

# **PUBLIC DISCLOSURE**

**May 18, 2009**

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**Lake-Osceola State Bank  
Certificate #8172**

**790 North Michigan Avenue  
Baldwin, Michigan 49304**

**Federal Deposit Insurance Corporation  
Chicago Regional Office  
500 West Monroe Street, Suite 3300  
Chicago, Illinois 60661**

**NOTE:** This document is an evaluation of this 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. 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, conclusions, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

## **TABLE OF CONTENTS**

I.	General Information.....	1
II.	Institution Rating .....	2
III.	Scope of Examination.....	3
IV.	Description of Institution .....	4
IV.	Description of Assessment Area.....	5
V.	Conclusions.....	10
VI.	Appendix A HUD Median Family Income Information.....	22

## 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 **Lake-Osceola State Bank** prepared by the **Federal Deposit Insurance Corporation**, the institution's supervisory agency, as of **May 18, 2009**. 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 Outstanding.

This rating is supported by the following factors:

- The loan-to-deposit ratio is more than reasonable (considering seasonal variations and taking into account lending related activities) given the institution's size, financial condition, and assessment area credit needs.
- A substantial majority of the loans and other lending related activities are in the institution's assessment area(s).
- The geographic distribution of loans reflects excellent dispersion throughout the assessment area(s).
- The distribution of borrowers reflects, given the demographics of the assessment area(s), excellent penetration among individuals of different income levels, including low-and moderate-income, and businesses of different sizes.
- The institution is a proven leader in providing community development investments and services within the assessment area.

## **SCOPE OF EXAMINATION**

The CRA regulation requires compliance examiners to consider, analyze, and identify the significance of a bank's CRA lending performance with respect to small business, small farm, and residential real estate loans. This CRA performance evaluation is based on the evaluation and analysis of sampled small business and mortgage loans for 2006, 2007, and 2008. However, only 2007 and 2008 data will be commented on and shown in the report tables.

Pursuant to the CRA regulation, small business loans are loans secured by non-farm, non-residential properties, and commercial and industrial loans with original loan amounts of \$1 million or less. The evaluation of small business loans was based on supporting documentation presented in the small business loan portfolio. The bank's small business lending performance was analyzed by sampling small business loans from 2006, 2007, and 2008. The samples were selected using a 90 percent confidence level with 10 percent precision.

During 2007, the bank originated a total of 65 small business loans totaling \$7,906,000. Of these, a sample of 44 loans was selected totaling \$5,075,000. During 2008, the bank originated a total of 153 small business loans totaling \$23,935,000. Of these, a sample of 52 loans totaling \$6,511,000 was selected.

The CRA regulation, defines residential real estate loans as home improvement, home purchase and refinance loans. The institution's residential real estate loan data for 2006, 2007, and 2008 were analyzed and served as support for the following conclusions related to residential real estate loans.

The bank's residential real estate lending performance was reviewed based upon a sample of mortgage loan originations. The samples were selected using a 90 percent confidence level with 10 percent precision. During 2007, the bank's subsidiary mortgage company originated 143 mortgage loans totaling \$10,020,000. Of these, a sample of 51 loans totaling \$3,758,000 was selected. During 2008, the bank's subsidiary mortgage company originated 216 mortgage loans totaling \$15,744,000. Of these, a sample of 73 loans totaling \$5,810,000 was selected.

This evaluation will be weighted based on the following performance criteria: Borrowers' profile, loan-to-deposit ratio, geographic distribution, response to complaints, assessment area(s) concentration, and compliance with anti-discrimination laws and regulations. The institution's community development services and qualified investments were evaluated at bank management's request.

## **DESCRIPTION OF INSTITUTION**

Lake-Osceola State Bank is a commercial bank located in Baldwin, Michigan. The bank operates from seven locations in west-central Michigan. The main office is located in Baldwin, Michigan, approximately 90 miles north of Grand Rapids, Michigan. Branches are located in the following Michigan cities: Big Rapids, Irons, Luther, Reed City, Tustin, and Wellston. The newest branch location is the Big Rapids, Michigan office, opened on April 9, 2007. All branch

locations are full-service brick and mortar facilities. Four of the offices are located in moderate-income census tracts. Three offices are located in middle-income census tracts. The institution is a full-service community bank that offers various deposit products, mortgage, commercial, consumer, and agricultural loans. The bank's primary business focus is residential lending followed by commercial lending. The institution has a wholly owned mortgage subsidiary, Lake-Osceola Mortgage Corporation, located at the institution's main office in Baldwin.

As of March 31, 2009, Lake-Osceola State Bank had \$127,449,000 in total loans, \$138,410,000 in total deposits, and \$167,709,000 in total assets. Total assets have grown about 17 percent since the last CRA evaluation dated March 10, 2003.

<b>Table 1 - Loan Distribution as of 03/31/2009</b>		
<b>Loan Type</b>	<b>Dollar Amount (000s)</b>	<b>Percent of Total Loans (%)</b>
Construction and Land Development	2,694	2
Secured by Farmland	0	0
1-4 Family Residential	76,209	60
Multi-Family (5 or more) Residential	0	0
Commercial	39,283	31
<b>Total Real Estate Loans</b>	<b>118,186</b>	<b>93</b>
Commercial and Industrial	1,724	1
Agricultural	88	0
Consumer	4,965	4
Obligations of state and political subdivisions in the U.S.	2,424	2
Other	62	0
Less: Unearned Income	0	0
<b>Total Loans</b>	<b>127,449</b>	<b>100</b>

Source: Report of Condition (RC-C)

Residential real estate lending represents 60 percent of the loan portfolio and is considered the bank's primary lending product. Commercial lending represents 31 percent of the portfolio and is the bank's secondary lending product. Table 1 shows the bank's March 31, 2009 loan distribution by dollar volume.

