalb Agricultural Advisory Committee	Community Development	Monthly	Agricultural Loans
Senior Officer	DeKalb County Young Farmers	Outreach to young farmers	Quarterly	Agricultural Loans
Senior Officer	DeKalb County Agricultural Extension Board	Ascertainment of Ag credit needs	Monthly	Agricultural Loans
Senior Officer	Farm Managers and Rural Appraisals	Update on farming trends and farmland appraisals	Quarterly	Agricultural Loans

Since the previous examination, the bank identified specific needs and began offering the following new loan products: Easy Access Line of credit (open-end), a Visa/Mastercard, home equity and indirect automobile loan product. These new products are discussed under Assessment Factor (i).

Conclusions

Overall, the bank’s outreach efforts have increased since the previous examination. The bank’s call program and involvement in the community are considered adequate; as it includes a cross-section of individuals, community organizations and municipalities

throughout the delineated community. Management has met regularly to discuss the results of its call activities and to ensure that credit products/services are responsive to the needs of the community.

Assessment Factor (c) - The extent of participation by the institution's board of directors in formulating the institution's policies and reviewing its performance with respect to the purposes of the Community Reinvestment Act.

Regulatory Expectation

The Policy Statement states that banks are encouraged to develop a CRA plan to ensure an affirmative effort on the part of the bank to comply with the Act. It further states that the duty to coordinate and monitor the CRA process should be assigned to a senior officer or a committee charged with the responsibility to report periodically to the board of directors about the bank's CRA efforts, performance, and areas for improvement, where appropriate. An employee training program should be established which addresses information about those policies of the bank designed to help meet community credit needs including the needs of low- and moderate-income areas and small businesses. Procedures should be implemented to ensure that files are maintained, as required by the regulation, for purposes of receiving public comments and for reviewing and responding to the comments.

Regardless of how the bank organizes itself to implement its CRA plan, seeing that the institution has taken the steps necessary to help meet its community's credit needs is the responsibility of the entire organization, beginning with its board of directors and continuing through its line management. To be effective, a CRA plan must include methods to incorporate findings regarding community credit needs into the development of products and services that the bank decides to offer to help meet these needs.

The Policy Statement also states that the bank's CRA statement should accurately reflect the types of lending and other services that the bank is willing to offer to the community. This statement must be reviewed at least annually to ensure its accuracy. The services that the bank chooses to offer should be clearly articulated and reasonably related to community needs.

Scope and Findings

The minutes of the board of directors and audit/compliance meetings were reviewed, along with staff training materials and other documented CRA-related activities to assess the board and senior management's participation in the formulation and oversight of CRA/compliance policies and procedures.

The bank has a limited CRA process which includes discussion of CRA activities at periodic meetings. The board of directors has appointed a senior officer of the bank as the bank's CRA/Compliance officer; he oversees and monitors the bank's CRA activities and to ensure that staff receives updates on changes in regulatory compliance requirements. Review of the board minutes revealed three discussions concerning CRA-related issues since the previous examination.

Ongoing training for CRA and compliance issues continues to be provided for bank staff. The majority of the training material for both compliance and CRA is provided to the bank by the holding company. Approximately seven training sessions were documented in the bank's CRA files between September of 1995 and January of 1996. Generally, CRA/compliance issues are discussed at monthly loan committee meetings which are attended by senior management and periodically by other staff members. With the

exception of the bank's president who is a director, other directors have played a limited role in the bank's CRA-related efforts.

Procedures have been implemented to ensure that files are maintained, as required by the regulation, for purposes of receiving public comments and for reviewing and responding to the comments. The bank has not received any comments regarding its performance under the Community Reinvestment Act since the previous examination. An expanded CRA statement has been developed that includes CRA-related efforts/issues.

The board of directors did not review or approve the bank's CRA statement, at least annually, as required by the regulation.

Conclusions

The bank's performance is considered adequate. However, the board of directors has limited involvement in the CRA process.

II. MARKETING AND TYPES OF CREDIT OFFERED AND EXTENDED

Assessment Factor (b) - The extent of the institution's marketing and special credit-related programs to make members of the community aware of the credit services offered by the institution.

Regulatory Expectation

The Policy Statement indicates that an effective CRA plan should include marketing and advertising programs for lending products and services that are responsive to the needs of the community and that will inform and stimulate awareness of those products and services throughout the community, including low- and moderate-income areas.

