

PUBLIC DISCLOSURE

July 31, 1998

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Third Bank
99999-9**

**123 Easy Street
Bigtown, Bigstate 99999**

Federal Deposit Insurance Corporation

**[Street Address of FDIC RO]
[City Address of FDIC RO]**

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 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 **Third Bank, Bigtown, Bigstate**, prepared by the Federal Deposit Insurance Corporation, the institution's supervisory agency, as of **July 31, 1998**. The agency evaluates performance in assessment area(s), as they are delineated by the institution, rather than individual branches. This assessment area evaluation may include the visits to some, but not necessarily all, of the institution's branches. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 345.*

INSTITUTION'S CRA RATING

This institution is rated Satisfactory.

Summary of Institution's CRA Performance

Third Bank demonstrates a good responsiveness to the credit needs of its assessment area based on the following findings:

Lending

- * A majority of home mortgage and small business loans were extended inside the assessment area.
- * Within the assessment area, there were no conspicuous "gaps" in the geographic distribution of home mortgage and small business loans that could not reasonably be explained by the performance context.
- * Home mortgage loans were extended to individuals of varying income levels.
- * Small business loans were extended to businesses of various sizes based on loan size and annual gross revenues of the businesses.
- * Home mortgage and small business lending was commensurate with assessment area demographic statistics and generally met or surpassed aggregate lending data.
- * Third Bank has an adequate level of community development loans based on its capacity to lend.
- * The bank developed an innovative and flexible first-time home buyer loan program.

Investments

- * The level of investments held by the bank to address affordable housing and other credit needs is reasonable.

Services

- * The delivery of services, both of a retail and community development nature, reflects an adequate responsiveness to the needs of community members.

LENDING, INVESTMENT, AND SERVICE TEST TABLE

*The following table indicates the performance level of **Third Bank, Bigtown, Bigstate**, with respect to the lending, investment, and service tests.*

PERFORMANCE LEVELS	<u>THIRD BANK</u>		
	PERFORMANCE TESTS		
	Lending Test*	Investment Test	Service Test
Outstanding			
High Satisfactory	X		
Low Satisfactory		X	X
Needs to Improve			
Substantial Noncompliance			

* Note - The lending test is weighted more heavily than the investment and service tests when arriving at an overall rating.

DESCRIPTION OF INSTITUTION

Third Bank is a commercial bank headquartered in Bigtown, Bigstate. It is a subsidiary of Third Bank Corporation, a one-bank holding company. Third Bank has no other affiliate relationships. The bank operates eleven full-service offices throughout the Bigtown Metropolitan Statistical Area (MSA) which serves as the assessment area. The main office is located in Bigtown. Two of the branches are located in the city of Bigtown, two in Douglas, two in Farlow, one in Hartville, one in Jasper, and two in Lebanon. The branch offices in Douglas and Farlow are located within low- and moderate-income (LMI) census tracts.

The bank's primary customer base consists of residential borrowers and small- and medium-sized businesses. Third Bank's business strategy is to maintain its "community bank" reputation and differentiate itself with attractive product lines. The bank offers a full line of loan and deposit products, including special products designed for first-time home buyers and small business owners. As of June 30, 1998, the bank had total assets of \$300 million, total loans of \$200 million, and total deposits of \$260 million. The loan-to-deposit ratio was 76.9 percent. Third Bank's loan mix is depicted in Table 1.

<i>Table 1 - Loan Distribution as of 6/30/98</i>		
<i>Loan Type</i>	<i>Dollar Amount (000s)</i>	<i>Percent of Total Loans (%)</i>
<i>Construction and Land Development</i>	\$0	0.0
<i>Secured by Farmland</i>	\$12,000	6.0
<i>1-4 Family Residential</i>	\$80,000	40.0
<i>Multi-Family (5 or more) Residential</i>	\$8,000	4.0
<i>Commercial</i>	\$50,000	25.0
<i>Total Real Estate Loans</i>	<i>\$150,000</i>	<i>75.0</i>
<i>Commercial and Industrial</i>	\$20,000	10.0
<i>Agricultural</i>	\$12,000	6.0
<i>Consumer</i>	\$16,000	8.0
<i>Other</i>	\$2,000	1.0
<i>Less: Unearned Income</i>	\$0	0.0
<i>Total Loans</i>	<i>\$200,000</i>	<i>100</i>

Source: Report of Condition

There are no legal or financial impediments that prevent Third Bank from helping to meet assessment area credit needs. However, the bank does operate in a highly competitive environment. There are 15 banks and a similar number of credit unions headquartered in Third Bank's assessment area. The number of lenders originating home mortgage loans in the Bigtown MSA totaled 150 during 1997. These lenders include banks, mortgage companies, and credit unions. Thirty-two of these lenders reported over 100 loan originations each. This information is derived from data reported pursuant to the Home Mortgage Disclosure Act (HMDA) and includes all home purchase and home improvement loans, including refinancings of both.

Two larger institutions provide the strongest competition for Third Bank because they are also locally-based "community banks" with a strong presence in the towns in which they operate. Within the cities of Douglas and Farlow, where many of the LMI census tracts are located, Mighty Savings Bank and Tuff State Bank are the dominant community-based lenders, respectively. There are no similarly-situated financial institutions to Third Bank due to differences in asset sizes, branching networks, product lines, and areas served.