There are no financial or legal impediments that would preclude Lake-Osceola State Bank from reasonably meeting the credit needs of its assessment area under the guidelines of the Community Reinvestment Act .

## **DESCRIPTION OF ASSESSMENT AREA**

The Community Reinvestment Act (CRA) requires financial institutions to define an assessment area within which the institution concentrates its lending efforts. This area serves as the basis for evaluating a bank's lending performance. Lake-Osceola State Bank's assessment area includes the entire county of Lake and portions of Osceola, Mecosta, Newaygo, Oceana, Mason, Manistee, and Wexford counties. Newaygo County is located within the Grand Rapids-Wyoming, MI Metropolitan Statistical Area (MSA) #24340. The 2000 U.S. Census reports the institution's assessment area contains 27 census tracts, 10 are moderate-, 15 are middle-, and 2 are N/A-income census tract. These tracts contain the campus of Ferris State University. The 15 middle-income census tracts are designated as distressed and underserved. The assessment area consists of whole geographies and does not arbitrarily exclude any low- or moderate-income census tracts.

A separate analysis will not be conducted for the Grand Rapids-Wyoming, MI MSA #24340 because this portion of the bank's assessment area does not contain any of the bank's branch locations.

### **Demographic Data**

According to the 2000 U.S. Census data the assessment area population is 100,069. The demographic data for the counties which comprise the assessment area follows:

#### Lake County

The 2000 U.S. Census Bureau reports the population of Lake County as 11,333. However, the 2008 U.S. Census Bureau estimates that the population is 11,014, a decrease of nearly three percent. This portion of the assessment area consists of two moderate-income census tracts.

#### Oceana County

The 2000 U.S. Census Bureau reports the population of Oceana County as 26,873. However, the 2008 U.S. Census Bureau estimates that the population is 27,598, an increase of nearly three percent. This portion of the assessment area contains one middle-income census tract.

#### Osceola County

The 2000 U.S. Census Bureau reports the population of Osceola County as 23,197. However, the 2008 U.S. Census Bureau estimates that the population is 22,930, a decrease of one percent. This portion of the assessment area consists of one moderate- and four middle-income census tracts.

### Manistee County

The 2000 U.S. Census Bureau reports the population of Manistee County as 24,527. However, the 2008 U.S. Census Bureau estimates that the population is 24,640, an increase of 0.5 percent. There are two moderate- and three middle-income census tracts in this county.

### Mason County

The 2000 U.S. Census Bureau reports the population of Mason County as 28,274. However, the 2008 U.S. Census Bureau estimates that the population is 24,782, a decrease of over twelve percent. The bank's assessment area in Mason County consists of two middle-income census tracts.

### Mecosta County

The 2000 U.S. Census Bureau reports the population of Mecosta County as 40,553. However, the 2008 U.S. Census Bureau estimates that the population is 41,562, an increase of nearly three percent. This portion of the assessment area consists of three moderate-, five middle-income, and two N/A census tracts. The two N/A census tracts contain the campus of Ferris State University.

### Newaygo County

The 2000 U.S. Census Bureau reports the population of Newaygo County as 47,876. However, the 2008 U.S. Census Bureau estimates that the population is 48,897, an increase of just over two percent. The bank's assessment area in Newaygo County consists of one moderate-income census tract.

### Wexford County

The 2000 U.S. Census Bureau reports the population of Wexford County as 30,484. However, the 2008 U.S. Census Bureau estimates that the population is 31,673, an increase of nearly four percent. The bank's assessment area in Wexford County consists of one moderate-income census tract.

## **Economic & Business Information**

The economic conditions in the assessment area have continued to deteriorate. The area economy is fueled by a combination of tourism, forestry, producers of agricultural and manufactured products, and farms. The recent housing, financial and automotive crises have negatively impacted the local economies. The reliance on the automotive sector to supply jobs and fuel their economies is significant. At this time, it is uncertain of how bankrupt proceedings for Chrysler and General Motors will impact the local economies that have a large stake in the automotive industry, i.e., suppliers, and dealers. If the Big Three does not recover soon, the unemployment rate will continue to rise.

Approximately, 10 percent of families in the assessment area earn incomes that place them below the poverty level based on 2000 U.S. Census data, higher than the 7 percent of families in the State of Michigan who are below the poverty level. The 2000 U.S. Census Bureau estimates that in 2008, 72 percent of households within the institution's assessment area are wage and

salary earners. The total number of businesses in the assessment area is 6,294 of which approximately 94 percent of business entities are involved in non-farm activities, with 45 percent of those businesses being related to retail and service area.

