



Comptroller of the Currency
Administrator of National Banks

LARGE BANK

PUBLIC DISCLOSURE

March 30, 1998

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First National Bank of Valparaiso
Charter #14874
14 Indiana Avenue
Valparaiso, Indiana**

**Office of the Comptroller of the Currency
Chicago South Field Office
7600 County Line Road, Suite 3
Burr Ridge, Illinois 60521-6962**

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 **First National Bank of Valparaiso, Valparaiso, Indiana** prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **March 30, 1998**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.

INSTITUTION'S CRA RATING: This institution is rated “Satisfactory Record of meeting the community credit needs.”

The following chart indicates the performance level of **First National Bank of Valparaiso** with respect to the lending, investment and service tests.

| Performance Levels | First National Bank of Valparaiso Performance Tests | | |
|---------------------------|--|-----------------|--------------|
| | Lending Test* | Investment Test | Service Test |
| Outstanding | | | |
| High Satisfactory | X | | X |
| Low Satisfactory | | X | |
| Needs to Improve | | | |
| Substantial Noncompliance | | | |

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

Summary of Performance

Overall, our review found that First National Bank of Valparaiso:

- ◆ demonstrates good responsiveness to serving the credit needs within its assessment area
- ◆ originates a substantial majority of their loans in their assessment area
- ◆ has a good distribution of loans among borrowers of different income levels
- ◆ originates a high level of community development loans
- ◆ provides an adequate level of investments in its assessment area
- ◆ provides a high level of community services to low- and moderate-income families
- ◆ has readily accessible delivery systems within the entire assessment area
- ◆ has opened branches in areas where low- and moderate-income families are located

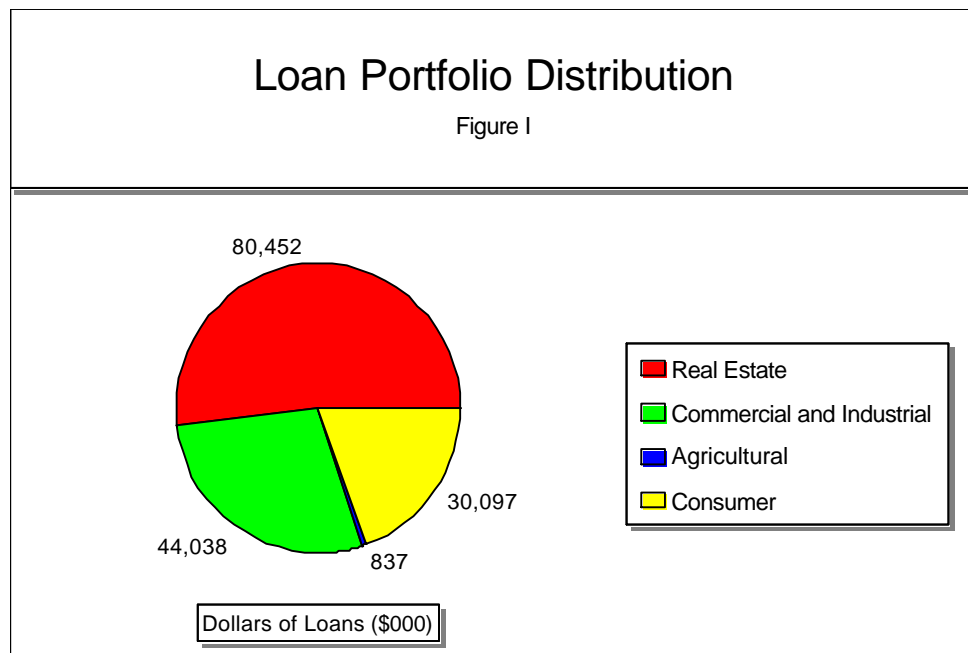
Performance Rating Period

This evaluation considered the bank's performance since its last CRA examination dated April 21, 1995. The bank's CRA performance using the prior regulation guidelines and criteria was rated "Outstanding Record of meeting the community credit needs."