Third Bank received a CRA rating of "Satisfactory" during the December 15, 1995 FDIC Evaluation. The previous rating was assigned prior to the effective date of the revisions to Part 345 of the FDIC Rules and Regulations which implements the CRA. Under the previous regulation, a bank's CRA performance was evaluated based on twelve assessment factors. These assessment factors have been replaced by three performance tests: Lending, Investment, and Service.

DESCRIPTION OF ASSESSMENT AREA

Scope of Evaluation

Third Bank has only one assessment area, and it was reviewed on-site using the Large Bank CRA evaluation procedures. Loans reported pursuant to the HMDA and CRA data collection requirements for 1996 and 1997 were included in the review of the bank's performance. In addition, the interim data on home mortgage and small business loans collected by the bank for the first six months of 1998 was reviewed. The review was limited to loan originations only since the bank has not purchased any loans. Consumer loans were not reviewed as that category does not constitute a substantial majority of the bank's lending. A review of FDIC records, as well as the bank's Public CRA File, did not reveal any complaints relating to the bank's CRA performance since the prior evaluation.

Demographic and Economic Data

Third Bank's assessment area delineation is in conformance with the CRA regulation. The assessment area consists of the Bigtown MSA which is comprised of 120 census tracts (19 low-, 14 moderate-, 64 middle-, and 23 upper-income). Low- and moderate-income (LMI) census tracts account for 27.5 percent of the total number of census tracts within the MSA; however, only 19 percent of the assessment area's total population resides within LMI tracts. The total population of the assessment area from the 1990 U.S. Census is 597,268. This population is comprised of 217,249 households, of which 41,100, or 18.9 percent, are located within LMI tracts. It should be noted that there are no households in 6 of the 19 low-income tracts or 3 of the 14 moderate-income census tracts as these areas are commercial or industrial in nature. It is noted that the percentage of households located within LMI census tracts is 18.9 percent; however, 40 percent of the households in the assessment area are considered to be LMI households. Of this 40 percent, a further breakdown shows that 25 percent of the total number of households are considered to be low-income, 15 percent are moderate-, 19 percent are middle-, and 41 percent are upper-income.

Only 8.6 percent of the housing units located in the low-income census tracts are owner-occupied. Fully one-half of the housing units in low-income tracts are multi-family (5 or more units). The percentage of households in these low-income tracts receiving public assistance is 26 percent compared to 6 percent for the entire assessment area. These demographics indicate a somewhat limited opportunity for one-to-four family owner-occupied residential lending in those areas. At 30 percent owner-occupancy, moderate-income census tracts also present fewer opportunities for this type of residential lending. Nevertheless, 73 percent of housing units in moderate-income areas are one-to-four family units, allowing financial institutions to make housing loans to the owners of those units. Nineteen percent of households in moderate-income tracts earned less than poverty level incomes at the last census. Those households would have difficulty in qualifying for a home loan or supporting a monthly payment on the median value home. Refer to Table 2 for additional housing information.

<i>Table 2 - Selected Housing Characteristics by Income Category of the Geography</i>									
<i>Geographic Income Category</i>	<i>Percentage</i>						<i>Median</i>		
	<i>Census Tracts</i>	<i>House-holds</i>	<i>Housing Units</i>	<i>Owner-Occupied</i>	<i>Rental Units</i>	<i>Vacant Units</i>	<i>Age *</i>	<i>Home Value*</i>	<i>Gross Rent*</i>
<i>Low</i>	8.0	8.0	10.0	1.5	22.0	16.0	40	\$30,000	\$300
<i>Moderate</i>	11.0	10.9	12.0	6.3	19.9	16.8	35	\$42,000	\$350
<i>Middle</i>	62.0	65.0	60.0	66.0	51.0	60.0	22	\$123,340	\$583
<i>Upper</i>	19.0	16.1	18.0	26.2	7.1	7.2	10	\$150,000	\$800
<i>Total or Median</i>	<i>100</i>	<i>100</i>	<i>100</i>	<i>100</i>	<i>100</i>	<i>100</i>	<i>20</i>	<i>\$123,800</i>	<i>\$490</i>

Source: U.S. Census, * - Owner-Occupied Units, ** - Renter-Occupied Units

The Median Family Income (MFI) figure for the Bigtown MSA was \$38,025 in 1990. This figure is used to determine the income level for each geography. Based on estimates by the Department of Housing and Urban Development (HUD), the adjusted MFI figures of \$45,500 and \$48,500 for the Bigtown MSA in 1997 and 1998, respectively, slightly exceed those for Bigstate.

The assessment area is experiencing a generally positive economic climate and steady growth. Unemployment levels have declined sharply since the 1992 recession to approximately 3 percent. The largest employers in the assessment area are Bigstate University & Hospital, Hi-Tech Company, and ABC Manufacturing. A large number of technology firms are located in the assessment area due to the abundance of colleges and universities offering computer science degrees. The area is also home to many hospitals and other health-related companies.

Light manufacturing and seasonal tourism are also important to the local economy. Virtually all segments of the local real estate market have surged since the recession. Home prices have increased due to the improved train service to Bigtown. The Bigtown area has also experienced a growing commercial and retail base, resulting in improved employment prospects. The expansion of the North Side Plaza is a primary contributor to this growth. The closure of the Bailey Naval Air Station in 1996 negatively impacted the cities of Douglas and Farlow and the surrounding areas. The population of the Bigtown MSA is estimated to have increased by 6 percent between 1990 and 1996, the most recent year for which population figures are available.