### Lake County

Lake County affords a beautiful scenic route between Grand Rapids and Muskegon. The major industries include tourism and forestry. Lake County is a popular location for outdoor sporting attractions drawing people from major metropolitan areas such as Chicago, Grand Rapids, and Lansing. The three major employers in the county include Baldwin Family Health Care (160 employees), County of Lake (125 employees), and Baldwin Community School District (120 employees). The types of services offered include forestry, construction, manufacturing, and wholesale trade. According to the Bureau of Labor Statistics (Haver Analytics, May 1, 2009) the county's unemployment rate in 2008 was 11.8 percent, which exceeds the State of Michigan and national unemployment rates of 8.4 and 5.8 percent, respectively.

### Oceana County

Oceana County borders Lake Michigan along US-31 and is the 64<sup>th</sup> largest in the state covering 541 squares miles. The county contains portions of the Manistee National Forest, which covers 530,000 acres of land. The three major employers include Peterson Farms Inc. (350 employees), Kurdziel Iron of Rothbury Inc. (339), and Gray Co. (300 employees). Manufacturing services typically offered include: food processing and fabricated metal products. According to the Bureau of Labor Statistics (Haver Analytics, May 1, 2009) the county's unemployment rate in 2008 was 10.8 percent, which exceeds the State of Michigan and national unemployment rates of 8.4 and 5.8 percent, respectively.

### Osceola County

Osceola County is located in northern Michigan, near the crossroads of US-131 and US-10. The county's parks and trail system link nearly 3,500 acres of lakes and ponds as well as over 300 miles of rivers and streams to hundreds of acres of state forest. The local economy relies on Tier 1 and 2 automotive suppliers as well as food processing operations. The three major employers include Nartron Corp (335 employees), Reed City Hospital Corp (300), and PPG Industries (200 employees). According to the Bureau of Labor Statistics (Haver Analytics, May 1, 2009) the county's unemployment rate in 2008 was 9.8 percent, which exceeds the State of Michigan and national unemployment rates of 8.4 and 5.8 percent, respectively.

### Mason County

Mason County borders Lake Michigan, traversed by US-31 and US-10. The county is the 10<sup>th</sup> smallest in the state and covers 495 squares miles. The county contains portions of the Manistee National Forest, which covers 530,000 acres of land. Agricultural products; cherries, apples, asparagus, corn and wheat, are primarily produced in the county. The three major employers include Memorial Medical Center (550 employees), Wal-Mart Stores Inc (350), and Indian Summer Cooperative Inc (300 employees). Manufacturing services that are typically offered include non-electrical machinery and fabricated metal products. According to the Bureau of Labor Statistics (Haver Analytics, May 1, 2009) the county's unemployment rate in 2008 was 8.8 percent, which exceeds the State of Michigan and national unemployment rates of 8.4 and 5.8 percent, respectively.

### Mecosta County

Mecosta County is home to Ferris State University, located in Big Rapids, Michigan. The economy is diversified. The 2000 U.S. Bureau of Census reports 29.6 percent of the labor force as being employed in education, health and social services, 27.3 percent are employed in management, 20 percent in sales and office occupations, and 17 percent employed in manufacturing. The three major employers include Wal-Mart Stores Inc. (400 employees), Fluid Routing Solutions Inc. (300), and Haworth Inc. (300 employees). According to the Bureau of Labor Statistics (Haver Analytics, May 1, 2009) the county's unemployment rate in 2008 was 8.9 percent, which exceeds the State of Michigan and national unemployment rates of 8.4 and 5.8 percent, respectively.

### Newaygo County

Newaygo County contains 847 square miles and is the 17<sup>th</sup> largest county in the state. The majority of the county is covered by the Manistee National Forest. The primary manufacturing activities consist of food processing and the manufacture of aluminum extruded products. The three major employers include Dura Operating Corp (500 employees), Newaygo County General Hospital (390), and Magna Donnelly Corp (350 employees). According to the Bureau of Labor Statistics (Haver Analytics, May 1, 2009) the county's unemployment rate in 2008 was 9.2 percent, which exceeds the State of Michigan and national unemployment rates of 8.4 and 5.8 percent, respectively.

### Wexford County

Wexford County contains 566 square miles and is the 51<sup>st</sup> largest county in the state. Both the Manistee National Forest and Pere Marquette State Forest cover much of the county. Manufacturing activities consist of producing rubber products, vacuum cleaners, boats, wheel systems, concrete blocks, and military cargo handling systems, hand trucks, emission control systems, and horns. The three major employers include Four Winns Boats LLC (850 employees), Meijer Inc (475), and Wal-Mart Stores Inc (450 employees). According to the Bureau of Labor Statistics (Haver Analytics, May 1, 2009) the county's unemployment rate in 2008 was 11.3 percent, which exceeds the State of Michigan and national unemployment rates of 8.4 and 5.8 percent, respectively.

Table 2, illustrates an unemployment rate comparison of the assessment area's seven counties, the state of Michigan, and the United States. The unemployment rate in all seven counties in the assessment area exceeds both the state and national averages. As previously stated, the unemployment rate continues to rise particularly in Michigan because of the continual deterioration in the automotive and manufacturing industries, weakening city and state fiscal conditions and the declining population.