Description of Institution

First National Bank of Valparaiso is owned by Fina Bancorp, Inc., a one bank holding company which operates in northwest Indiana. The bank has 15 offices located throughout Porter and LaPorte Counties. The main office and 12 branches are located in Porter County and two branches are in LaPorte County. The bank supplements its branch network with 24 Automated Teller Machines (ATMs). As of the report date, the bank had another full service branch under construction in LaPorte County which will also provide ATM services.

There are no impediments which would hamper the bank's ability to help meet the credit needs of its community. As of December 31, 1997, the bank had total assets of \$369 million and a net income of \$4 million. The bank's loan-to-deposit ratio was 48.87% with net loans representing 42% of total assets. The bank's loan-to-deposit ratio is reasonable, considering the bank is an active seller of loans. The bank sold 225 loans in 1996 for \$19 million and 223 loans in 1997 for \$21 million. The loan portfolio consists of 52% real estate; 28% commercial and industrial loans, 19% consumer loans, and 1% agricultural. **Figure I** displays the distribution of the bank's loan portfolio at December 31, 1997 by dollars.



Description of Assessment Area

First National Bank of Valparaiso has identified three adjacent Counties (all of Porter and portions of Lake and LaPorte) as its assessment area (AA) based upon the area it serves and the location of its offices. Porter and Lake Counties are in the Gary Metropolitan Statistical Area (MSA) #2960. LaPorte County is not part of an MSA. LaPorte County has 29 Block Numbering Areas (BNAs) of which only three are included in the bank's AA. By regulatory definition, the three BNAs in LaPorte County are **not** substantially beyond the Gary MSA #2960; therefore, are not required to be assessed as a separate AA. Additionally, the bank only originated 5% (1996) and 6% (1997) of its reportable Home Mortgage Disclosure Act (HMDA) loans in LaPorte County. Our analysis will be based on the bank's performance within its AA (seventeen census tracts (CTs) in Porter, three CTs in Lake, and three BNAs in LaPorte Counties). **Table 1** illustrates the distribution of CTs and BNAs by income level.

| First National Bank of Valparaiso AA Number of CTs/BNAs by Income Level | | | | | | | | |
|--|-------------------|------|-----------------|------|---------------------|------|----------------|---------------------|
| Table 1 | | | | | | | | |
| Income Geography | Porter County CTs | | Lake County CTs | | LaPorte County BNAs | | Total CTs/BNAs | Percent of CTs/BNAs |
| | # | % | # | % | # | % | # | % |
| Low | 0 | 0% | 0 | 0% | 0 | 0% | 0 | 0% |
| Moderate | 1 | 6% | 0 | 0% | 0 | 0% | 1 | 4% |
| Middle | 9 | 53% | 1 | 33% | 2 | 67% | 12 | 53% |
| Upper | 6 | 35% | 2 | 67% | 1 | 33% | 9 | 39% |
| Uninhabited | 1 | 6% | 0 | 0% | 0 | 0% | 1 | 4% |
| Total | 17 | 100% | 3 | 100% | 3 | 100% | 23 | 100% |

Porter County: consists of the cities of Portage and Valparaiso and the townships of Liberty, Chesterton, Jackson, Pine, Beverly Shores, Westchester, Porter, Burns Harbor, Dune Acres, Ogden Dunes, Portage, South Haven, Center, Morgan, Union, Lakes of the Four Seasons, Hebron, Boone, Pleasant, and Kouts.

Lake County: The three CTs within the banks AA consist of the city of Crown Point and townships of Center, Lakes of the Four Seasons, Winfield, Lowell, Cedar Creek, Eagle Creek and Lake Dalecarlia.

LaPorte County: The three BNAs included in the bank's AA consists of the townships of Westville, New Durham, Scipio, Coolspring, Noble, Clinton, Wanatah, Hanna, Cass, Dewey and La Crosse.

