

# **PUBLIC DISCLOSURE**

**May 3, 2004**

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**Farwell State Savings Bank  
08174**

**399 West Main Street  
Farwell, Michigan 48622**

**Federal Deposit Insurance Corporation  
Division of Supervision and Consumer Protection  
500 West Monroe, Suite 3200  
Chicago, Illinois 60661**

**NOTE:** This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

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## 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 the safe and sound operation 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 Community Reinvestment Act (CRA) performance of **Farwell State Savings Bank** prepared by the **Federal Deposit Insurance Corporation**, the institution's supervisory agency, as of **May 3, 2004**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 345.*

## INSTITUTION RATING

***INSTITUTION'S CRA RATING:*** This institution is rated Satisfactory.

This rating is supported by the following factors:

- The distribution of borrowers reflects, given the demographics of the assessment area, good penetration among individuals of different income levels and businesses of different sizes.
- Generally, the bank shows a reasonable geographic dispersion of loans.
- A substantial majority of loans were made within the bank's assessment area.
- The institution's loan-to-deposit ratio is reasonable.
- No CRA-related complaints were filed with the Federal Deposit Insurance Corporation since the last evaluation.
- No evidence of discrimination was identified.

## DESCRIPTION OF INSTITUTION

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Farwell State Savings Bank is an independent community bank in Farwell, Michigan. The community of Farwell is in Southern Clare County. The bank also operates a branch in Lake, which is approximately 10 miles from the bank's main office and also in Clare County. This branch does not have lending officers. All loans are made through the Farwell Main Office. No branches have been opened or closed since the previous evaluation, which was as of April 20, 1998. At that time, the bank was rated an "outstanding" in its Community Reinvestment Act (CRA) performance. It should also be noted that no legal impediments were noted that could impact the bank's CRA performance.

### Asset Size and Loan Volume

As of December 31, 2003, the bank's total assets had grown about 22 percent to \$91,825,000 when compared to \$75,396,000 on December 31, 1998. As of December 31, 2003, total loans were \$61,930,000, a 41 percent increase from \$43,787,000 on December 31, 1998. The following table shows the loan distribution as of December 31, 2003:

<b>Table 1 - Loan Distribution as of 12/31/2003</b>		
<b>Loan Type</b>	<b>Dollar Amount (000s)</b>	<b>Percent of Total Loans (%)</b>
Construction and Land Development	1,995	3
Secured by Farmland	25	0
1-4 Family Residential	51,520	83
Multi-Family (5 or more) Residential	235	1
Commercial	3,207	5
<b>Total Real Estate Loans</b>	<b>56,982</b>	<b>92</b>
Commercial and Industrial	741	1
Agricultural	51	0
Consumer	3,772	6
Other	384	1
Less: Unearned Income	0	0
<b>Total Loans</b>	<b>61,930</b>	<b>100</b>

Source: Report of Condition and Income

The above table shows that residential lending, with 83 percent of the portfolio by dollar amount is the most important product. Discussions with bank management also show that lending is an important product by number.

### **Financial Data**

The equity capital to assets ratio was 18.55 percent on December 31, 2003, and 18.07 percent on December 31, 2002. The bank's ratios are higher than those of the peer group. For example, on December 31, 2003, the peer group average ratio was 10.70 percent. The bank's net income to average assets was 1.90 percent on December 31, 2003, and 1.87 percent on December 31, 2002. Again, the bank's ratios are higher than peer group. For example, the peer group net income to average asset ratios was 1.19 percent on December 31, 2003. To summarize, the review shows good capital and earning ratios when compared to peer group. This means that the bank has the financial resources to make loans within its assessment area.

## DESCRIPTION OF THE ASSESSMENT AREA:

The Community Reinvestment Act requires financial institutions to define an assessment area within which the bank concentrates its lending efforts. This assessment area serves as the basis for evaluating a bank's lending performance. Farwell State Savings Bank has designated its assessment area as all of Clare County and one census tract in Isabella County. The assessment area is made up of 13 census tracts in a non-metropolitan area. Of the 13 tracts in the assessment area, eight of the census tracts are moderate-income census tracts and five are middle-income census tracts. The moderate-income tracts are generally in the northwest corner of Clare County. The one tract in northern Isabella County is a middle-income tract. The bank's main office is located in a middle-income tract in southern Clare County (tract #9804.00). The branch is located in a moderate-income tract in central Clare County (tract #9803.00). Farwell, where the bank is headquartered, has a population of about 700 individuals. Clare is the largest community in Clare County and has a population of about 3,000 individuals. The 2000 population of the assessment area is 34,700. According to the bank, population growth in the assessment area is stable. The bank's assessment area consists of whole geographies and does not arbitrarily exclude any low- or moderate-income tracts.