<b>Table 2-Unemployment Rate Comparisons</b>			
<b>Area</b>	<b>Percent Unemployed</b>		
	<b>March 2009</b>	<b>2008</b>	<b>2007</b>
Lake County	18.6	11.8	10.3
Oceana County	19.0	10.8	8.3
Osceola County	15.8	9.8	7.9
Mason County	14.9	8.8	7.7
Mecosta County	13.4	8.9	7.5
Newaygo County	14.0	9.2	7.8
Wexford County	18.0	11.3	8.5
Michigan	12.9	8.4	7.1
United States	8.8	5.8	4.6

Source: Bureau of Labor Statistics (Haver Analytics) Created 5/1/2009

### Housing Data

Table 3 shows some selected housing characteristics for the assessment area and the State of Michigan.

<b>Table 3 – Selected Housing Characteristics of Assessment Area</b>						
<b>Area</b>	<b>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>
Assessment Area	\$75,563	49	12	39	97	3
Non-MSA Michigan	\$91,439	59	15	26	96	4
Michigan Statewide average	\$110,300	66	23	11	87	13

Source: 2000 U.S. Census Bureau

The cost of housing is higher than that of the state of Michigan. There is a limited percentage of 1-4 family owner-occupied housing units in the assessment area indicating a restricted environment for the bank to make mortgage related loans. According to 2000 U.S. Census data, there are 61,729 housing units. Forty-nine percent (30,052) are owner-occupied, 12 percent (7,505) are occupied rentals, and 39 percent (24,172) are vacant housing units. Approximately 97 percent of the assessment area's housing units are one-to-four unit dwellings and 3 percent

are five or more unit apartments. Based on 2000 U. S. Census data, a median home in the assessment area is valued at \$75,563 compared to \$110,300 statewide. The median monthly rent in the assessment area is \$441 compared to \$556 statewide.

### **Competition**

The institution faces competition from other banks and finance companies that have offices within the assessment area. The June 30, 2008, Federal Deposit Insurance Corporation's data on deposits shows that there are 15 financial institutions, with 73 offices serving the bank's AA. Lake-Osceola State Bank is ranked 6<sup>th</sup> in deposit market share with 6.38 percent of the area's deposits.

### **Community Contact**

A community contact was conducted. The community contact was based in Lake County and provides affordable housing to low- and moderate-income individuals. The contact stated that Lake County is the 2<sup>nd</sup> poorest county in the state of Michigan and unemployment is on the rise because many small businesses have closed.

The contact specifically mentioned that banking relationships in the county is limited and that Lake-Osceola State Bank is the only bank in the county. The contact pointed out that the bank has three conveniently and accessible branch facilities in the county; Irons, Baldwin, and Luther. The contact added that Lake-Osceola State Bank is very supportive of various community initiatives.

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

Small bank CRA procedures were used to evaluate this bank's performance. The bank's lending inside the assessment area, loan-to-deposit ratio, borrowers' profile, responsiveness to complaints, and compliance with anti-discrimination laws were evaluated to determine overall conclusions. A separate analysis of the Grand Rapids-Wyoming, Michigan MSA #24340 will not be conducted because the bank does not have any branch offices located in that MSA and has a limited lending and deposit presence in the area.

The bank's lending patterns for the review of the borrowers' profile and geographic distribution are analyzed using both dollar volume and number volume. The conclusions for dollar volume of lending were generally the same as those for the number volume of lending. Therefore, only number volume will be discussed and presented in the tables and dollar volume will not be presented unless there is a substantial difference between the number volume and dollar volume of lending. Given this, additional tables containing information on dollar amount were not included in this evaluation.

## Loan-to-Deposit Ratio

The loan-to-deposit ratio is more than reasonable (considering seasonal variations and taking into account lending related activities) given the institution's size, financial condition, and assessment area credit needs. A high loan-to-deposit ratio is an indicator that an institution is an active lender. Lake-Osceola State Bank's net loan-to-deposit ratio, averaged for the 20 quarters since the last evaluation approximately 95 percent. The bank's quarterly ratios have varied from a low of 83 percent on March 31, 2003 to a high of 104 percent on June 30, 2007. The loan-to-deposit ratio was approximately 99 percent on December 31, 2008, the most recent reported period.

The bank's ratios were compared to two competitive institutions. The two institutions were selected because both are close in proximity to the bank. The first institution, with total assets of \$59 million, had an average loan-to-deposit ratio of 81.33 percent for the same 20 calendar quarters. The second institution, with total assets of \$324 million, had an average loan-to-deposit ratio of 86.52 percent for the same time period. The bank's ratios are higher than that of these competing institutions. To summarize, this analysis indicates that the institution is extending more credit than it is taking in deposits and by doing so is helping to meet the credit needs of the assessment area that it serves.

## Assessment Area Concentration

A substantial majority of loans and other lending related activities are in the institution's assessment area. As shown in Table 4, 86 percent of total small business loans by number and 78 percent by dollar amount are inside the institution's assessment area.

<b>Table 4 - 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>	
Small Business										
2007	38	86	6	14	44	3,757	74	1,318	26	5,075
2008	45	87	7	13	52	5,292	81	1,219	19	6,511
<b>Total</b>	<b>83</b>	<b>86</b>	<b>13</b>	<b>14</b>	<b>96</b>	<b>9,049</b>	<b>78</b>	<b>2,537</b>	<b>22</b>	<b>11,586</b>

Source: Bank provided small business data for 2007 and 2008.

Residential real estate loans were not included in the evaluation of the assessment area concentration because the bank's subsidiary mortgage company originates all residential real estate loans.