The 1997 median family income for the AA is \$45,434. The median housing value is \$71,384 with a median year built of 1968. The AA consists of 57,722 housing units with 42,136 (73%) being owner occupied, 13,011 (22%) rental units, and 2,575 (5%) vacant units. **Table 2** illustrates the disbursement of housing units in the bank's AA by income level of the CT.

| First National Bank of Valparaiso Disbursement of Housing Units (HU) | | | | | | |
|---|---------|---------|----------------|---------------------|-----------------|----------------------|
| Table 2 | | | | | | |
| CT Income Level | # of HU | % of HU | Owner Occupied | % of Owner Occupied | Renter Occupied | % of Renter Occupied |
| Low | 0 | 0% | 0 | 0% | 0 | 0% |
| Moderate | 1,259 | 2% | 346 | 1% | 823 | 6% |
| Middle | 36,054 | 63% | 25,787 | 61% | 8,859 | 68% |
| Upper | 20,409 | 35% | 16,003 | 38% | 3,329 | 26% |
| Total | 57,722 | 100% | 42,136 | 100% | 13,011 | 100% |

The AA has 42,848 families with 5,584 (13%) being low-income, 6,749 (16%) are moderate-income, 10,634 (25%) are middle-income and 19,880 (46%) are upper-income. **Table 3** illustrates the disbursement of low- and moderate-income families by CT income level. As the table indicates, the majority of low- and moderate-income families reside in the middle-income tracts within the bank's AA. The AA is legal and does not arbitrarily exclude low- or moderate-income geographies.

| First National Bank of Valparaiso Distribution of Families by CT Income Level | | | | |
|--|---------------------|------|--------------------------|------|
| Table 3 | | | | |
| Income Geographies | Low-Income Families | | Moderate-Income Families | |
| Low | 0 | 0% | 0 | 0% |
| Moderate | 159 | 3% | 137 | 2% |
| Middle | 4,159 | 74% | 4,786 | 71% |
| Upper | 1,266 | 23% | 1,826 | 27% |
| Total | 5,584 | 100% | 6,749 | 100% |

The primary industries in the AA are manufacturing, services, and retail trade. The AA consists of predominantly small businesses. The area contains 4,415 businesses with 3,339 (76%) of these businesses having annual gross sales less than \$1 million. The location of the 3,339 small businesses are 242 (7%) moderate-income geographies, 2,112 (63%) middle-income geographies, and 985 (30%) upper-income geographies. Additionally, tourism has become an important industry through the Indiana Dunes National Lakeshore, a river boat gambling casino, and shopping centers. Less than 1% of the AA is engaged in farming.

There are 15 banks within First National Bank of Valparaiso's AA. In addition, there are credit unions, brokerage companies, home mortgage and insurance companies within the banks AA. Competition in the AA is considered aggressive. Based on the HMDA aggregate information for 1996, the bank is ranked number one within their AA for overall lending with a market share of 9.15%. The bank is also ranked number one for both low- and moderate-income lending within their AA with market shares of 11.20% and 10.47%, respectively. The 1996 market shares data indicates that the bank is ranked number one for lending on refinances and home improvement loans. However, due to aggressive competition from other larger banks and mortgage companies, the bank

was ranked fourth for home purchase loans. **Table 4** illustrates the bank’s market share percentage for low- and moderate-income applicants for 1996 and the percentage of the bank’s HMDA reportable loans to low- and moderate- income applicants by type of loan product for 1996 and 1997.

| First National Bank of Valparaiso Market Share Analysis for HMDA reportable loans for low- and moderate-income Applicants Table 4 | | | | |
|---|------------------------------|------------------------------|-------------------------|--------------------------|
| Type of Loan | Percent of Bank’s Loans 1996 | Percent of Bank’s Loans 1997 | Percent of Market Share | Bank’s Market Share Rank |
| Home Purchase | 6% | 8% | 6% | 4 |
| Refinance | 1% | 7% | 10% | 1 |
| Home Improvements | 9% | 6% | 25% | 1 |

A CRA-related community contact indicated that the significant credit need is to provide loans for the construction and improvement of low- and moderate-income housing. The bank’s active involvement with the Greater Valparaiso Community Development Corporation and the originating of community development loans fulfills this credit need identified by our community contact. See “**Community Development Lending**” and “**Community Development Services**” sections for more details.