Three community contacts were made with two non-profit organizations that construct and sell residential properties and one company that assists small business owners in obtaining start-up and expansion financing. The contacts identified affordable housing and first-time home buyer loan programs, funding of housing rehabilitation projects, and technical assistance for small business owners as primary needs within the assessment area. Workshops focusing on the responsibilities of home ownership was also noted as a community need. The contacts stated that opportunities for financial institution involvement in existing community development initiatives are limited.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

LENDING TEST

Lending Activity

Third Bank's lending levels reflect a good responsiveness to community credit needs, considering the bank's volume of lending. A high percentage of loans are made inside the assessment area. As shown in Table 3, a large majority of home mortgage and small business loans were extended to individuals and businesses within the assessment area. Fully 80 percent of all loans included in the review, both by number and by dollar volume, were inside the assessment area.

A large portion of Third Bank's loan portfolio is residential mortgages, as are a significant portion of its loan originations. The number of HMDA loan originations reported in 1997 increased by 44 percent over 1996. The largest increase occurred in refinancings which increased by nearly 70 percent. Home purchase loans, on the other hand, declined by 23 percent. Home improvement loans reported in 1997 increased by five times over the level reported in 1996. Management attributes the increase in refinancings and drop in purchase loans to the decline in interest rates at the time. The increase in home improvement loans is attributed to the introduction and heavy marketing of a new home improvement loan product. The number of home mortgage loan originations during the first six months of 1998 is similar to the level in 1997.

Of the 150 lenders that originated HMDA reportable loans within the Bigtown MSA in 1997, Third Bank had the eighth largest market share with 3.8 percent. The largest market share was held by a large mutual savings bank with 15.3 percent. During 1996, Third Bank's market share of HMDA reportable loan originations was 3.2 percent when it ranked tenth.

The number of small business loans also increased between 1996 and 1997 due to the positive aspects of the local economy. Most of the new lending involved small- and medium-sized businesses. Small business loans reported by Third Bank in 1997 increased by 10 percent over 1996. Small business lending during the first six months of 1998 has declined marginally over the same time period for the prior year.

Table 3 - Distribution of Loans Inside and Outside of the Assessment Area										
Loan Type	Number of Loans					Dollars in Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
<i>Home Mortgage</i>										
1996	174	80.9	41	19.1	215	\$15,800	79.0	\$4,200	21.0	\$20,000
1997	264	85.2	46	14.8	310	\$21,620	92.0	\$1,880	18.0	\$23,500
YTD 1998	124	82.7	26	17.3	150	\$11,214	89.0	\$1,386	11.0	\$12,600
Subtotal	562	83.3	113	16.7	675	\$48,634	86.7	\$7,466	13.3	\$56,100
<i>Small Business</i>										
1996	130	75.6	42	24.4	172	\$23,803	78.2	\$6,641	21.8	\$30,444
1997	142	74.7	48	25.3	190	\$18,840	74.0	\$6,620	26.0	\$25,460
YTD 1998	69	75.0	23	25.0	92	\$7,894	66.0	\$4,066	34.0	\$11,960
Subtotal	341	75.1	113	24.9	454	\$50,537	74.5	\$17,327	25.5	\$67,864
Total	903	80.0	226	20.0	1,129	\$99,171	80.0	\$24,793	20.0	\$123,964

Source: HMDA and CRA Disclosure Statements (1996-97), HMDA LAR (1998), and CRA data collection (1998)

Geographic Distribution of Lending

Third Bank's geographic distribution of loans reflects good penetration throughout the assessment area. Table 4 illustrates the distribution of the bank's origination of one-to-four family home mortgage loans, the bank's principal loan product. The distribution is shown for 1996, 1997, and year-to-date 1998. For comparison, the distribution of the assessment area's 123,832 owner-occupied housing units for each census tract income level is also shown. Only loans extended within the assessment area are included in this analysis.

Table 4 - Distribution of HMDA Loans by Income Category of the Census Tract

<i>Census Tract Income Level</i>	<i>% Total Owner-Occupied Housing Units</i>	<i>Aggregate Lending Data (% of #)</i>		<i>1996</i>		<i>1997</i>		<i>1998 Year to Date</i>		<i>Total</i>	
		<i>1996</i>	<i>1997</i>	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>
<i>Low</i>	1.5	2.2	1.8	3	1.7	4	1.5	2	1.6	8	1.4
<i>Moderate</i>	6.3	4.0	4.2	6	3.5	10	3.8	6	4.9	25	4.5
<i>Middle</i>	66.0	65.4	66.1	113	64.9	178	67.4	80	64.5	371	66.0
<i>Upper</i>	26.2	28.4	27.9	52	29.9	72	27.3	36	29.0	158	28.1
<i>Total</i>	100	100	100	174	100	264	100	124	100	562	100
<i>Incomplete</i>											

Source: U.S. Census, HMDA Disclosure Statements (1996-97), HMDA LAR (1998), and HMDA Aggregate Data

The distribution of the bank's originations within moderate-income census tracts is slightly less than the level of owner-occupied housing units in those areas; however, the bank's performance is reasonably similar to the aggregate data for all lenders. Further, several moderate-income census tracts are near the cities of Douglas and Farlow, where strong competitors are headquartered. Management recognizes the need for affordable housing and first-time home buyer programs as expressed by the community contacts, and has identified several new loan products that will be used to help meet the needs of such individuals in these areas. A review of other home mortgage loan products (i.e., home improvement loans and refinancings) by census tract income level did not reveal any inconsistencies with the overall penetration rates shown in Table 4.