However, because the mortgage company operates solely at the branch locations, an assumption can be made that the majority of mortgage loans are probably made inside the institution's assessment area.

## Geographic Distribution of Loans

Overall, the geographic distribution of loans reflects excellent dispersion throughout the assessment area. There are no low-income census tracts in the assessment area; however, the remaining census tracts in the assessment area consist of moderate- and distressed middle-income tracts.

The geographic distribution of residential real estate loans reflects excellent dispersion throughout the assessment area. Table 5 shows the distribution of the residential real estate loans by number according to the geography income category, and the percentage of owner-occupied housing units in these geographies.

Table 5 - Distribution of Residential real estate Loans by Income Category of the Census Tract							
Census Tract Income Level	% of Total Owner-Occupied Housing Units	2007		2008		Total	
		#	%	#	%	#	%
Low	0	0	0	0	0	0	0
Moderate	39	32	80	33	57	65	67
Middle	61	8	20	24	43	32	33
Upper	0	0	0	0	0	0	0
\$0/NA Income	0	0	0	0	0	0	0
<b>Total</b>	<b>100</b>	<b>40</b>	<b>100</b>	<b>57</b>	<b>100</b>	<b>97</b>	<b>100</b>

Source: 2000 U.S. Census and bank mortgage data for 2007 and 2008

In 2007, the bank originated 80 percent of residential real estate loans in moderate-income geographies. During 2008, the extension of residential real estate lending in moderate-income geographies decreased to 57 percent. The decrease in mortgage lending in 2008 can be attributed to the increase in the unemployment rate, and the housing crisis facing the assessment area, the State of Michigan, and the United States. The bank's continued success in mortgage lending is a direct result of the accessibility of branch locations and the limited number of financial institutions and mortgage companies serving the moderate-income census tracts. The analysis indicates that the bank is an active residential real estate lender and has an excellent responsiveness of extending loans in moderate-income geographies.

The institution's lending in middle-income geographies is reasonable. The middle-income census tracts in the bank's assessment area are distressed and underserved areas that are not in close proximity to most branch locations. Of the seven branch offices, three branch offices are located in middle-income geographies. Therefore, it is reasonable for the bank not to have as

much residential real estate activity in those areas. However, the inclusion of the Big Rapids branch office in 2007, has allowed lending in those areas to increase.

The geographic distribution of small business loans reflects excellent dispersion throughout the assessment area. Table 6 presents the geographic distribution of small business loans for the period of 2007 and 2008.

<b>Table 6 – Distribution of Small Business Revenues by Income Category of the Census Tract</b>								
<b>Census Tract Income Level</b>	<b>% of Total Businesses</b>		<b>2007</b>		<b>2008</b>		<b>Total</b>	
	<b>2007</b>	<b>2008</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>
<b>Low</b>	0	0	0	0	0	0	0	0
<b>Moderate</b>	38	38	22	58	29	64	51	61
<b>Middle</b>	62	62	16	42	16	36	32	39
<b>Upper</b>	0	0	0	0	0	0	0	0
<b>NA</b>	0	0	0	0	0	0	0	0
<b>Total</b>	<b>100</b>	<b>100</b>	<b>38</b>	<b>100</b>	<b>45</b>	<b>100</b>	<b>83</b>	<b>100</b>

Source: 2000 U.S. Census Bureau Data; 2007 & 2008 Bank lending data.

In 2007, 58 percent of small business loans were originated in moderate-income geographies. This compares favorably to the 38 percent of the total business in moderate-income geographies. In 2008, 64 percent of small business loans were originated in moderate-income geographies. This lending pattern compares very favorably to the 2008 percentage of total businesses. Overall, the institution has a superlative record of extending small business loans in moderate-income geographies. The superior record is due to the fact that four branch offices are located in moderate-income geographies. Small businesses have a tendency to seek bank offices that are close to the businesses location. In addition, competition from other institutions is limited.

The bank's 2007 and 2008 lending in middle-income geographies is lower than the percentage of total business; however, these areas are designated as distressed and underserved geographies and credit opportunities are not readily available. In addition, competition from other financial institutions is greater in the middle-income census tracts. The institution has three branch offices in middle-income geographies and one of these three branch offices (Big Rapids) was opened in 2007. Overall the bank displays an excellent dispersion of loans within the moderate- and distressed middle-income census tracts.

## Borrowers' Profile

The distribution of borrowers reflects, given the demographics of the assessment area, excellent penetration among individuals of different income levels (including low- and moderate-income) and businesses of different sizes. This conclusion was based upon analysis of the sampled data gathered for residential real estate loans originated within the assessment area, including low-and moderate-income borrowers, when compared to the percentage of families. The bank has an excellent record of originating small business loans.

The institution has an excellent borrower income distribution of residential real estate loans as reflected by the percentage of sampled loans to low-and-moderate-income borrowers, when compared to the percentage of families. The bank is making a high percentage of loans to low-income borrowers, when compared to the percentage of total families. An adjustment is made to the low-income family population by deducting the families with incomes below the poverty level. Having an income below the poverty level makes it more difficult for this group to service a mortgage payment or other debt. This group may also choose to utilize the affordable or government subsidized housing programs for which they are eligible. Approximately 23 percent of families in the assessment area are classified as low-income. As discussed in the description of the assessment area section, 10 percent of families in the assessment area are below the poverty level, so for purposes of this analysis only 13 percent of the percentage of low-income families will be used as a comparison and not families considered as below the poverty level. Table 7 below displays the distribution of residential real estate loans by borrower income.