A CRA-related tour indicated that within the middle- and upper-income CTs there are numerous pockets of low- and moderate-income housing. As indicated earlier, demographic information indicates that 4,159 (74%) low-income families and 4,787 (71%) moderate-income families reside within middle-income CT within the bank’s AA. These low- and moderate-income housing pockets are very prevalent in Lake Eliza, La Crosse, Portage, and the outskirts of Valparaiso. See “**Community Development Service**” section for more details.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

LENDING TEST

The lending test provides the most substantive consideration in evaluating the bank’s CRA performance. Consideration is given to the bank’s origination of credit within its AA, the extension of credit to low- and moderate-income areas within the AA, the level of credit provided to low- and moderate-income borrowers, small businesses, and farms. In addition, credit provided for community development, and innovative or flexible products is also considered.

Performance Criteria:

Lending Activity

First National Bank of Valparaiso demonstrates a good responsiveness to serving the credit needs in its AA based on the number and dollar amount of loans inside its AA. **Tables 5** and **6** show the number and dollar amount of First National Bank of Valparaiso's home mortgage, small business and small farm loans originated in 1996 and 1997, respectively. Home mortgage activity is based on originations and purchases. The tables demonstrate that a substantial majority of the bank's loans are made inside its AA. The average percentage of loans by number within the bank's AA from January 1, 1996 to December 31, 1997 is 93%.

| Table 5 Ratios of Loans Inside First National Bank of Valparaiso's Assessment Area | | | | |
|---|---------------|----------------|------------|--------|
| 1996 | Home Mortgage | Small Business | Small Farm | Total |
| Number | | | | |
| # of Loans Inside the AA | 656 | 589 | 43 | 1,288 |
| Total # of Loans | 689 | 614 | 44 | 1,347 |
| % of Loans Inside/Total # of Loans | 95% | 96% | 98% | 96% |
| Dollars (in \$000's) | | | | |
| \$ of Loans Inside the AA | 41,526 | 33,838 | 1,822 | 77,186 |
| Total \$ of Loans | 43,116 | 35,980 | 1,827 | 80,923 |
| % of Loans Inside/Total \$ of Loans | 96% | 94% | 99% | 95% |

Source: First National Bank of Valparaiso prepared 1996 HMDA Loan Application Register.
1996 Small Business/Small Farm Data Collection Register.

| Table 6 Ratios of Loans Inside First National Bank of Valparaiso's Assessment Area | | | | |
|---|---------------|----------------|------------|--------|
| 1997 | Home Mortgage | Small Business | Small Farm | Total |
| Number | | | | |
| # of Loans Inside the AA | 519 | 453 | 35 | 1,007 |
| Total # of Loans | 570 | 516 | 37 | 1,123 |
| % of Loans Inside/Total # of Loans | 91% | 88% | 95% | 90% |
| Dollars (in \$000's) | | | | |
| \$ of Loans Inside the AA | 35,555 | 22,823 | 1,825 | 60,203 |
| Total \$ of Loans | 38,737 | 24,684 | 1,860 | 65,281 |
| % of Loans Inside/Total \$ of Loans | 92% | 92% | 98% | 92% |

Source: First National Bank of Valparaiso prepared 1997 HMDA Loan Application Register.
1997 Small Business/Small Farm Data Collection Register.

Geographic Distribution

- ◆ The geographic distribution of loans reflects good penetration in First National Bank of Valparaiso's AA. This is based on the bank's distribution of home mortgage, small business and small farm loans in relationship to the demographics of the AA.

