

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 **Byron Center State Bank, Byron Center, Michigan** prepared by the **Federal Reserve Bank of Chicago**, the institution's supervisory agency, as of **August 18, 1997**. 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.

The Byron Center State Bank generally promotes economic development and growth within its assessment area consistent with its size and financial condition. The bank has a strong loan-to-deposit ratio and has a high percentage of its loans within its assessment area. Lending to applicants of different incomes is reasonable and lending to businesses of different sizes is strong. The geographic distribution of loans is adequate given local competition and the bank's limited branch network. No CRA complaints were received by the bank since the previous examination. The bank is in compliance with the substantive provisions of the antidiscrimination laws and regulations.

DESCRIPTION OF INSTITUTION

Byron Center State Bank with total assets of \$222.1 million as of March 31, 1997 is a subsidiary of Ottawa Allegan Kent Financial Corporation, a one bank holding company located in Byron Center, Michigan. The bank is a retail operation which focuses on meeting the needs of individuals through 1-4 unit single family housing, and small businesses through commercial real estate and operating loans.

In addition to the bank's main office in Byron Center, branch offices are operated in Cutlerville, Dorr, Grandville, Hudsonville, Jamestown, and Moline. Each of the offices are full service facilities. Real estate loan processing and underwriting is centralized at the main office. Automatic Teller Machines (ATMs) are available at all bank locations except at the Moline branch, which is new since the previous examination. Additional ATMs are located in Burnips, Green Lake, and Sandy Pines. The institution's ability to meet various credit needs is not limited by its financial condition, size, product offerings, prior performance, legal impediments or other factors.

Competition exists from a variety of financial institutions, particularly in the northern sections of the bank's assessment area, including: Grand Bank in Grand Rapids with \$111 million in assets; West Michigan Community Bank in Hudsonville with \$82 million in assets; United Bank of Michigan in Grand Rapids with \$147 million in assets; and, branches of First Michigan Bank in Grand Rapids with \$587 million in assets. Larger competitors with branches in the assessment area are Old Kent Bank in Grand Rapids with \$11 billion in assets and NBD Bank in Detroit with \$22 billion in assets.

DESCRIPTION OF ASSESSMENT AREA

Byron Center, Michigan, located in Kent County, is approximately 15 miles southwest of Grand Rapids. The bank's assessment area includes 46 census tracts in portions of Kent, Ottawa and Allegan Counties; three (6.5%) of which are moderate income tracts. There are no low-income census tracts in the area. The bank's main office and its branch offices are located within the Grand Rapids-Muskegon-Holland Metropolitan Statistical Area (MSA - #3000).

According to 1990 census data, the population of the bank's assessment area is 230,885. According to the building permit information available for 1995 and 1996, the level of new residential permits in the MSA has increased 13.69% from 6,758 to 7,683 total units, making the greater Grand Rapids metropolitan area one of Michigan's fastest growing communities.

According to the Department of Housing and Urban Development (HUD), the 1996 median family income for the assessment area was \$45,100. The 1990 Census shows that there are 12.7% low, 17.3% moderate, 28.8% middle, and 41.1% upper income families.

The total number of housing units in the area is 86,964 including 60,672 (69.8%) owner-

occupied, and 22,261 (25.6%) rented units. Owner occupied housing units in moderate-income areas total 2,457. The median age of the housing stock in the assessment area is 20 years, while the median age of the housing stock in moderate-income areas is 34 years. The median value of homes in the assessment area is \$71,408, gross median rent is \$457 per month.

According to US Bureau of Labor Statistics, labor force in the Grand Rapids-Muskegon-Holland MSA reached 547,267 in the fourth quarter 1996 and manufacturing jobs accounted for 154,000 (28.1%). Service jobs accounted for 137,300 or 25.1% and grew 8.5% from 1995. According to the Michigan Employment Security Agency, the comparative unemployment rates in the assessment area as of July 1997 were as follows:

Allegan County	2.6%
Kent County	3.6%
Ottawa County	2.7%
State of Michigan	4.5%

These unemployment rates indicate that the bank's assessment area is generally experiencing a more robust economy than the State of Michigan as a whole. Some of the major employers within the bank's assessment area include: Diesel Technology Corporation (motor vehicle parts & accessories) in Kentwood, employing 1,280; Lacks Enterprises (motor vehicle parts) in Kentwood, employing 1,961; Steelcase Wood Furniture (office furniture) in Kentwood, employing 999; and, Center Manufacturing (stamping, metal, misc.) in Byron Center, employing 500. Many area residents commute to Grand Rapids for employment.