Table 5 illustrates the distribution of the bank's origination of small business loans within the assessment area by census tract income level. The distribution is shown for 1996, 1997, and year-to-date 1998. The distribution of the small businesses among census tract income categories is also shown. Only loans extended within the assessment area are included in the analysis. As shown, the bank has adequately addressed small business loan needs within most segments of the community.

Census Tract Income Level	% of Total Number of Small Businesses	Aggregate Lending Data (#%)		1996		1997		1998 Year to Date		Total	
		1996	1997	#	%	#	%	#	%	#	%
Low	12.0	9.0	10.0	12	9.2	11	7.7	5	7.2	28	8.2
Moderate	11.0	13.0	12.0	13	10.0	14	9.9	7	10.2	34	10.0
Middle	63.0	67.0	65.0	92	70.8	101	71.1	48	69.6	241	70.7
Upper	14.0	11.0	13.0	13	10.0	16	11.3	9	13.0	38	11.1
Total	100.0	100.0	100.0	130	100.0	142	100.0	69	100.0	341	100.0
Incomplete											

Source: CRA Disclosure Statements (1996-97), CRA data collection (1998), and CRA Aggregate Lending Data

A review of Third Bank's geographic distribution of home mortgage and small business loans by dollar volume reflects similar results to those depicted in Tables 4 and 5. The total dollar volume in low-income tracts is \$_____ ; in moderate-income tracts, \$_____ ; in middle-income tracts, \$_____ ; and \$_____ in upper-income census tracts. (Note: This information may alternatively be presented in table format.)

Borrower Characteristics

The distribution of borrowers, given the product lines offered by Third Bank, reflects adequate penetration among customers of different income levels and business customers of different sizes. Table 6 details the distribution of the bank's home mortgage loans by borrower income levels for 1996, 1997, and year-to-date 1998. For comparison, the distribution of the assessment area's 217,249 households by income level is also shown. Only loans extended within the assessment area are included in the analysis.

Median Family Income Level	% Total Households	Aggregate Lending Data (% of #)		1996		1997		1998 Year to Date		Total	
		1996	1997	#	%	#	%	#	%	#	%
Low	25.0	4.5	5.3	12	6.9	17	6.4	8	6.4	37	6.6
Moderate	15.0	17.8	19.5	21	12.1	58	22.0	27	21.8	106	18.8
Middle	19.0	29.2	30.1	60	34.5	75	28.4	34	27.4	169	30.1
Upper	41.0	48.5	45.1	81	46.5	114	43.2	55	44.4	250	44.5
Total	100	100	100	174	100	264	100	124	100	562	100
Incomplete											

Source: U.S. Census, HMDA Disclosure Statements (1996-97), HMDA LAR (1998), and HMDA Aggregate Data

As shown in Table 6, Third Bank's borrower characteristics reflect good penetration among customers of different income levels, particularly among moderate-income borrowers. The level of lending to moderate-income borrowers in 1996 was significantly less than that of other HMDA lenders (as reflected in the aggregate data); however, the bank's originations to such borrowers increased during 1997. In 1997, 22 percent of home mortgage loans were originated to moderate-income borrowers even though moderate-income households account for only 15 percent of assessment area households. This level of lending to moderate-income borrowers has remained steady through the first six months of 1998.

Table 7 depicts the distribution of Third Bank's small loan originations within the assessment area among businesses of different revenue sizes. As shown, over 85 percent of small business loan originations in 1997 and year to date 1998 were to businesses that had annual revenues of less than \$1 million, indicating that the bank is focusing on the credit needs of small- and medium-sized businesses.

Table 7 - Distribution of Small Business Loans by Gross Annual Revenues of Businesses								
Gross Annual Revenues (000s)	1996		1997		1998 Year to Date		Total	
	#	%	#	%	#	%	#	%
≤ \$1,000	108	83.1	121	85.2	61	88.4	290	85.0
> \$1,000	22	16.9	21	14.8	8	11.6	51	15.0
Total	130	100	142	100	69	100	341	100

Source: CRA Disclosure Statements (1996-97) and CRA data collection (1998)

Small business loan originations were also analyzed by loan size, as a proxy for the size of the businesses being financed. The distribution among different loan sizes reflected in Table 8 shows that Third Bank is serving small- and medium-sized businesses. Fully 60 percent of the number of small business loans originated within the assessment area had original balances of less than \$250,000. That result indicates that the bank is meeting credit needs of small- and medium-sized businesses, consistent with its business strategy.

Table 8 - Distribution of Small Business Loans by Loan Size												
Loan Size (000s)	Similarly Situated Banks		Aggregate Lending Data (% of #)		1996		1997		1998 Year to Date		Total	
	1996	1997	1996	1997	#	%	#	%	#	%	#	%
≤ \$100	The bank has no similarly situated peers.		22.0	24.0	29	22.3	37	26.1	19	27.5	85	24.9
> \$100 ≤ \$250			41.0	38.0	43	33.1	54	38.0	22	31.9	119	34.9
> \$250 ≤ \$500			20.0	18.0	38	29.2	41	28.9	14	20.3	93	27.3
> \$500 ≤ \$1,000			17.0	20.0	20.0	15.4	10	7.0	14	20.3	44	12.9
Total				100	100	130	100	142	100	69	100	341

Source: CRA Analyzer, Disclosure Statements (1996-97), CRA data collection (1998), and Aggregate Lending Data

Distributions of the dollar volumes of loans shown in Tables 6, 7, and 8 reflect similar results to the numbers of loans shown in those Tables. The dollar volume of loans under \$100,000 is \$_____ ; for loans over \$100,000 but under \$250,000, \$_____ ; for loans between \$250,000 and \$500,000, \$_____ ; and for loans greater than \$500,000 but less than \$1,000,000, \$_____.