Home Mortgage Loans:

The geographic distribution of Home Mortgage Disclosure Act (HMDA) loans reflect a good distribution in the AA when compared to the demographic data of the CTs. The level of loan activity in the moderate-income CT was 3% in 1996 and 2% in 1997. Loan demand decreased overall in 1997 which accounts for the decrease of the percentage of loans within the moderate-income CT from 1996 to 1997. This level of lending is good considering that the moderate-income CT represents only 4% of the tracts in the AA. In addition, this tract has only 1% of the owner occupied units in the AA. Therefore, the demand for HMDA type loans is minimal in the moderate-income CT since there are limited owner occupied units available. The following tables (**Table 7 and 8**) illustrate the number and dollar amount of HMDA loans that were originated in each of the CTs in First National Bank of Valparaiso's AA along with demographic information.

| 1996 Income Geographies | Number (#) of Loans in the AA | Percent of Total Loans in the AA | Dollar (in 000's) of Loans in the AA | Percent of Total Dollars in AA | Percent of Tracts within AA | Percent of Owner Occupied Units |
|-----------------------------------|--|---|--|---|--------------------------------------|--|
| Low | 0 | 0% | 0 | 0% | 0% | 0% |
| Moderate | 18 | 3% | 832 | 2% | 4% | 1% |
| Middle | 334 | 51% | 19,277 | 46% | 53% | 61% |
| Upper | 304 | 46% | 21,417 | 52% | 39% | 38% |
| Uninhabited | 0 | 0% | 0 | 0% | 4% | 0% |
| Total | 656 | 100% | 41,526 | 100% | 100% | 100% |

Source: 1996 HMDA LAR.

| Table 8 Geographic Distribution of HMDA Loans Originated | | | | | | |
|---|--|---|---|---|--------------------------------------|--|
| 1997 Income Geographies | Number (#) of Loans in the AA | Percent of Total Loans in the AA | Dollar (in 000's) of Loans in AA | Percent of Total Dollars in AA | Percent of Tracts within AA | Percent of Owner Occupied Units |
| Low | 0 | 0% | 0 | 0% | 0% | 0% |
| Moderate | 8 | 2% | 433 | 1% | 4% | 1% |
| Middle | 255 | 49% | 16,723 | 47% | 53% | 61% |
| Upper | 256 | 49% | 18,399 | 52% | 39% | 38% |
| Uninhabited | 0 | 0% | 0 | 0% | 4% | 0% |
| Total | 519 | 100% | 35,555 | 100% | 100% | 100% |

Source: 1997 HMDA LAR

Small Business and Small Farm Loans:

With respect to small business lending in its AA, First National Bank of Valparaiso is originating a good number of loans in the moderate-income CT. **Tables 9** and **10** shows the geographic distribution of small business loans within the bank's AA. In 1996, 7% of the number and 9% of the dollar amount of loans are in the moderate-income tract. For 1997, 9% of the number and 18% of the dollar amount of loans are in the moderate-income tract. The average number of loans for small business/small farms from January 1, 1996 to December 31, 1997 is 8%. The bank's average lending activity in the moderate-income CT exceeds the percentage of small businesses in the moderate-income CTs of 7%.

| Table 9 Geographic Distribution of Small Business Loans Originated | | | | | |
|--|----------------------------------|-------------------|---------------------------------|-------------------|---------------------------|
| 1996 Income Geographies | Small Business Loans in AA | | Percent of Total Loans in AA | | % of Small Business |
| | # Loans in AA | \$ Loans in AA | # Loans in AA | \$ Loans in AA | |
| Low | 0 | 0 | 0% | 0% | 0.00% |
| Moderate | 43 | 3,249 | 7% | 9% | 7% |
| Middle | 378 | 19,999 | 65% | 61% | 63% |
| Upper | 168 | 10,590 | 28% | 30% | 30% |
| Uninhabited | 0 | 0 | 0% | 0% | 0% |
| Total | 589 | 33,838 | 100% | 100% | 100% |

Source: 1996 Small Business/Small Farm Data Collection Register

| Table 10 Geographic Distribution of Small Business Loans Originated | | | | | |
|---|------------------|-------------------|---------------------------------|-------------------|---------------------------------|
| 1997 | Loans | | Percent of Total Loans in AA | | % of Small Business in AA |
| Income Geographies | # Loans in AA | \$ Loans in AA | # Loans in AA | \$ Loans in AA | |
| Low | 0 | 0 | 0% | 0% | 0% |
| Moderate | 43 | 4,350 | 9% | 18% | 7% |
| Middle | 236 | 11,386 | 53% | 51% | 63% |
| Upper | 174 | 7,087 | 38% | 31% | 30% |
| Uninhabited | 0 | 0 | 0% | 0% | 0% |
| Total | 453 | 22,823 | 100% | 100% | 100% |