<b>Table 7– Distribution of Residential real estate Loans by Borrower Income</b>							
<b>Borrower Income Level</b>	<b>% of Families</b>	<b>2007</b>		<b>2008</b>		<b>Total</b>	
		<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>
<b>Low</b>	23*	7	18	13	23	20	21
<b>Moderate</b>	21	10	25	15	26	25	26
<b>Middle</b>	24	12	30	12	21	24	24
<b>Upper</b>	32	11	27	17	30	28	29
<b>\$0/NA Income</b>	0	0	0	0	0	0	0
<b>Total</b>	<b>100</b>	<b>40</b>	<b>100</b>	<b>57</b>	<b>100</b>	<b>97</b>	<b>100</b>

*Source: 2000 U.S. Census data and bank residential real estate loan data for 2007 and 2008.*

\* Ten percent of assessment area families are below the poverty level. Therefore, only 13 percent of the population might be considered in a borrowing capacity.

During 2007, the bank originated 18 percent of loans to low-income borrowers as compared to 13 percent of the low-income families in the area. In 2008, the bank originated 23 percent of loans to low-income borrowers as compared to the 13 percent of low-income families. The bank's superior performance in extending mortgages to low-income borrowers is attributed to the

success of the established mortgage programs that are geared to assist low-income borrowers in obtaining mortgages.

The distribution to moderate-income borrowers is good when compared to the percentage of families. During 2007 and 2008, the bank originated 25 percent and 26 percent of residential real estate loans to moderate-income borrowers, respectively. This pattern exceeded the 21 percent of assessment area moderate-income families. This lending pattern is more than reasonable when considering the economic downturn in the assessment area and the state of Michigan. As stated above, the extension and availability of credit to moderate-income borrowers is in-part due to the mortgage programs established by the bank. Overall, the bank has an excellent performance to moderate-income borrowers for all years reviewed.

The distribution of lending reflects excellent penetration among businesses of different sizes. For purposes of this analysis, actual business revenues were used in the determination of appropriate business size. Generally, loans made for \$100,000 or less are extended to very small and micro business organizations. Sampled commercial loans originated in 2007 and 2008, with revenues of \$1 million or less qualify as small business loans and are used in this evaluation. Table 8 illustrates the distribution of small business loans by revenue size. The following analysis was performed only on loans originated within the assessment area.

<b>Table 8 – Distribution of Small Business Loans by Revenue Size</b>						
<b>Revenue Size (000s)</b>	<b>2007</b>		<b>2008</b>		<b>Total</b>	
	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>
<b>≤ \$100</b>	17	45	17	38	34	41
<b>&gt; \$100 ≤ \$250</b>	15	39	18	40	33	40
<b>&gt; \$250 ≤ \$500</b>	2	5	7	15	9	11
<b>&gt; \$500 ≤ \$1,000</b>	4	11	3	7	7	8
<b>Total</b>	<b>38</b>	<b>100</b>	<b>45</b>	<b>100</b>	<b>83</b>	<b>100</b>

Source: Bank small business data for 2007 and 2008

During 2007, 45 percent of sampled small business loans had revenues of \$100,000 or less. This indicates a large percentage of lending is extended to very small or micro-sized businesses. Also, in 2007, 89 percent of sampled small business loans were extended to business that had revenues of \$500,000 and less. This is an indication that the bank is extending loans to the area's businesses of varying sizes. During the same period, 11 percent of the sampled loans were extended to businesses that had revenues of \$500,000 to \$1,000,000. This data compares favorably to the 2007 Dun & Bradstreet data which indicates that 62 percent of businesses had revenues of \$500,000 and less and four percent had revenues of \$500,000 to \$1,000,000.

During 2008, the bank originated 38 percent of sampled small business loans to businesses with revenues of \$100,000 or less. Again, this indicates that the bank has a willingness to extend credit to the very smallest businesses. In addition, in 2008, 93 percent of sampled small business loans had revenues of \$500,000 and less. As stated above, the bank has a good record of extending loans to varying business sizes, including small business. Only seven percent of sampled small business loans had revenues of \$500,000 to \$1,000,000. This data compares favorably to the 2008 Dun & Bradstreet data which indicates that 62 percent of businesses had revenues of \$500,000 and less and three percent had revenues of \$500,000 to \$1,000,000.

The bank has demonstrated that it is willing to seek out and lend to the assessment area's very smallest businesses and micro-enterprises. This demonstrates excellent performance under this criterion.

### **Innovative and/or Flexible Lending Practices**

The level of innovative and/or flexible lending products the bank affords customers in its assessment area is outstanding, considering the size and resources of the institution. The institution offers a host of lending programs. These programs make it easier for small businesses and low- and moderate-income individuals to obtain credit. Some of the more distinctive innovative and/or flexible lending programs are outlined below.