Community Development Lending

In light of the limited opportunities for participation in community development projects within the assessment area, Third Bank has made an adequate level of community development loans. Management maintains contact with various community-based and state-wide organizations to maintain an awareness of community development opportunities. These organizations include local housing authorities, local real estate developers, city and state economic development offices, and nonprofit groups. Table 9 summarizes the community development loans reported by Third Bank for 1996, 1997, and during the first six months of 1998.

<i>Table 9 - Qualified Community Development Lending Activity</i>		
<i>LOAN DESCRIPTION</i>	<i>NUMBER OF LOANS</i>	<i>DOLLAR VOLUME OF LOANS (000s)</i>
<i>Multi-Family Affordable Housing Loans</i>	1	\$800
<i>Loans to Nonprofit Organizations</i>	4	\$100
<i>All Other Loans</i>	0	\$0
<i>Grand Total</i>	5	\$900

Source: CRA Disclosure Statements (1996-97), CRA data collection (1998), and bank records

The following are notable community development loans that Third Bank provided during the review period:

- * Third Bank worked closely with a local real estate developer in the creation of a mixed-income housing development. Construction was recently completed on this 24-unit complex which is located within a moderate-income census tract in the assessment area. Project plans provide that 75 percent of the units will be occupied by low- and moderate-income (LMI) households. Third Bank extended an \$800,000 loan for property acquisition and initial construction costs. This loan qualifies as a community development loan, since the objective of the project is to provide affordable housing primarily for LMI households. While no tenants occupy the building at this time, the activity is reasonably certain to accomplish the community development purpose.
- * Third Bank extended a \$50,000 working capital loan to a nonprofit organization located in the assessment area. This loan qualifies as a community development loan since the borrower provides community-based child care, educational, health, and social services targeted to LMI persons in the assessment area. Fully 80 percent of the individuals served by this organization are LMI persons.

Innovative or Flexible Lending Practices

Third Bank uses innovative and/or flexible lending practices in order to serve assessment area credit needs, but these practices have been somewhat limited based on the institution's size and resources. Table 10 summarizes the bank's activities in this area for 1996, 1997, and the first six months of 1998.

<i>Table 10 - Innovative or Flexible Lending Practices</i>		
<i>PROGRAM</i>	<i>NUMBER OF LOANS</i>	<i>DOLLAR VOLUME OF LOANS (000s)</i>
<i>Residential Programs:</i>		
<i>First-Time Home Buyer</i>	16	\$600
<i>Other Residential Programs</i>	8	\$60
<i>Total Residential Loans</i>	<i>24</i>	<i>\$660</i>
<i>Commercial Loans</i>	4	\$80
<i>Agricultural Loans</i>	0	\$0
<i>All Other Loans</i>	0	\$0
<i>Grand Total</i>	<i>28</i>	<i>\$740</i>

Source: Bank Records

The following are examples of Third Bank's innovative or flexible lending activities:

- * Third Bank developed its own first-time home buyer program, the first of its kind within the bank's assessment area. The Graduate Guarantee Program is considered both flexible and innovative since it not only provides loans with flexible underwriting guidelines, but it also assists LMI families in preparing to purchase a home. The program initially provides credit counseling, financial planning, and home owner education to the participant. Upon completion of the program, the participant is guaranteed a mortgage from the bank. This program features a low 5 percent downpayment requirement (private mortgage insurance is required), a rate reduction of 1/2 percent, reduced closing costs, and no points. A majority of the 16 loans totaling \$600,000 that were extended under this program during the review period were to LMI borrowers.
- * Third Bank recently introduced Capital Access, a loan program directed at financing newly established companies. This program is designed to provide access to credit for small businesses by providing financing that may not meet conventional underwriting guidelines. This program focuses on businesses with gross sales of less than \$5 million and loan requests under \$100,000. Special attention is provided to small business owners and owners of start-up companies. Due to the program's infancy, the bank has only extended 4 loans totaling \$80,000 thus far.

INVESTMENT TEST

Third Bank's level of qualified community development investments and grants reflects an adequate responsiveness to credit and community economic development needs based on the limited opportunities for such investments. Table 11 illustrates the institution's qualified investment activities since the previous evaluation.