Source: 1997 Small Business/Small Farm Data Collection Register

Borrower Characteristics

- ◆ The distribution of First National Bank of Valparaiso's home mortgage, small business and small farm loans based on borrower characteristics is good. This is based on the availability of product lines offered by the bank and good penetration among retail customers of various income levels and businesses and farms of different sizes. The bank is ranked number one, based on 1996 HMDA aggregate market share data, for lending to borrowers of low- (11.20%) and moderate-incomes (10.47%) and business lending (9.16%).

Home Mortgage Loans:

First National Bank of Valparaiso's distribution of home mortgage loans in their AA to persons with low- and moderate-income is good based on the location of these low- and moderate-income families and available housing units. Demographic information indicates that the majority of low- and moderate-income families reside in the middle-income CTs where 68% of the renter occupied units are located. The bank's percentage of loans to low-income families from January 1, 1996 to December 31, 1997 is 5% versus the percentage of low-income families 13.03%. **Tables 11 and 12** shows the distribution of HMDA loans to low- and moderate-income families.

| Table 11 Income of Borrower Distribution of HMDA Loans Loans Originated | |
|---|--|
|---|--|

| 1996 Income Level | Number (#) of Loans in the AA | Percent of Total | Dollar (\$) of Loans in the AA | Percent of Total | AA Demographic Information |
|----------------------|-------------------------------------|---------------------|--------------------------------------|---------------------|----------------------------------|
| Low | 29 | 4% | 604 | 1% | 13% |
| Moderate | 114 | 17% | 4,888 | 12% | 16% |
| Middle | 181 | 28% | 10,659 | 26% | 25% |
| Upper | 305 | 47% | 24,560 | 59% | 46% |
| N/A* | 27 | 4% | 815 | 2% | N/A |
| Total | 656 | 100% | 41,526 | 100% | 100% |

Source: 1996 HMDA LAR.

* N/A = Income of the borrower was not available.

| Table 12 Income of Borrower Distribution of HMDA Loans Loans Originated | | | | | |
|---|-------------------------------------|---------------------|---|---------------------|----------------------------------|
| 1997 Income Level | Number (#) of Loans in the AA | Percent of Total | Dollar (\$) of Loans in the AA | Percent of Total | AA Demographic Information |
| Low | 34 | 7% | 707 | 2% | 13% |
| Moderate | 75 | 14% | 4,070 | 12% | 16% |
| Middle | 128 | 25% | 7,880 | 22% | 25% |
| Upper | 268 | 52% | 22,163 | 62% | 46% |
| N/A* | 14 | 2% | 735 | 2% | N/A |
| Total | 519 | 100% | 35,555 | 100% | 100% |

Source: 1997 HMDA LAR.

* N/A = Income of borrower was not available.

Small Business and Small Farm Loans:

The distribution of First National Bank of Valparaiso's small business lending in their AA is good based upon borrower characteristics. During 1996 and 1997, the bank originated 67% and 76% respectively, of business loans to businesses with annual gross sales less than \$1 million. This level of lending matches the demographic information on small businesses within the bank's AA. In addition, 86% and 89% for 1996 and 1997 respectively, of the small business loans were for less than \$100,000. Loans to Small Farms for both 1996 and 1997 were approximately 7% which is not material and will not be detailed in our analysis. **Table 13** shows that a majority of small business loans are less than \$100,000 and **Table 14** shows that a majority of business loans are made to businesses with revenues of less than \$1 million for 1996 and 1997.