Scope and Findings

The bank's marketing and advertising programs were reviewed to assess their effectiveness in making members of the community aware of the credit products offered by the bank, and to determine their responsiveness to credit needs. Also, community representatives were interviewed regarding the effectiveness of the bank's marketing efforts.

The bank markets its products using two newspapers, The Evening Star, with 8,336 subscribers in the DeKalb County and The DeKalb County Advertiser, with 10,131 subscribers in DeKalb County. In addition to these newspapers, the bank markets its products on cable television using the following stations: ESPN, TNT, CNN, USA, Lifetime, Discovery, TNN, and Arts & Entertainment. These advertisements reach approximately 6,000 homes throughout the communities of Auburn, Waterloo, Garrett and Laotto.

The following chart, illustrates the bank's advertising efforts since the previous examination.

ADVERTISING ANALYSIS BY PRODUCT			
Bank Services Advertised	Medium	Number	Percent of Total by Type
Residential Mortgage Loans	Newspaper	0	0.00
	Television	1,123	25.70
	Other	0	0.00
Home Equity Loans	Newspaper	1	1.49
	Television	0	0.00
	Other*	1	11.11
Credit Cards	Other*	1	11.11
Agricultural Loans	Newspaper	6	8.96
	Television	560	12.81
	Other*	0	0.00
Deposit Services	Newspaper	11	16.42
	Television	241	5.51
	Other	7	77.78
Auto Loans	Newspaper	4	5.97
	Television	883	20.21
	Other*	0	0.00
MAC - 24 Hour ATM card	Newspaper	28	41.79
	Television	1,563	35.77
Goodwill/Image	Newspaper	15	22.39
Seminar	Newspaper	2	2.98

*Includes statement messages.

In summary, a total of 4,446 advertisements were used to promote the bank's products/services since the previous examination. A total of 2,579 or 58% promoted loan products while 1,591 or 35.78% advertised the bank's 24-hour ATM card. Discussion with management revealed that the bank also relies heavily upon word-of-mouth and customer referrals to help market its products.

Conclusions

The bank's marketing efforts are sufficient and the bank has addressed the weaknesses regarding the marketing of its products and services throughout the delineated community, as discussed in the previous report of examination. The current marketing efforts create and maintain a reasonable level of community awareness regarding the bank's products and services. As mentioned previously, direct contact with the community has proven to be the most effective form of advertising and allows staff to cross-sell bank products and services.

Assessment Factor (i) - The institution's origination of residential mortgage loans, housing rehabilitation loans, home improvement loans, and small business or small farm loans within its community, or the purchase of such loans originated in its community.

Scope and Findings

The bank's December 31, 1995, Consolidated Report of Condition (CRC) was reviewed along with the bank's September 30, 1995 Uniform Bank Performance Report (UBPR). The bank's efforts regarding mortgage loan referrals were also reviewed.

The December 31, 1995, CRC revealed outstanding loans of \$58,031,000 and deposits of \$113,760,000 resulting in a loan-to-deposit (LTD) ratio of 51.01%, while the bank had a loan-to-asset (LTA) ratio of 44.10%. Since the previous examination, these ratios increased by 3.75% and 1.83%, respectively. Historically, for the past several CRC reports, the bank's LTD ratio has not risen above 52%, and according to the UBPR reports during this same time period, the LTD average is 56%. The following chart illustrates the breakdown of the bank's loan distribution, by type, as of December 31, 1995:

LOAN TYPE	DOLLAR AMOUNT OUTSTANDING (000's)	PERCENT OF TOTAL LOANS
REAL ESTATE		
Construction	983	1.69
Residential (1-4)	28,506	49.12
Agricultural	2,115	3.64
Commercial	10,625	18.31
Home Equity (open-end)	126	.22
Multi-Family	5	.01
CONSUMER		
All Other	4,236	7.30
Open-end	32	.06
COMMERCIAL AND INDUSTRIAL	8,764	15.10
AGRICULTURAL	1,628	2.81
STATE AND POLITICAL OBLIGATIONS	960	1.65
OTHER	51	.09
TOTALS:	*58,031,000	100.00

* Total includes \$6,000 in unearned income.

The preceding chart shows that the majority of the bank's loans are concentrated in the real estate loan category with residential 1-4 family real estate and commercial representing 49.12% and 18.31% of the loan portfolio, respectively. Occasionally, real estate loan referrals are made to the parent bank (Fort Wayne National Bank). The majority of these loans involved long-term financing (i.e., 20 to 30-year fixed and adjustable rate mortgages) which the bank does not offer. Management said that it had

not tracked the number and dollar amount of the mortgage referrals. According to management, the referrals of mortgage applications to the holding company helps to meet the need for financing terms not offered by the bank.