<i>Table 11 - Qualified Investments</i>		
<i>DESCRIPTION</i>	<i>NUMBER</i>	<i>DOLLARS (000s)</i>
<i>Financial Intermediaries</i>	3	\$210
<i>Low-Income Housing Tax Credits</i>	1	\$60
<i>Affordable Housing Rehabilitation and Construction</i>		
<i>Facilities that promote community development in LMI areas for LMI people</i>		
<i>State and Municipal Obligations</i>		
<i>Not-for-Profit Organizations serving LMI housing or other community development needs</i>		
<i>Organizations supporting activities essential to the capacity of LMI individuals and geographies to utilize credit or to sustain economic development</i>		
<i>Total Debt or Equity Investments</i>	4	\$270
<i>In-Kind Contributions of Property</i>		
<i>Other Qualified Grants and Donations</i>	10	\$140
<i>Total Qualified Grants and Donations</i>	10	\$140
<i>Grand Total</i>	<i>14</i>	<i>\$410</i>

Source: Bank Records

The types of qualified investments held by the bank directly respond to affordable housing and home ownership education, primary needs within the assessment area according to community members contacted during the evaluation. These particular investments are described below:

- * Third Bank maintains a \$200,000 investment in a Community Development Financial Institution (CDFI). The CDFI maintains a revolving loan fund which finances affordable

housing projects within LMI geographies of the Bigtown MSA. The fund is capitalized by a consortium of lenders for a total pool of \$10 million, and provides financing for the acquisition, construction, and rehabilitation of multi-family rental housing projects.

- * Third Bank recently purchased a \$60,000 low-income housing tax credit from a local developer of affordable housing. The Bigstate Housing Finance Authority awarded the tax credit for the development of an apartment building located in a low-income census tract within the assessment area. The apartment building is 100 percent occupied by LMI persons.
- * Third Bank made donations to various community organizations which serve community development purposes. Examples include \$50,000 to Douglas NOW, a nonprofit organization which provides credit counseling, home ownership education, and other financial services to LMI persons. A \$45,000 donation was made to JOBS for Farlow, an organization providing job training and day-care operations to LMI persons. Finally, a \$25,000 donation to was made to We Care, a nonprofit organization that provides health care and youth programs to LMI individuals.

SERVICE TEST

Retail Banking Services

Accessibility of Delivery Systems

Third Bank's delivery systems are reasonably accessible to essentially all portions of the assessment area. In addition to the main office, Third Bank operates ten full-service branch offices. The locations of these offices penetrate the different census tract income levels as shown in Table 12.

<i>Table X - Distribution of Bank Offices by Income Category of the Census Tract</i>						
<i>Census Tract Income Category</i>	<i>Census Tracts in Assessment Area</i>		<i>Households</i>		<i>Bank Offices by Tract Location</i>	
	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>
<i>Low</i>	<i>19</i>	<i>15.8</i>	<i>17,380</i>	<i>8.0</i>	<i>2</i>	<i>18.2</i>
<i>Moderate</i>	<i>14</i>	<i>11.7</i>	<i>23,680</i>	<i>10.9</i>	<i>2</i>	<i>18.2</i>
<i>Middle</i>	<i>64</i>	<i>53.3</i>	<i>141,212</i>	<i>65.0</i>	<i>5</i>	<i>45.6</i>
<i>Upper</i>	<i>23</i>	<i>19.2</i>	<i>34,977</i>	<i>16.1</i>	<i>2</i>	<i>18.2</i>
<i>Total</i>	<i>120</i>	<i>100</i>	<i>217,249</i>	<i>100</i>	<i>11</i>	<i>100</i>

Source: U.S. Census and Bank Public File

Alternative Delivery Systems

ATMs are available at each Third Bank location. The bank also has a 24-hour customer access telephone line that permits customers to verify balances, make transfers and loan payments, and inquire about checks or deposits. Interest rate information is also available through this service. These alternative delivery systems are reasonably accessible to all portions of the assessment area.

Changes in Branch Locations

There have been no changes in branch locations since the prior evaluation. Management maintains a branch closing policy in the event that a branch closure is contemplated.

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. In fact, there are no differences in the services available or the hours offered at any location. All offices are open for business on Friday evenings until 6:00 p.m. and Saturday mornings to help make services accessible to all segments of the community. Branch hours are considered convenient and comparable to other local financial institutions.

Community Development Services

Third Bank provides an adequate level of community development services. Refer to Table 13 for examples of the types of services provided by the institution since the previous evaluation. 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.

<i>Table 13 - Community Development Services</i>			
<i>Brief Service Description</i>	<i>Bank Sponsored Event, Program or Seminar</i>	<i>Technical Assistance or Direct Involvement by Bank Employee</i>	<i>Bank Product or Service</i>
FIRST HOMES, a nonprofit organization serving LMI housing needs		X	
BUSINESS TODAY, an organization targeting small business owners in LMI areas		X	
Provided four financial services educational seminars to first-time home buyers in LMI areas	X		
Assisted a community service organization in obtaining a Federal grant		X	
Introduced two low-cost bank accounts			X
School savings program for LMI persons			X
Member of loan review committee of local chamber of commerce		X	
Furnished financial services training to small business owners at three seminars	X		

Source: Bank Records

A few of the more significant types of community development services provided by Third Bank are detailed as follows:

- * Third Bank assisted a local community service organization in obtaining a Federal grant used to provide an operating reserve for the construction of LMI housing. Two bank officers worked extensively with the organization during the application process which consumed approximately 60 days according to management. The officers assisted in preparing and reviewing budgets, cost breakdowns, and appraisals. An analysis of the area's housing needs was performed to substantiate the need for the project.
- * Third Bank conducts small business seminars in conjunction with the Douglas Chamber of Commerce. The seminars run for seven weeks and focus on the successful creation of a business plan. The seminars also feature information about sources of financing, budgeting, and managing employees. The seminars target the LMI areas in and around the city of Douglas. This type of service reflects favorably upon the bank as community contacts revealed that technical assistance for small business owners is a primary need of the assessment area.
- * A bank officer is a member of the Loan Review Committee of the Farlow Chamber of Commerce. The committee reviews loan proposals submitted by local small businesses, and makes recommendations to the city of Farlow to approve or decline the requests from the city's revolving loan pool. Many of the geographies in and around Farlow are LMI census tracts; thus, most of the small businesses applying for credit are located in and/or serve LMI geographies. The committee assists small businesses in obtaining financing for start-up capital and growth, helping promote economic development. Initially, the bank officer assisted in the development of loan application and underwriting standards for the Chamber of Commerce.