### Economic and Business Information

The 2003 U.S. Census Bureau data shows that 64 percent of households of the assessment area are wage and salary earners, while 38 percent receive social security. The large employers in Clare County typically are service providers such as hospitals or schools. Farwell is the home of an automotive parts company and a die manufacturer. Isabella County's large employers are Central Michigan University and a large casino owned by Native Americans. Many individuals who reside in Farwell commute to work at the Soaring Eagle Casino. The following table shows unemployment statistics for the area:

Table 2- Unemployment Rate Comparisons		
Area	Percent Unemployed	
	2002	2003
Clare County	9.4	10.9
Isabella County	3.7	4.3
Michigan State	6.2	7.0
United States	5.8	6.0

The table shows a low but slightly increasing unemployment rate in Isabella County. Much of the reason for the low unemployment level is the employment opportunities resulting from the casino. Clare County has a higher unemployment rate than Isabella County, the state, or the overall average. An area community contact was asked about the Clare County economy. This individual, who oversees an organization that focuses on economic development in both Clare and Isabella Counties, stated that Clare County is showing an economic turnaround. This individual noted that firms seem to be expanding in Clare County.

## **Housing Data**

Table 3 shows some selected housing characteristics for the assessment area and the State of Michigan. The table shows a low percentage of owner-occupied housing when compared to the Michigan statewide average. Vacant units are high, but families from outside the area do invest in vacation homes in the assessment area. Mobile home units are higher than the statewide average, as is typical of a more rural Michigan area. Finally, home prices are much lower in the assessment area compared to the average for the State of Michigan.

<b>Table 3– 2000 Selected Housing Characteristics of Assessment Area</b>							
<b>Area</b>	<b>2003 Analysis Year - Median Home Value</b>	<b>Percentage</b>					
		<b>Owner- occupied</b>	<b>Rental (occupied)</b>	<b>Vacant</b>	<b>One-Four Family</b>	<b>Multifamily</b>	<b>Mobile</b>
Assessment Area	\$69,363	48	10	42	78	4	18*
Michigan Statewide average	\$126,435	66	23	11	81	13	6

\*Excludes other units.

## **Competition and Loan Demand**

The June 30, 2003, Federal Deposit Insurance Corporation data on deposits shows that there are eight financial institutions serving Clare and Isabella Counties from 37 offices. Federal Deposit Insurance Corporation data also shows that Farwell State Savings Bank is fifth largest in terms of deposit market share for the counties. The bank's market share is nine percent of deposits in the two counties.

The bank is not required to compile a Home Mortgage Disclosure Act (HMDA) register. However, the aggregate data for HMDA in 2002 was reviewed. This showed about 3,300 applications taken. The HMDA data also shows that about 186 lending institutions made HMDA loans in Clare County.

To summarize, the analysis shows the bank has a relatively large market share of deposits. The bank is not a HMDA reporter but the review does show a competitive market for making home loans in Clare County.

## **Conclusion**

The economy for the assessment area is mixed. Isabella shows a good economy, but Clare's economy is weaker. The community contact did state that the economy of Clare is improving, however. The review of deposits does show that the bank has a reasonable market share in the assessment area. The analysis of HMDA aggregate data also shows that home lending in the assessment area is competitive. With the lower percentage of home ownership in the assessment area, opportunities for home lending exist.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

Small bank procedures were used to evaluate this bank's performance. Farwell State Saving Bank's borrowers' profile, geographic distribution of loans, loan-to-deposit ratio, responsiveness to complaints, and compliance with anti-discrimination laws were evaluated to determine overall conclusions. The examiners placed slightly more emphasis on the borrowers' profile for determining the overall conclusions. Mortgages are the bank's primary product by loan volume and dollar amount. Because the bank is not a Home Mortgage Disclosure Act (HMDA) reporter, 2003 mortgages were randomly sampled to evaluate lending. Based on the number of 2003 mortgage loans (352) and sampling procedures, 40 of the 2003 mortgages were randomly selected to evaluate lending. Management concurred that the sampling of 2003 mortgages should be representative of the bank's lending.

### **Borrowers' Profile**

The bank shows a good lending distribution of sampled mortgages in the assessment area when demographic and aggregate data is considered. Table 4 shows the bank's mortgage lending distribution for 2003. The appendix provides the median family income information on which the table distributions are based. In 2003, 20 percent of the bank's mortgage loans were to low-income borrowers and 25 percent were to moderate-income borrowers. The 2000 U.S. Census shows 25 percent of the population were low-income and 25 percent were moderate-income. Because it can be difficult for individuals below poverty to purchase a residence, an adjustment can be made to the percentage of families who are low-income. This adjusted low-income percentage is 14 percent (or 25.3 percent less 11.5 percent, which is the percentage of families below poverty level). A comparison between U.S. Census Bureau demographic data and the bank's lending distribution shows a similar percentage for lending to moderate-income families.

As noted, the bank is not a Home Mortgage Disclosure Act (HMDA) reporter. However, the table does include 2002 HMDA data. A comparison shows that the bank's lending distribution to low- and moderate-income borrowers is better than the reported aggregate data. While not depicted on the table, lending by dollar amount was reviewed and also shows a reasonable lending pattern. To summarize, this review depicts a good lending distribution.