| |
|---|
| <p>Table 13 Small Business Loans by Loan Amount</p> |
|---|

| Amount (000) | 1996 Loans | | | | 1997 Loans | | | |
|-----------------|------------|------|--------|------|------------|------|--------|------|
| | # | % | \$ | % | # | % | \$ | % |
| 0 - 100 | 507 | 86% | 12,227 | 36% | 402 | 89% | 8,861 | 39% |
| 100 - 250 | 53 | 9% | 8,623 | 26% | 30 | 7% | 4,682 | 21% |
| 250 - over | 29 | 5% | 12,988 | 38% | 21 | 4% | 9,280 | 40% |
| Total | 589 | 100% | 33,838 | 100% | 453 | 100% | 22,823 | 100% |

Source: 1996 and 1997 Small Business Data Collection Register

| Table 14 Loans to Businesses by Revenue Sizes | | | | | | | | | | |
|--|--------------------------------|-----|--------|-----|--------------------------------|-----|--------|-----|-----|--------|
| Year | Revenues less than \$1 million | | | | Revenues more than \$1 million | | | | | |
| | # | % | \$ | % | # | % | \$ | % | # | \$ |
| 1996 | 397 | 67% | 16,703 | 49% | 192 | 33% | 17,135 | 51% | 589 | 33,838 |
| 1997 | 344 | 76% | 14,050 | 62% | 109 | 24% | 8,773 | 38% | 453 | 22,823 |

Source: 1996 and 1997 Small Business Data Collection Register

Community Development Lending

A community development loan is a loan that has as its primary purpose: 1) affordable housing for low- or moderate-income individuals, 2) community services targeted to low- or moderate-income individuals, 3) activities that promote economic development by financing businesses or farms that meet the size eligibility standards or have annual gross revenues less than \$1 million, or 4) activities that revitalize or stabilize low- or moderate-income geographies. These loans must not have been reported by the bank for consideration in the bank's AA as a home mortgage, small business, small farm, or consumer loan, unless it is a multifamily dwelling loan.

- ◆ The bank originates a high level of community development loans.

The bank originated the following community development loans since the last CRA examination:

- ◆ Six loans totaling \$308,125 for the construction or improvement of low-income housing.
- ◆ Two loans for \$309,225 for improvements to a public facility (YMCA and The Boys and Girls Club) which provides services to low- and moderate-income families.
- ◆ One loan for \$96,000 to purchase real estate to provide an environment to reunite broken families. The service is directed toward low- and moderate-income families.
- ◆ Two loans totaling \$305,000 to purchase real estate for a not for profit shelter for abused and battered women and for mentally challenged individuals.

Innovative or Flexible Lending Practices

- ◆ First National Bank of Valparaiso is a leader in using flexible lending practices in order to serve the credit needs of its AA. These programs address the credit needs of low- and moderate-income borrowers for home purchase, home improvement and small business loans.

Indiana Housing Finance Authority (IHFA) “First Home ‘98 Program”: The program offers first-time home buyers affordable mortgage financing, often at an interest rate below that offered by lenders. Down payment assistance is available in the form of a no interest, no monthly payment second mortgage. If the borrower resides in the property for five years, the second mortgage may be forgiven. The type of loan may be Federal Housing Authority (FHA), Veterans Administration (VA), or Fannie Mae-qualified conventional loan with private mortgage insurance. The bank originated twelve loans totaling \$866,424 for 1996 and four loans totaling \$321,070 for 1997.

Affordable Gold Program: The program is offered by Freddie Mac (FHLMC) and is designed for low- and moderate-income home buyers with minimal funds for down payment and closing costs. The program offers a conventional 30 year fixed rate mortgage with down payments as low as 3%. The program’s qualifying ratios are more flexible than conventional mortgage products. The program requires private mortgage insurance for loans exceeding 80% of the property value. The bank may waive required borrower reserves. Closing costs can come from grants, gifts, or unsecured loans from the originating lender. Borrowers are required to complete a home ownership education or counseling seminar prior to closing. Details of the number or dollar amount of loans originated are not available since the bank does not track these loans separate from their other product types.

3% down payment program: The program is offered by Freddie Mac (FHLMC). This program is restricted to low- and moderate-income home buyers. The program became available November 29, 1996. Since the inception of this program, the bank originated 2 loans totaling \$206,400.