A comparison of the bank's loan distribution with information contained in the previous report of examination (data as of September 30, 1994), reveals that outstanding loans have increased by \$4.9 million or 9.31%. During this period, a significant increase of \$3.9 million or 58.46% was noted in the commercial real estate category. A significant decrease was noted in other consumer loans totaling \$672,000 or 13.69%.

A comparison of the bank's performance with its peer group based upon data contained in the September 30, 1995, Uniform Bank Performance Report (UBPR) revealed the following:

LOAN TYPE	BANK AVERAGE LOAN MIX (%)	PEER AVERAGE LOAN MIX (%)
REAL ESTATE LOANS		
Construction/Development	1.45	3.29
1 - 4 Family Residential	48.83	22.97
Home Equity	1.19	1.10
Other Real Estate	21.98	21.92
Commercial	17.62	18.02
Farmland	3.54	.19
Multi-family	.82	1.39
TOTAL REAL ESTATE LOANS	72.27	58.14
LOANS TO INDIVIDUALS	8.41	10.33
COMMERCIAL/INDUSTRIAL LOANS	14.76	17.52
AGRICULTURAL LOANS	2.38	.03
MUNICIPAL LOANS	1.95	.07
OTHER LOANS*	.23	.24
*Excludes Financial Institution Loans, Acceptances of Other Banks, Foreign Office Loans and Leases, and Lease Financing Receivables		

BANK NET LOAN/LEASE TO DEPOSIT RATIO	PEER NET LOAN/LEASE TO DEPOSIT RATIO
51.29	63.89

Analysis of the bank's lending performance revealed that the bank significantly exceeded the peer group's performance in the real estate loan category, with the most significant variances noted in the 1-4 family residential and other real estate categories. The bank's performance was below its peer group in the commercial/industrial category. Additionally, the bank's LTD was below its peer group (51.29% versus 63.89%); however, the bank's average LTD ratio was 55.95% between December 31, 1992 and September 30, 1995.

As previously mentioned under Assessment Factor (a), the bank identified a new credit product (Visa/Mastercard) to be used by both consumer and business customers. Since this new credit offering beginning in August of 1995, the bank issued a total of 108 cards for a total credit line amount of \$360,000. Of the total cards issued, three corporate cards were issued to the principals of the business denoting the names of their respective business establishment. Discussion with management indicate that these cards will allow these commercial customers the availability of funds to finance business transactions without applying for a small business loan. In addition, the bank originated 18 home equity loans totaling \$924,900 since August of 1995.

Conclusions

The review of the bank's loan portfolio and the examination loan sample, as well as information obtained from various internal reports, indicate that the bank's level of lending is consistent with the makeup of the community. In addition, community members contacted during the examination did not voice any concerns about unmet credit needs.

Assessment Factor (j) - The institution's participation in governmentally insured, guaranteed or subsidized loan programs for housing, small business or small farms.

Scope and Findings

The bank's participation in government-insured loan programs and mortgages with private mortgage insurance (PMI) was reviewed. In addition, community organizations were contacted to determine their perceptions of area financial institutions and whether they offer the types of loan programs and originate credit consistent with those needed in the community.

The bank participates in the Indiana Guaranteed Student Loan and the Small Business Administration (SBA) loan programs. Since the previous examination, the bank originated 16 student loans totaling \$49,012. Currently, the bank has 150 student loans outstanding totaling \$203,890. Although the bank has not originated any SBA loans since the previous examination, the bank is an active lender to small businesses within the delineated community on a conventional basis.

Conclusions

The bank's participation in government-insured loan programs is consistent with its size, resources and the community's needs. Community contacts made during the examination did not reveal any specific needs for government-related loan programs. Although the bank does not offer traditional governmentally-insured, subsidized, or guaranteed loan programs such as FHA, FmHA and VA, referrals to the bank's holding company are available.

III. GEOGRAPHIC DISTRIBUTION AND RECORD OF OPENING AND CLOSING OFFICES**Regulatory Expectation****Reasonableness of Community Delineation**

The regulation requires state member banks to prepare, and at least annually review, a delineation of the local community or communities that comprise its entire community, without excluding low- and moderate-income neighborhoods. Maps are required to be used to portray community delineations. The regulation requires Federal Reserve System examiners to review the reasonableness of the delineations.