COMPLIANCE WITH ANTIDISCRIMINATION LAWS

No substantive violations of the antidiscrimination laws were identified.

APPENDIX A - GENERAL DEFINITIONS

GEOGRAPHY TERMS

Block: Small areas bounded on all sides by visible features such as streets, roads, streams or rail road tracks, and invisible features like city or town boundaries or property lines. Blocks are subdivisions of census tracts or block numbering areas (BNA), and are assigned a unique three-digit number.

Block Group: Clusters of blocks within a census tract or BNA, having a four-digit number and a three-digit suffix. The four-digit number corresponds to the same number given to the census tract or BNA in which it is located.

Block Numbering Areas (BNAs): Statistical subdivisions of a county for grouping and numbering blocks in non-metropolitan counties where local census statistical area committees have not established census tracts. BNAs do not cross county lines.

Census Tract: Small subdivisions of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan statistical areas. They usually have between 2,500 and 8,000 persons, and their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

Metropolitan Area (MA): One or more large population centers and adjacent communities that have a high degree of economic and social integration. Each MA must contain either a place with a minimum population of 50,000 of Census Bureau-defined urbanized area and a total MA population of at least 100,000 (75,000 in New England). An MA comprises one or more central counties and may include one or more outlying counties that have close economic and social relationships with the central county. In New England, MAs are composed of cities and towns rather than whole counties.

Metropolitan Statistical Area (MSA): One or more metropolitan areas that have economic and social ties.

Primary Metropolitan Statistical Area (PMSA): A large urbanized county or cluster of counties that demonstrate very strong internal economic and social links, in addition to close ties to other portions of the larger area. If an area qualifies as an MA and has more than one million persons, PMSAs may be defined within it.

Consolidated Metropolitan Statistical Area (CMSA): The larger area of which PMSAs are component parts.

Non-Metropolitan Area: All areas outside of metropolitan areas. The definition of non-metropolitan area is not consistent with the definition of rural areas. Urban and rural classifications cut across the other hierarchies; for example, there is generally both urban and rural territory within both metropolitan and non-metropolitan areas.

Urban Area: All territories, populations, and housing units in urbanized areas and in places of 2,500 or more persons outside urbanized areas. More specifically, “urban” consists of territory, persons, and housing units in: places of 2,500 or more persons incorporated as cities, villages, boroughs (except in Alaska and New York), and towns (except in the New England states, New York, and Wisconsin) but excluding the rural portions of “extended cities”; census designated place of 2,500 or more persons; and other territory, incorporated or unincorporated, including in urbanized areas.

Rural Area: Territories, populations and housing units that are not classified as urban.

HOUSING TERMS

Family: Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family which is further classified into “male householder” (a family with a male householder and no wife present) or “female householder” (a family with a female householder and no husband present).

Household: Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

Housing Unit: Includes a house, an apartment, a mobile home, a group of rooms, or a single room that is occupied as separate living quarters.

Owner-Occupied Units: Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

INCOME TERMS

Median Income: The median income divides the income distribution into two equal parts, one having incomes above the median and other having incomes below the median.

Area Median Income: The median family income for the MSA, if a person or geography is located in an MSA; or the statewide non-metropolitan median family income, if a person or geography is located outside an MSA.

Family Income: Includes the income of all members of a family that are age 15 and older.

Household Income: Includes the income of the householder and all other persons that are age 15 and older in the household, whether related to the householder or not. Because many households consist of only one person, median household income is usually less than median family income.

Low-Income: Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent in the case of a geography.

Moderate-Income: Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 and less than 80 percent in the case of a geography.

Middle-Income: Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 and less than 120 percent in the case of a geography.

Upper-Income: Individual income that is more than 120 percent of the area median income, or a median family income that is more than 120 percent in the case of a geography.

HUD Adjusted Income Data: The U.S. Department of Housing and Urban Development (HUD) issues annual estimates which update median family income from the metropolitan and non-metropolitan areas. HUD starts with the most recent U.S. Census data and factors in information from other sources to arrive at an annual estimate that more closely reflects current economic conditions.

OTHER TERMS

Home Mortgage Disclosure Loan Application Register (HMDA LAR): The HMDA LARs record all applications received for residential purchase, refinance, home improvement and temporary-to-permanent construction loans.

Small Business Loan: A loan included in “loans to small businesses” as defined in the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$1 million or less and are either secured by nonfarm nonresidential properties or are classified as commercial and industrial loans.

Small Farm Loan: A loan included in “loans to small farms” as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, including farm residential and other improvements, or are classified as loans to finance agricultural production and other loans to farmers.

APPENDIX B - INVESTMENT DEFINITIONS

Community Development Corporation (CDC): A CDC allows banks and holding companies to make equity type of investments in community development projects. The equity investments are subject to limits specified by the bank's regulator. Bank CDCs can develop innovative debt instruments or provide near-equity investments tailored to the development needs of the community as well as to the financial and marketing needs of the bank. A CDC may purchase, own, rehabilitate, construct, manage and sell real property. Also, it may make equity or debt investments in development projects and in local businesses. The CDC activities are expected to directly benefit low- and moderate-income groups, and the investment dollars should not represent an undue risk on the banking organization. Any real estate ownership should generally be temporary, with ownership reverting to members or organizations in the community.