According to a local community representative, approximately 19% of the MSA mortgage market demand is for FHA and VA loans.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

The bank is in compliance with the substantive provisions of the antidiscrimination laws and regulations, including the Equal Credit Opportunity and Fair Housing Acts. No evidence of prohibited discriminatory credit practices was detected.

LOAN-TO-DEPOSIT RATIO

The bank's loan portfolio was reviewed to evaluate the bank's volume of lending and how that compares to its peer group. The bank's loan-to-deposit ratios (LTD) for the six quarters ended March 1997 were as follows:

Qtr.	3/97	12/96	9/96	6/96	3/96	12/95	Avg.
L/D%	84.83%	84.95%	85.08%	87.34%	85.33%	82.75%	85.05%

As shown in the previous chart, the bank's six-quarter average loan-to-deposit ratio is 85.05%. As of March 31, 1997, the bank's loan-to-deposit ratio was 84.83% which exceeded the national peer ratio of 70.61%. The bank's LTD also compares reasonably to that of its local competition. As of March 31, 1997, United Bank of Michigan, Grand Bank, FMB, and West Michigan Community Bank, had loan-to-deposit ratios of 92.51%, 81.50%, 91.34%, and 88.86%, respectively. According to 1996 HMDA data the bank sold 232 loans totaling \$18.7 million which are not included in its portfolio of loans. Internal bank reports dated March 20, 1997 indicate that 273 loans totaling \$23 million have been sold to the secondary market. The bank's loan-to-deposit ratio exceeds the standards for satisfactory performance.

LENDING IN ASSESSMENT AREA

The bank's internal analysis of all lending from January 1996 through April 1996, a six month sample (1/1/97 through 6/30/97) of commercial loans and 1996 HMDA data were reviewed to determine the bank's level of performance of lending within their assessment area. The bank's internal analysis showed that 80.4% (595 of 740) of the bank's loans were within the assessment area, including, 81% (333 of 408) personal loans, 74% (92 of 123) mortgage loans and 81% (170 of 209) commercial loans. This analysis is consistent with the 1996 HMDA data which revealed 76.3% (471 of 617) of all HMDA loans were made in the assessment area. The six-month sample of commercial loans revealed that 78.6% (114 of 145) of the commercial loans were made within the assessment area. The bank's responsiveness to credit needs in its assessment area, taking into account the number of home mortgage, small-business, and personal loans, exceeds the standards for satisfactory performance.

LENDING TO BORROWERS OF DIFFERENT INCOMES AND TO BUSINESSES OF DIFFERENT SIZES

The bank's June Consolidated Reports of Condition from 1995 through 1997, 1996 HMDA data, 1997 year-to-date HMDA loan application register, and a six month sample (1/1/97 through 6/30/97) of commercial loans were reviewed to determine the bank's distribution of loans among business and borrower incomes.

The following chart compares the bank's lending to borrowers of different incomes (where income information was available) based on the analysis of the 1996 HMDA data, to the performance of the aggregate of all loans originated by other banks within the assessment area, and to the percentages of families of different income categories within the bank's assessment area.

1996 Originations by Median Family Income to Total Originations						
Applicant Income Classification	# of Families	% of Total Families	Aggregate Originations by Income Category		Byron Center State Bank Originations by Income Category	
			#	%	#	%
0 to 49% Low	7,865	12.8%	696	7.3%	26	7.2%
50 to 79% Moderate	10,677	17.3%	2,309	24.4%	87	24.2%
80 to 119% Middle	17,796	28.8%	3,005	31.7%	139	38.6%
> 120% Upper	25,359	41.1%	3,470	36.6%	108	30.0%
Total	61,697	100.0%	9,480	100.0%	360	100.0%

According to the table above, the bank's percentages of loans to low-, and moderate-income individuals were 7.2% and 24.2% respectively which is consistent with the aggregate's 7.3% and 24.4%, respectively. Total loans to low- and moderate-income individuals (31.4%) also compares favorably with the percentage of low- and moderate-income families (30.1%). However, a review of the bank's 1997 Loan Application Register, January 1 through July 7, 1997, revealed that 25.7% (20 of 78) of the bank's loans were made to low- and moderate-income individuals. This trend shows a reduction in the percentage of low- and moderate-income borrowers being served by the bank.

To better meet the needs of low- and moderate-income individuals, the bank offers a flexible lending program called the Gold Measure program through Freddie Mac. This program offers more flexible loan-to-value ratios than the bank's more conventional loans. Although the bank does not offer FHA or VA loans, the bank offers loans with private mortgage insurance.