The regulation states that a local community shall consist of the contiguous areas surrounding each office or groups of offices, including any low- and moderate-income neighborhoods in those areas. In preparing its delineation, a bank may use any one of the three methods, as stipulated in the regulation: (1) existing boundaries, such as those of a Metropolitan Statistical Area or counties in which the bank's office or offices are located; (2) the bank's effective lending territory, which is defined as that local area or areas where it makes a substantial portion of its loans and all other areas equidistant from its offices; or (3) any other reasonably delineated local area that meets the purposes of CRA and does not exclude low- and moderate-income areas.

Scope and Findings

The geographic distribution of the bank's credit applications and the bank's loan tracking program were reviewed to assess the reasonableness of the delineated community. The bank's 1994 Home Mortgage Disclosure Act (HMDA) data and 1995 Loan Application Register (LAR) were also reviewed.

The bank has defined its community as DeKalb County, Indiana. This method of delineation is consistent with method number one described above. The bank is in the Fort Wayne Metropolitan Statistical Area (MSA) - 2760. The bank's delineated community includes a very small portion of the MSA and encompasses eight or 7.69% of the total 104 census tracts for the MSA. There are no low- and moderate-income or minority census tracts within the delineated community.

A review of the sample of loans selected during this examination support the reasonableness of the bank's delineation. The effectiveness of the bank's loan programs in serving the credit needs of the entire delineated community is discussed under Assessment Factor (e).

The bank has not reviewed or approved its delineation annually, as required by the regulation. The last approval was April 12, 1994, according to the minutes of the board of directors meeting.

Conclusions

The method used by the bank to delineate its community is consistent with the requirements of the regulation and does not exclude any areas that the bank could reasonably be expected to serve. Based on the distribution of credit within the delineated community, the delineation is considered reasonable.

Assessment Factor (e) - The geographic distribution of the institution's credit extensions, credit applications and credit denials.

Regulatory Expectation

The Policy Statement states that the services that the bank chooses to offer should be distributed within the bank's community in a fair and nondiscriminatory manner, in keeping with the bank's general approach to its business.

Scope and Findings

The bank's 1994 HMDA data, 1995 LAR data and the examination sample of loans and denied credit applications were reviewed to determine the effectiveness of the bank's efforts to generate applications and originate loans throughout its delineated community. In addition, the bank's loan tracking program was also reviewed. The following chart illustrates the distribution of the examination loan sample.

EXAMINATION LOAN SAMPLE SUMMARY			
LOAN TYPE	TOTAL SAMPLED #	TOTAL NUMBER WITHIN COMMUNITY	PERCENT OF TOTAL IN COMMUNITY %
Installment	22	17	77.00
Single Payment	22	16	73.00
Real Estate	10	8	80.00
Credit Cards	10	10	100.00
Home Equity	10	8	80.00
Commercial	10	9	90.00
Denied Applications	30	23	77.00
Total Applications	114	91	80.00

An analysis of the data in the preceding chart reveals that the majority of the sampled loans are within the delineated community. Management suggested that many of the loans outside the delineation were originated to applicants that work in the

community, but live elsewhere. Given the fact that the populated areas outside of the Auburn city limits are small, a large concentration of loans in the City of Auburn appears reasonable.

The bank has a loan tracking system in place. The program was implemented on November 1, 1995, and is reviewed periodically by the CRA officer, with quarterly presentations to the board of directors. Currently, loan penetration within the delineated community is determined by product and includes a breakdown of the bank's commercial, real estate, home equity, installment, single-payment and credit card loans, as well as denied applications. The most recent analysis, as of January 31, 1996, is summarized in the following chart.

THE BANK'S TOTAL OUTSTANDING LOANS IN/OUT OF DELINEATION AS OF 1/31/96			
LOAN TYPE	IN	OUT	TOTAL
REAL ESTATE	534	83	617
	87%	13%	100%
INSTALLMENT	203	59	262
	77%	23%	100%
SINGLE PAYMENT	96	18	114
	84%	16%	100%
LINE OF CREDIT	74	12	86
	86%	14%	100%
HOME EQUITY LINE OF CREDIT	15	1	16
	94%	6%	100%
COMMERCIAL LOANS	177	29	206
	86%	14%	100%
TOTAL OF ALL LOAN TYPES	1,099	202	1,301
	84%	16%	100%

The bank's analysis revealed that overall, 84% (1,099 of 1,301) of total outstanding loans were within the delineated community. The bank plots loans on a city and county map as new loans are originated; the results are used by the board of directors to assess the reasonableness of the delineated community.