Community Development Financial Institutions (CDFIs): CDFIs are private intermediaries (either for profit or nonprofit) with community development as their primary mission. They procure loans and investments that conventional financial institutions are unable to invest in, and they link financing to other developmental activities. A CDFI facilitates the flow of lending and investment capital into distressed communities and to individuals who have been unable to take advantage of the services offered by traditional financial institutions. CDFIs share a common mission and can be chartered as a credit union or bank. CDFIs can also be unregulated nonprofit institutions that gather private capital from a range of social investors for community development lending or investing. Some basic types of CDFIs include community development banks, community development loan funds, community development credit unions, microenterprise funds, and community development venture capital funds. A certified CDFI must meet eligibility requirements, which include: having a primary mission of promoting community development; serving an investment area or target population; providing development services; maintaining accountability to residents of its investment area or targeted population through representation on its governing board of directors, or by other means; and not constituting an agency or instrumentality of the United States, of any state or political subdivision of a state.

Low Income Housing Tax Credits: The Low-Income Housing Tax Credit Program is a housing program contained within the Internal Revenue Code of 1986, as amended, which is administered by the U.S. Department of the Treasury and the Internal Revenue Service. The U.S. Treasury Department, through the Internal Revenue Service, distributes low-income housing tax credits to housing credit agencies. The housing agencies allocate tax credits on a competitive basis. Developers who acquire, rehabilitate, or construct low-income rental housing may keep their tax credits or sell them to corporations or investor groups, who, as owners of these properties, will be able to reduce their own federal tax payments. The credit can be claimed annually for ten consecutive years. For a project to be eligible, the developer must set aside a specific percentage of units for occupancy by low-income residents. The set-aside requirement remains in place throughout the compliance period, usually 30 years.

Qualified Investments: A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development to support the following endeavors: 1) affordable housing; 2) community services targeting low- and moderate-income individuals; 3) activities that promote economic development by financing small farms and small businesses; and 4) activities that revitalize or stabilize low- and moderate-income geographies.

APPENDIX C - STANDARD PE LANGUAGE**LENDING TEST****Scope of Test**

The lending test evaluates the institution's record of helping to meet the credit needs of its assessment area(s) by considering an institution's home mortgage, small business, small farm, and community development lending. The institution's lending performance is evaluated pursuant to the following criteria: 1) the volume of lending activity; 2) the proportion of lending within the assessment area(s); 3) the dispersion of loans and the number and amount of loans in low-, moderate-, middle- and upper-income geographies in the assessment area(s); 4) the distribution of loans among borrowers of low-, moderate-, middle- and upper-income levels and businesses (including farms) of different sizes; 5) the distribution of small business and small farm loans by loan amount at origination; 6) the volume of community development lending; and 7) the use of innovative or flexible lending practices. Performance under the lending test is weighted more heavily than the investment and service tests when arriving at an overall rating.

Community Development Lending:**Performance Criteria**

The institution's community development lending activities are evaluated pursuant to the following criteria: 1) the extent to which community development lending opportunities have been made available to the institution; 2) the responsiveness of the institution's community development lending; and 3) the extent of leadership the institution has demonstrated in community development lending.

Innovative and Flexible Lending Practices:**Performance Criteria**

The institution's innovative and flexible lending practices are evaluated pursuant to the following criteria: 1) the degree to which the loans serve low- and moderate-income creditworthy borrowers in new ways or serve groups of creditworthy borrowers not previously served by the institution; and 2) the success of each product serving low- and moderate-income borrowers, including the number and dollar volume of loans originated during the review period.

INVESTMENT TEST**Scope of Test**

The investment test evaluates the institution's record of helping to meet the credit needs of its assessment area(s) through its use of qualified investments that benefit the assessment area(s) or a broader statewide or regional area that includes the institution's assessment area(s). Activities considered under the lending or service test may not be considered under the investment test. The institution's investment performance is evaluated pursuant to the following criteria: 1) the dollar amount of qualified investments; 2) the innovativeness or complexity of qualified investments; 3) the responsiveness of qualified investments to credit and community development needs; and 4) the degree to which the qualified investments are not routinely provided by private investors.

SERVICE TEST**Scope of Test**

The service test evaluates the institution's record of helping to meet the credit needs of its assessment area(s) by analyzing both the availability and effectiveness of the institution's systems for delivering retail banking services and the extent and innovativeness of its community development services. The institution's retail banking services are evaluated pursuant to the following criteria: 1) the distribution of the institution's branches among geographies of different income levels; 2) the record of opening and closing branches, particularly branches located in low- and moderate-income geographies or that primarily serve low- or moderate-income individuals; 3) the availability and effectiveness of alternate systems for delivering retail banking services; and 4) the range of services provided in low-, moderate-, middle-, and upper-income geographies and the degree to which the services are tailored to meet the needs of those geographies.

In addition, the institution's community development services are evaluated pursuant to the following criteria: 1) the extent of community development services offered and used; 2) the innovativeness of community development services, including whether they serve low- and moderate-income customers in new ways or serve groups of customers not previously served; 3) the degree to which they serve low- and moderate-income areas or individuals; and 4) their responsiveness to available opportunities for community development services.