<b>Table 4 - Distribution of Mortgages by Borrower Income</b>				
<b>Borrower Income Level</b>	<b>% of Total Families by Income</b>	<b>Aggregate Lending Data (% of #) – Purchase and Refinance Only</b>	<b>2003</b>	
			<b>2002</b>	<b>#</b>
<b>Low</b>	25	9	7	20
<b>Moderate</b>	25	20	9	25
<b>Middle</b>	23	26	7	19
<b>Upper</b>	27	42	13	36
<b>\$0/NA Income</b>	0	3	0	0
<b>Total*</b>	<b>100</b>	<b>100</b>	<b>36</b>	<b>100</b>

Source: U.S. Census and HMDA Aggregate. \* - Total percentage may not add to 100 due to rounding.

### **Geographic Distribution of Loans**

The bank shows a reasonable geographic distribution of sampled mortgages throughout the assessment area. The focus of the review was on the bank’s lending to moderate-income census tracts. Table 5 shows 22 percent of the bank’s loans were to moderate-income tracts. In contrast, 50 percent of owner-occupied housing in the assessment area were in moderate-income tracts. The bank’s lending is less than percentage of owner-occupied units in the moderate-income tracts but still considered a reasonable distribution.

The volume of lending in each tract was also analyzed. As noted, the bank has eight moderate- and five middle- income tracts in its assessment area. The bank lends in six tracts, two of which are moderate-income tracts in Clare County. The tracts in which the bank lends are near its offices. The sampling does not show the bank lending in some of the moderate-income tracts in the northwestern part of Clare County. Discussions with bank management show that there are other financial institutions that lend in these areas where no lending was found during the sampling. Also, these areas are generally very rural. Lending by dollar amount was also reviewed and is reasonable. To summarize, the bank shows a reasonable geographic distribution of sampled mortgages.

<b>Table 5- Distribution of Mortgages by Income Category of the Census Tract</b>			
<b>Census Tract Income Level</b>	<b>% of Total Owner-Occupied Housing Units</b>	<b>2003</b>	
		<b>#</b>	<b>%</b>
<b>Moderate</b>	50	8	22
<b>Middle</b>	50	28	78
<b>Total*</b>	<b>100</b>	<b>36</b>	<b>100</b>

Source: U.S. Census data, \* - Total percentage may not add to 100 due to rounding.

### **Assessment Area Concentration**

The bank shows a substantial majority of its loans and other lending related activities within the assessment area. Table 6 shows that 90 percent of all loans by number and 90 percent by dollar were made in the assessment area. The bank generally makes loans to a businessperson or individual within the local community. Loans made outside of the assessment area are in census tracts in Isabella County. The bank generally does not make loans outside of Clare and Isabella County. To summarize, a substantial majority of the bank's loans are within the assessment area.

<b>Table 6 - Distribution of Loans Inside and Outside of the Assessment Area</b>										
<b>Loan Category or Type</b>	<b>Number of Loans</b>					<b>Dollars in Loans (000s)</b>				
	<b>Inside</b>		<b>Outside</b>		<b>Total</b>	<b>Inside</b>		<b>Outside</b>		<b>Total</b>
	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>		<b>\$</b>	<b>%</b>	<b>\$</b>	<b>%</b>	
Home Mortgage 2003	36	90	4	10	40	2,447	90	284	10	2,731
<b>Total</b>	36	90	4	10	40	2,447	90	284	10	2,731

### **Loan-to-Deposit Ratio**

The bank's net loan-to-deposit ratio is considered reasonable, given the institution's size, financial condition and assessment area credit needs. Farwell State Saving's average net loan-to-deposit ratio for the last 23 calendar quarters is 77.6 percent. The bank's quarterly ratios have varied from 83.3 percent on December 31, 2000, to 70.5 percent on June 30, 1998. The examiners also noted that the bank does not sell loans. Selling loans lowers the loan-to-deposit ratio.

A comparative review of two similarly situated institutions was conducted. The compared banks serve similar areas or have similar loan portfolio compositions. The total assets of the banks as of December 31, 2003 were \$527,843,000, and \$171,474,000. The average net loan-to-deposit ratio for these banks for the last 23 calendar quarters was 71.7 percent and 106.6 percent, respectively. Farwell State Savings Bank's average ratio is slightly more than the first ratio but less than the second ratio. Given these comparisons and other discussions with management, the bank's average ratio is reasonable.

### **Response to Complaints**

The bank has not received any CRA-related complaints since the last evaluation.

### **Investment and Services**

Investments were reviewed and services were discussed. Qualifying community development investments and services were not noted.

## APPENDIX A – MEDIAN FAMILY INCOME INFORMATION

### HUD Median Family Income for the Non-Metropolitan Statewide Areas of Michigan

<b>Median Family Income (MFI)</b>	<b>2003</b>
Low (Less than 50% of MFI)	Less than \$24,150
Moderate (50% to less than 80% of MFI)	\$24,150 to less than \$38,640
Middle (80% to less than 120% of MFI)	\$38,640 to less than \$57,960
Upper (120% or more of MFI)	\$57,960 and higher

\*The 2003 MFI is \$48,300.