As previously mentioned, the delineated community is located within the Fort Wayne MSA. A review of the bank's HMDA data for 1994, along with the bank's 1995 year-to-date LAR was conducted. The charts in Appendix A, illustrate the bank's application and origination activity. As a percentage of total housing-related applications received in 1994, the number of applications for refinancings were 61 of 104 total applications or 58.65%, with an origination rate of 91.80%; followed by conventional mortgages, 38 applications or 36.54% with an origination rate of 92.11%; and home improvement loans, 5 applications or 4.81% with an origination rate of 100%. This data also shows a decline in the bank's overall application volume of 42 or 28.77% from 1993 to 1994; however, the bank maintained a reasonably high origination rate for housing-related credits. The year-to-date 1995 LAR revealed that the bank has originated 68 of 70 or 97.14% of the mortgage loan applications received.

The charts in Appendix B, illustrate lending activity pertaining to the bank's delineated community. According to 1994 HMDA data, the bank received 86 of 104 (82.69%) applications from within the delineated community, and of the total originations 79 of 96 (82.29%) were within the delineated community. The HMDA data for 1993 revealed that the bank received 119 of 146 or 81.51% of total loan applications from the delineated community. Of the bank's total originations, 105 of 132 (79.55%) were within the delineated community. Overall, HMDA data reveals that the majority of the bank's lending has occurred inside the delineated community.

Conclusions

The geographic distribution of the bank's credit applications and originations is reasonable. The examination sample of 84 approved and 30 denied loan applications revealed that 79.82% of all loan applications were within the bank's delineated community. The geographic analysis performed by the bank in January of 1996, revealed comparable results, indicating 84% of the total outstanding loans were within the delineation. Further, the bank has adopted a method of tracking the geographic distribution of credit applications which effectively identifies where applications originate.

Assessment Factor (g) - The institution's record of opening and closing offices and providing services at offices.

Scope and Findings

The bank's hours, services, and the location and availability of ATM machines were reviewed. In addition, comments from community contacts were reviewed to determine if the bank's facilities are easily accessible, and if hours of operation and the type of services offered are reasonable.

The bank has not opened or closed any offices since the previous examination. The bank has a written branch closing policy, as required by the Federal Deposit Insurance Corporation Improvement Act. The policy addresses the factors that will be considered prior to a branch closing, such as the profitability of the branch, the impact of the closing on the community, alternative solutions to a closing, and notification to the public and the appropriate regulatory authorities regarding closing.

The bank has two full-service offices, the main office in Auburn and a branch office in Waterloo. The majority of the agricultural loan transactions are handled at the Waterloo office because of the loan officer's expertise and the region in which many of the agricultural customers are located. Hours at the main bank are 9:00 a.m. to 4:00 p.m. Mondays, Tuesdays and Thursdays; 9:00 a.m. to noon on Wednesdays; and 9:00 a.m. to 5:00 p.m. on Fridays. The bank also has a full-service automated teller machine (ATM) located at the main office. With the exception of closing time at 3:00 p.m. Mondays, Tuesdays and Thursdays, the branch hours are the same as the main office. The drive-up window hours for both the main bank and branch office are 8:30 a.m. to 5:00 p.m. Mondays, Tuesdays, Thursdays, Fridays, and 8:30 a.m. to noon on Wednesdays and Fridays.

Conclusions

The bank's hours of operation, branch location, and products and services are consistent with its size and resources, and the nature of the community. The bank's products and services are reasonably accessible to residents and businesses located throughout the delineated community.

IV. DISCRIMINATION OR OTHER ILLEGAL CREDIT PRACTICES

Assessment Factor (d) - Any practices intended to discourage applications for types of credit set forth in the institution's CRA Statement(s).

Scope and Findings

The bank's CRA statement, loan policies, and minutes of the board of directors meetings were reviewed, along with approved and denied credit applications. In

addition, interviewing techniques used by loan officers, advertising, loan application procedures, and information obtained from community representatives were considered under this assessment factor.