A review of the bank's 1997, 1996 and 1995 June Consolidated Reports of Condition revealed the following loan distribution to small businesses:

Loan \$ Category (000's)	1995		1996		1995	
	Number / Percentage of Total	\$(000's)	Number / Percentage of Total	\$(000's)	Number / Percentage of Total	\$(000's)
\$100 or less	508 / 82.2%	9,507	490 / 82.2%	8,446	478 / 84.6%	7,916
\$100 - \$250	72 / 11.7%	6,674	65 / 10.9%	6,926	52 / 9.2%	4,631
\$250 - \$1 million	38 / 6.1%	9,656	41 / 6.9%	10,936	35 / 6.2%	10,409
TOTAL	618 / 100%	25,837	596 / 100%	26,308	565 / 100%	22,956
Loan secured by Non-Farm Non-Residential Properties						
\$100 or less	226 / 52.9%	8,338	250 / 54.6%	10,238	236 / 57.0%	10,045
\$100 - \$250	103 / 24.1%	13,004	123 / 26.9%	15,623	101 / 24.4%	13,311
\$250 - \$1 million	98 / 23.0%	42,342	85 / 18.5%	36,003	77 / 18.6%	31,940
TOTAL	427 / 100%	63,684	458 / 100%	61,864	414 / 100%	55,296

The number of small business operating loans have increased 8.6% over the three-year period from 565 to 618 and remain substantially concentrated (82.2%) in loans less than \$100,000. Small business loans secured by real estate have increased 3.1% (414 to 427) with a majority (52.9%) less than \$100,000. The growth in loans to small business shows the bank's commitment to businesses of different sizes and is consistent with the substantial growth in small businesses within the bank's assessment area. Also supporting the bank's level of lending to small businesses, the six-month statistical sample of commercial loans, showed that of the 114 loans within the bank's assessment area, 113 (99.1%) were for amounts less than \$1 million.

The bank has demonstrated its commitment to meet the credit needs of low- and moderate-income borrowers and small businesses. Overall, the bank meets the standards for satisfactory performance in this category.

GEOGRAPHIC DISTRIBUTION OF LOANS

The bank's internal analysis of all lending from January 1996 through April 1996, and the 1996 HMDA data were reviewed to determine the dispersion of lending in the bank's assessment area and the number and amount of loans throughout the various income geographies in the bank's assessment area.

The following chart compares the bank's 1996 HMDA lending, within the various geographies, to the aggregate of all loans originated in these geographies by other financial institutions in these geographies, and to the percentages of families in each of the income categories.

1996 Originations by Census Tract Income to Total Originations						
Census Tract Income Classification	# of Families	% of Total Families	Aggregate		Byron Center State Bank	
			# of Originations	% of Total Originations	# of Originations	% of Total Originations
0 to 49% Low	0	0.0%	0	0.0%	0	0.0%
50 to 79% Moderate	2,599	4.2%	407	4.0%	2	0.6%
80 to 119% Middle	43,020	69.7%	6,973	68.4%	300	82.2%
> 120% Upper	16,078	26.1%	2,822	27.7%	63	17.3%
Total	61,697	100.0%	10,202	100.0%	365	100.0%

According to the above chart, the bank's performance in moderate-income geographies (0.6%) was below the aggregate's (4.0%). Also, the bank's performance was weak in relation to the opportunities for lending to families living in moderate-income census tracts 4.2%. The bank has a substantial majority of its loans in middle-income geographies. According to bank management, the low mortgage activity in the moderate-income geographies is due to competition from approximately 12 branches of competing financial institutions in the northern section of the bank's assessment area. Furthermore, the bank's branch network does not extend into the northeastern section of its assessment area. Contacts confirmed that the credit needs in the area are generally well served.

The bank's internal analysis included information about the geographic distribution of loans including consumer, mortgage, and commercial loans for the four-month period between January and April 1996, and revealed that 2.7% (16 of 589) of its total loans were originated in moderate-income geographies. The analysis also revealed that the bank made loans in 89.1% (41 of 46) of the geographies within its assessment area including 100% (3 of 3) of the moderate-income geographies.

The bank's performance in moderate-income geographies, according to the 1996 HMDA data, is reasonable given the local competition for loans and the bank's limited branch network. Moreover, the bank's internal analysis shows that due to the slightly better performance in personal and commercial loans within those moderate-income geographies, the bank's loan dispersion is determined to meet the standards for satisfactory performance.

RESPONSE TO COMPLAINTS

The bank received no complaints since the previous examination, and this category was not rated.