- The bank is actively involved in the Small Business Administration (SBA) lending programs. The bank is authorized to make 7a and SBA Express loans. According to the SBA standard operation procedures, SBA loans are not collateral dependent, which allows the bank to make loans that lack sufficient collateral. During 2007 and 2008, the bank originated a total of \$5,677,000 small business loans.
- The bank is an approved USDA lender. Through the USDA program, the institution offers commercial loans that can obtain up to an 80 percent USDA guaranty. The guaranty allows the bank to consider loans that may not meet traditional bank benchmarks. The USDA residential program also allows the bank to make primary residential purchase loans at 102 percent loan-to-value (LTV) for low income borrowers that are purchasing a primary residence. In 2008, the bank originated one USDA commercial loan in the amount of \$2,600,000. During 2007, the bank originated three mortgage loans totaling \$222,513 and in 2008 only one loan was originated in the amount of \$30,403.
- The bank contracted with the Federal Home Loan Bank of Indianapolis (FHLBI) through their Community Investment Department to become members of the Home Ownership Program (HOP). This program allows eligible families to use the HOP for down payments and closing costs. For every dollar towards their down payment, the program offers three dollars. The Home Ownership Program is open to households with annual incomes of 80 percent or less of their area's median family income and is adjusted for the size of the household.

- The bank participates with the Michigan State Housing Development Authority (MSHDA) in a flexible program to assist first time home buyers purchase new homes built in Lake County by Five Cap, Inc. This initiative is directed toward assisting low- and moderate-income households. Approximately 4 mortgages have been originated during this evaluation period.

## **Investments**

The institution's investment record enhances credit availability in its assessment area. The institution purchased a total of 14 revenue bonds that specifically support economic and community development by providing much needed funding to local school districts and municipalities that service low and moderate-income individuals as well as distressed and underserved middle-income geographies. Other essential activities that the bank supports include financing for expansions and improvement, maintenance, or operation of essential infrastructure or facilities for health services, education, and affordable housing. Of the 14 revenue bonds, the bank originated two bonds in 2004, four in 2005, six in 2007, and two in 2008, totaling \$2,170,000. Community development investments represent approximately 20 percent of the bank's total investment portfolio.

Four of the bank's largest qualifying investments are listed below.

- Two tax anticipation revenue bonds were originated to a local school district totaling \$1,200,000. The school district serves low- and- moderate income students. Approximately 90 percent of the students received free or reduced lunch. The proceeds received by the bank will aid in the continuation of the free and reduced lunch program and help with operational and fiscal maintenance- such as payroll.
- Two energy efficiency bonds were originated for two school districts totaling \$560,000. The school districts are located in moderate- and distressed middle-income census tracts. Many of the students come from low-to-moderate income families and households. This investment qualifies because it helps to stabilize moderate-income and distressed middle-income areas and will allow the school districts to reduce energy expenses and improve the quality of the educational institutions in those areas.

In addition to the bank's noted community development investments the bank has made a significant volume of qualified donations to qualifying community development projects and organizations whose primary purpose is community development. The bank made \$31,265, \$25,846, and \$19,650 during 2005, 2006, and 2007, respectively. A list of qualified donations for 2008 was not available. These donations represented 79 percent, 77 percent, and 56 percent of the bank's total donations for 2005, 2006, and 2007, respectively. The community contact commented that the bank is considered a leader in providing community development investments and donations.

## **Record of Opening and Closing Branches**

The bank's record of opening and closing branches improved the accessibility of its delivery systems, including to low- and moderate-income individuals and/or geographies. Since the last examination, the bank opened the Big Rapids branch, which is located in a middle-income geography in Mecosta County. The branch borders a moderate-income census tract and is primarily surrounded by distressed and underserved middle-income geographies. The addition of the Big Rapids branch allowed an added banking facility in the County leading to more accessibility for banking services. The bank has never closed a branch. Thus, the bank's record has generally improved the accessibility of its delivery systems.

## **Reasonableness of Business Hours and Services in Meeting Assessment Area Needs**

Services, including business hours, do not vary in a way that inconveniences any portion of the assessment area or any group of individuals. Bank lobbies are open to offer comprehensive banking services on Fridays until: 4:00 p.m. at four branch offices (Wellston, Tustin, Irons, and Luther), 5:00 p.m. at one branch office (Big Rapids) and 4:30 p.m. at two branch offices (Reed City and Baldwin). In addition, four branch offices (Baldwin, Irons, Wellston, and Luther) offer drive-in banking services on Saturday mornings. These extended hours make it easier for individuals who are employed during the day to conduct banking services on evenings or weekends without taking time off from work. Branch hours are considered convenient and comparable to other local financial institutions.

## **Services**

The institution's record of providing branches, automated teller machines (ATMs), services, and delivery systems enhances credit availability in its assessment area. The level of community development services Lake-Osceola State Bank provides in its assessment area demonstrates that it is a leader in providing community development services. All of the services meet the definition of "community development" and also relate to the provision of financial services as required by the regulation for consideration under the CRA. Table 9, highlights a few of the initiatives the institution and its staff members are involved. The majority of the contributions made by bank officers are in the form of in-kind support through leadership and technical financial assistance (ie. budgeting). The institution in concert with Michigan Banker's Association and American Banker's Association has developed a comprehensive financial literacy program targeted to students in the cities of Baldwin, Reed City, Tustin, and Luther. These cities are located in moderate- and middle- income geographies. As stated in the Description of Assessment Area section, the middle- income geographies are distressed and underserved communities. Over 90 percent of the students receive free and reduced lunches, thus indicating that they're low-income.