The bank's CRA statement indicates that the following types of credit are available to members of its delineated community: Conventional Mortgage Loans for acquiring or financing residential, commercial and industrial properties, as well as mobile or manufactured homes; Home Improvement Loans; Home Equity Loans; Consumer Loans; Student Loans under State of Indiana program; Agricultural Loans; Commercial Loans; Small Business Administration (SBA) Loans; Relationship Loans and Short-Term Consumer Loans.

Conclusions

Analysis of the examination loan sample and review of other bank records revealed that the bank generally originates the types of credit listed in its CRA statement. No practices were detected during the examination which would tend to discourage applications for the types of credit listed in the CRA statement.

Assessment Factor (f) - Evidence of prohibited discriminatory or other illegal credit practices.

Scope and Findings

Recently approved residential real estate, installment, single payment, home equity and commercial loans, as well as approved and denied credit cards applications were reviewed for compliance with the applicable fair housing and fair lending laws and regulations. The bank's loan forms, policy and procedures were reviewed, and loan officers were interviewed. The bank is in compliance with the substantive provisions of the fair housing and fair lending laws, including the Fair Housing Act and the Equal Credit Opportunity Act.

The charts in Appendix C, illustrate the lending activity by income levels. A review of HMDA data, based upon applicants' income levels, reveals that the bank originates loans to all income levels, including low- and moderate-income applicants, with the majority of originations to low- and moderate-income applicants. In 1994, the bank originated 34 of 86 or 39.53% of its credit products to low- and moderate-income applicants. Loan originations to high and middle income applicants totaled 28 and 13 of 86, respectively, and were 32.56% and 15.12% of total applicants. In 1993, loan originations to these groups totaled 32, 40 and 17 of 119, representing 26.89%, 33.61% and 14.29%, respectively. From 1993 to 1994, the HMDA data also revealed that originations to low- and moderate-income applicants increased by two applications or 12.64%; decreased for the middle income sector (100 to 121% of MSA median family income) by 19 applications or 12.42%, while the other two income sectors remained stable.

The bank received no minority applications during 1993, 1994 and 1995. This is attributed to the small volume of HMDA reportable loans and the low level of minorities

within the bank's delineation.

To ensure compliance with applicable consumer compliance laws and regulations and consistent application of the bank's underwriting standards/practices, the bank has a **second review** procedure for denied applications. This procedure was adopted by the loan committee and requires that all denied applications be reviewed by the bank's compliance officer prior to adverse action being taken. This second review procedure includes approved loans to determine the consistent application of the bank's underwriting standards/practices. Additionally, fair lending training, particularly Regulation B, have been provided for the staff.

Conclusions

Review of bank files revealed that training on regulatory compliance and fair lending is provided for bank staff on an ongoing basis. The analysis of the examination loan sample (including denied applications) and HMDA reportable loans, did not reveal any disparate treatment of credit applicants on a prohibited basis. Further, there was no evidence of discrimination or any other illegal credit practice detected during the examination. Mortgage loan activity appears adequate and consistent with the current make-up and needs of the delineated community.

V. COMMUNITY DEVELOPMENT

Assessment Factor (h) - The institution's participation, including investments, in local community development or redevelopment projects or programs.

Scope and Findings

The bank's community development-related lending activity, participation in local bond offerings, and loan participation and donations to nonprofit organizations were reviewed to assess the bank's commitment to the development of the delineated community.

The bank has actively pursued commercial and small business financing to help in community development/redevelopment. The bank originated 118 community development loans totalling \$6,154,616, of which eighty-seven percent (103 of 118) were within the delineated community. The following is a sample of community development loans originated since the previous examination:

<u>Loan Amount</u>	<u>Description of Project</u>
\$1,500,000	Construction of a new plant
75,000	Remodel and expand business
16,500	Remodel business
250,000	Start-up business
95,000	Working capital
25,000	Funds used to purchase a business partnership
40,000	Equipment and inventory purchases
25,000	Working capital
320,000	Building addition and equipment purchase
50,823	Equipment purchases

All of the above loans originated in DeKalb County. In the bank's commercial loan portfolio are a number of loans for new business start-ups. One example is a \$1,500,000 loan to business which will employ approximately 125 people. Another is a loan of \$250,000 to a construction company, a new construction business which will employ approximately 25 people. Commercial and consumer real estate mortgage loans combined comprise the largest portion of the bank's loan portfolio, totaling \$39,131,000 and representing 67.43% of total loans as reflected in the call report of December 31, 1995.