The level of need in the bank's assessment area is high, especially due to the high unemployment rate, continuing deterioration in the manufacturing sector and the decline in tourism. There are several state-designated "renaissance zones" in the assessment area, further recognizing the need for community development. However, being a predominately rural/forested area, the number of organizations, and other entities available to provide services is limited. The level of the banking

services is considered to be superior since the bank has been able to provide community development services in this challenging economic environment. For example, in helping low- and moderate-income individuals in the area, the bank allows Michigan public assistance recipients to use Bridge Cards to withdraw public assistance payments for no fee. In addition, the bank also incurs the network membership fees for these accounts.

Bank management has created a unique and distinctive program for its staff that promotes community involvement. Bank employee’s annual bonuses are based in part on the number of hours devoted to community service. The institution’s staff has devoted thousands of community service hours from periods of 2006-2009. This initiative promotes both goodwill and pride among employees as well as places the institution among an elite group of financial institutions that go beyond the regulation to service its communities.

All of the services listed in the table are provided either by the institution or officers of the institution on bank time. Again, this is only a sample of the numerous community services the bank provides.

<b>Table 9 – Community Development Services</b>			
<b>Brief Service Description</b>	<b>Bank Sponsored Event, Program or Seminar</b>	<b>Technical Assistance or Direct Involvement by Bank Employee</b>	<b>Bank Product or Service</b>
A bank officer serves as chair of the Lake County Enterprise Community. This organization helps promote economic development activity.	X	X	
A bank officer is treasurer and board member of the Lake County Habitat for Humanity. The bank also provides free land contracts receivable services to the organization.		X	X
Two bank officers serve on the Baldwin Downtown Development Authority, one as board member and one as treasurer. These activities help to stimulate small business activity in a moderate-income area.		X	
Two bank officers serve on the board of directors of the Reed City Downtown Development Authority. This activity promotes area small business activity.		X	
A bank officer is treasurer of a health care board in Baldwin. This entity provides access to health care services in this moderate-income area.		X	
A bank officer is treasurer of a local organization that provides community services to children in Lake County. This activity helps provide community services to a predominately low- and moderate-income population.		X	
Bank officers serve on the boards of two community foundations. These organizations provide community services to low- and moderate-income clients. The officers use their financial skills, such as with budgeting, to help the organization.		X	

<b>Table 9 – Community Development Services</b>			
A bank officer serves on the board of an organization in St. Ignatius that helps provide housing to low- and moderate-income individuals. The officer uses budgeting and financial skills to help the organization.		X	
A bank officer serves on the regional board of a state entity that helps to provide developmental services to unemployed persons in the area.		X	
The bank allows non-customers to cash Social Security or State of Michigan assistance payments for free.			X
The bank allows Michigan public assistance recipients to use Bridge Cards to withdraw public assistance payments for no fee. The bank also pays the network membership fees for these accounts.			X
The bank provides Individual Development Accounts to allow low-income residents to save funds to purchase a home or start-up a small business.			X
A bank officer is co-organizing a community effort to build a health care center in a moderate-income area. These tasks include fundraising.		X	
Five bank officers administer the Lake-Osceola State Bank Financial Literacy Program. LOSB partners with the Michigan Bankers Association and American Bankers Association to produce outreach financial literacy programs. This program promotes and teaches financial literacy to students in predominantly low and moderate income areas.	X		
A bank officer serves as Trustee to the Osceola County Foundation Board. The board raises scholarship monies for youths and seniors as well as promotes economic development for businesses through grants. The bank officer provides technical assistance on financial matters to the organization which serves individuals and businesses in moderate-income geographies.		X	
One bank officer serves on the Lake County Brownfield Board. The bank officer provides technical guidance on matters to small business activities in the area.		X	

Source: Bank Records

### **Response to Substantiated Complaints**

The institution has taken noteworthy, creative action in response to substantiated complaints about its performance in meeting assessment area credit needs. One oral complaint was filed by the citizens in the city of Iron, Michigan, involving changes in branching hours. Management held a town hall meeting to discuss the changes and how it would impact citizens of that community. It was determined that the branch would only close for lunch, instead of on Saturday mornings. In addition, to help accommodate citizens who would be affected by the

branch closing at noon, management decided to install a fully operational automated teller machine. Management did an outstanding job in responding and accommodating the community.

#### **FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW**

No evidence of discriminatory or other illegal practices inconsistent with helping to meet community credit needs was identified. The institution was found to have adequate fair lending policies and procedures, training programs, and sufficient internal monitoring efforts.

**APPENDIX A – HUD Median Family Income Information**

Table A displays the HUD Median Family Income for the non-metropolitan portion of Michigan.

<b>Table A – Median Family Income</b>		
<b>Median Family Income (MFI)</b>	<b>\$49,900 in 2007</b>	<b>\$50,200 in 2008</b>
Low (Less than 50% of MFI)	Less than \$24,949	Less than \$25,099
Moderate (50% to less than 80% of MFI)	\$24,950 to \$39,919	\$25,100 to \$40,159
Middle (80% to less than 120% of MFI)	\$39,920 to \$59,879	\$40,160 to \$60,239
Upper (120% or more of MFI)	\$59,880 or greater	\$60,240 or greater