The bank purchased one local municipal bond since the previous examination for \$340,000. The bank has a total bond investment outstanding of \$7,865,000, all of which are in the State of Indiana. The bank currently participates in four commercial loans, the bank's share is \$3,448,066 representing 7.50% of the total commitment amount of \$46,000,000. These loan participations involve commercial businesses within the delineated community.

Conclusions

The bank's community development activities are reasonable based on the bank's involvement in community development issues. The bank's commitment to the community's economic development and continued viability is evident through its direct lending, municipal bond purchases and participation in community activities. The bank's lending within the community has increased and this effort favorably

impacts the area's development/redevelopment efforts. Interaction between bank personnel and community residents/businesses has proven beneficial to both the community and the bank.

Assessment Factor (k) - The institution's ability to meet various community credit needs based on its financial condition and size, legal impediments, local economic conditions and other factors.

The examination did not reveal any apparent factors relating to the bank's financial condition, size or local economic conditions, that would prevent the bank from meeting the community's credit needs.

Assessment Factor (l) - Any other factors that, in the regulatory authority's judgement, reasonably bear upon the credit needs of its entire community.

Scope and Findings

A review of charitable contributions by the bank revealed that the bank supports various civic causes and special events within the delineated community. The bank has donated approximately \$13,259 to local groups/organizations in 1995. In addition, management and staff have donated a significant number of hours to working with groups/organizations on community projects, special events and product development.

Since the previous examination, the bank has provided financial expertise to the community through seminars. Senior management made presentations to such organizations as Coldwell Banker Realtors, Farmers of Allen, DeKalb and Steuben Counties, Waterloo Businessmen and Auburn Chamber of Commerce. Additionally, bank staff made presentations at the local elementary and high schools, discussing such topics as bank procedures, products and services.

Conclusions

The bank has done a commendable job in supporting community organizations, special events, and in product innovation/promotion. The bank's commitment to meeting the community's needs is evident through special programs offered, donations and volunteer efforts by directors, officers and employees.

APPENDIX A

1994 - Total HMDA Lending by The Auburn State Bank							
Loan Type	# of Applications	# of Originations	Origination Rate	% of Originations	Originations \$ (000)	# of Denials	Denial ¹ Rate
Conventional	38	35	92.11	36.46	2,112	3	7.89
Refinancing	61	56	91.80	58.33	3,271	4	6.56
Home Improvement	5	5	100.00	5.21	211	0	0.00
Total	104	96	92.31	100.00	5,594	7	6.73

1993 - Total HMDA Lending by The Auburn State Bank							
Loan Type	# of Applications	# of Originations	Orig Rate	% of Originations	Originations \$ (000)	# of Denials	Denial Rate
Conventional	50	45	90.00	34.09	3,342	3	6.00
Refinancing	92	83	90.22	62.88	4,970	8	8.70
Home Improvement	4	4	100.00	3.03	443	0	0.00
Total	146	132	90.41	100.00	8,755	11	7.53

¹Denial Rate is based on Application by loan product.

APPENDIX B

1994 - The Auburn State Bank - Loan Activity Inside its Delineation							
Loan Type	# of Applications	# of Originations	Origination Rate	% of Loan Within Delineation	Originations \$ (000)	# of Denials	Denial Rate
Conventional	31	29	93.55	82.86	1,637	2	6.45
Refinancing	50	45	90.00	80.36	2,900	4	8.00
Home Improvement	5	5	100.00	100.00	211	0	0.00
Total	86	79	91.86	82.29	4,748	6	6.98
% of Total	82.69	82.29			84.88	85.71	
The Auburn State Bank - Loan Activity Outside its Delineation							
Loan Type	# of Applications	# of Originations	Origination Rate	% of Loan Outside Delineation	Originations \$ (000)	# of Denials	Denial Rate
Conventional	7	6	85.71	17.14	475	1	14.29
Refinancing	11	11	100.00	19.64	371	0	0
Total	18	17	94.44	17.71	846	1	5.56
% of Total	17.31	17.71			15.12	14.29	

1993 - The Auburn State Bank - Loan Activity Inside its Delineation							
Loan Type	# of Applications	# of Originations	Origination Rate	% of Loan Within Delineation	Originations \$ (000)	# of Denials	Denial Rate
Conventional	35	30	85.71	66.67	2,070	3	8.57
Refinancing	80	71	88.75	85.54	3,900	8	10.00
Home Improvement	4	4	100.00	100.00	443	0	0.00
Total	119	105	88.24	79.55	6,413	11	9.24
% of Total	81.51	79.55			73.25	100.00	
The Auburn State Bank - Loan Activity Outside its Delineation							
Loan Type	# of Applications	# of Originations	Origination Rate	% of Loan Outside Delineation	Originations \$ (000)	# of Denials	Denial Rate
Conventional	15	15	100.00	33.33	1,272	0	0.00
Refinancing	12	12	100.00	14.46	1,070	0	0.00
Total	27	27	100.00	20.45	2,342	0	0.00
% of Total	18.49	20.45			26.75	0.00	

APPENDIX C

1994 - HMDA Activity of The Auburn State Bank - Loan by Income Levels						
Low- and Moderate-Income Applicants (< 80% of MSA Median Family Inc.)						
Product Class	# Applications	# Originations	% Originations	\$ Originations	# Denied	% Denied
Conventional	13	12	92.31	518	1	50
Refinancing	20	18	90.00	647	2	50
Home Improvement	1	1	100.00	40	0	0.00
Overall	34	31	91.18	1,205	3	50.00
% of Grand Total	39.53	39.24		25.38	50.00	
L-M Population/ % L-M	0	0				
Total Population	82,234					
Middle Income Applicants (80 to 99% of MSA Median Family Income)						
Conventional	3	2	66.67	111	1	50.00
Refinancing	8	7	87.50	320	1	25
Home Improvement	2	2	100.00	106	0	0
Overall	13	11	84.62	537	2	33.33
% of Grand Total	15.12	13.92		11.31	33.33	
Middle Income Applicants (100 to 121% of MSA Median Family Income)						
Conventional	2	2	100	96	0	0
Refinancing	7	6	85.71	428	1	25.00
Home Improvement	2	2	100.00	65	0	0.00
Overall	11	10	90.91	589	1	16.67
% of Grand Total	12.79	12.66		12.41	16.67	
High Income Applicants (> 121% of MSA Median Family Income)						
Conventional	13	13	100.00	912	0	0
Refinancing	15	14	93.33	1,505	0	0.00
Home Improvement	0	0	0.00	0	0	0.00
Overall	28	27	96.43	2,417	0	0.00
% of Grand Total	32.56	34.18		50.91	0.00	
Grand Totals						
Conventional	31	29	93.55	1,637	2	33.33
Refinancing	50	45	90.00	2,900	4	66.67
Home Improvement	5	5	100.00	211	0	0.00
Grand Total	86	79	91.86	4,748	6	

APPENDIX C (continued)

1993 - HMDA Activity of The Auburn State Bank - Loan by Income Levels						
Low- and Moderate-Income Applicants (< 80% of MSA Median Family Inc.)						
Product Class	# Applications	# Originations	% Originations	\$ Originations	# Denied	% Denied
Conventional	12	8	66.67	314	3	100.00
Refinancing	20	15	75.00	531	5	62.50
Overall	32	23	71.88	845	8	72.73
% of Grand Total	26.89	21.90		13.18	72.73	
L-M Population/ % L-M	447	1.27				
Total Population	35,324					
Middle Income Applicants (80 to 99% of MSA Median Family Income)						
Conventional	4	4	100.00	263	0	0.00
Refinancing	12	11	91.67	432	1	12.50
Home Improvement	1	1	100.00	80	0	0.00
Overall	17	16	94.12	775	1	9.09
% of Grand Total	14.29	15.24		12.08	9.09	
Middle Income Applicants (100 to 121% of MSA Median Family Income)						
Conventional	8	8	100.00	419	0	0.00
Refinancing	21	20	95.24	887	1	12.50
Home Improvement	1	1	100.00	18	0	0.00
Overall	30	29	96.67	1,324	1	9.09
% of Grand Total	25.21	27.62		20.65	9.09	
High Income Applicants (> 121% of MSA Median Family Income)						
Conventional	11	10	90.91	1,074	0	0.00
Refinancing	27	25	92.59	2,050	1	12.50
Home Improvement	2	2	100.00	345	0	0.00
Overall	40	37	92.50	3,469	1	9.09
% of Grand Total	33.61	35.24		54.09	9.09	
Grand Totals						
Conventional	35	30	85.71	2,070	3	27.27
Refinancing	80	71	88.75	3,900	8	72.73
Home Improvement	4	4	100.00	443	0	0.00
Grand Total	119	105	88.24	6,413	11	