Small Business Administration 504 Regional Development Corporation: This program is designed for the expansion of healthy businesses and provides economic development for the Northwest Indiana region. To date, the bank has funded four projects totaling \$1.3 million that created 25 jobs.

Fair Housing Administration/Veterans Administration: The bank originated 68 loans totaling \$5.5 million in 1996 and 46 loans totaling \$4.2 million in 1997 under these government programs.

INVESTMENT TEST

The investment test evaluates a bank's record of helping to meet the credit needs of its community through qualified investments that benefit its AA. A qualified investment means a lawful investment, deposit, membership share, or grant that has as its primary purpose community development. We assessed the bank's performance under the Investment Test by evaluating the bank's level of investments and grants, the capacity to obtain qualified investments, and investment opportunities available in its assessment area.

- ◆ First National Bank, Valparaiso provides a good level of investments in its AA.

Qualified Investments

- ◆ The bank purchased a \$3 million tax anticipation warrant from the Valparaiso School district. The school is located in a moderate-income tract. The funds will be used to support operations for services provided to low- and moderate- income families.
- ◆ Tax Anticipation Warrants - The bank is an active purchaser of tax anticipation warrants for schools located in Valparaiso. The bank under bids the other financial institutions bidding on these warrants. The bank specifically under bids to reduce the interest costs to the school system in order to help them provide more services to low- and moderate-income individuals. The warrants held on the bank's books for Valparaiso have interest rates of 3.5%. The next lowest rate received by the school districts are 4.00%. The cost savings based on the difference in interest rates to Valparaiso school districts is \$4,500.
- ◆ The bank is a member of the Indiana Statewide Certified Development Corporation. Their membership is valued at \$7,025 (281 shares @ \$25). The bank has used this program to provide financing to small businesses which increased their community's tax base and provided additional jobs. The Indiana Statewide CDC is certified by the Small Business Administration to provide loans to expanding businesses in Indiana.

Grants/Contributions

- ◆ The bank donated \$27,000 for remodeling of a house into a medical center. The medical center provides health care services to individuals without third party or personal resources. Fees are collected on a sliding-scale based on income.
- ◆ The bank donated \$5,500 for the restoration of the community opera house. This restoration has revitalized the downtown Valparaiso area, a moderate-income CT.
- ◆ In addition, the bank provides investments in its communities through donations and contributions to organizations that provide medical, educational assistance, shelter, credit counseling, and other services to low- and moderate income residents within its AA. During 1996 and 1997, the bank made 13 contributions totaling \$12,000.

SERVICE TEST

The service test evaluates a bank's record of helping to meet the credit needs of its AA by analyzing both the availability and effectiveness of a bank's system for delivering retail banking services and the extent of its community development services.

- ◆ First National Bank of Valparaiso's delivery systems are readily accessible to the bank's entire AA. Accessibility to the bank's delivery systems has improved with the opening of branches and ATM's.

Office Locations

The bank has fifteen branch locations throughout its AA. All of the bank's branches are full service offering deposit and loan products (Costas branch offers only ATM services). The Costas branch is part of a grocery store and has three ATMs to service customer needs. All branches are equipped with a 24 hour ATM and drive-up facilities. **Table 14** indicates that the distribution of delivery systems in the moderate-income CT is very good. Overall, 20% of the branches and 17% of the ATMs are in the moderate-income CT which represent only 4% of the CTs in the AA.

| Census Tract Characteristic: | % of Geographies | # of Branches | % of Branches | # of ATMs | % of ATMs |
|------------------------------|------------------|---------------|---------------|-----------|-----------|
| Moderate Income | 4% | 3 | 20% | 4 | 17% |
| Middle Income | 53% | 7 | 47% | 13 | 54% |
| Upper Income | 39% | 5 | 33% | 7 | 29% |
| Not Applicable* | 4% | 0 | 0% | 0 | 0% |
| Total | 100% | 15 | 100% | 24 | 100% |

* One unpopulated census tract is classified as not applicable for income classification purposes.

Branch hours are reasonable and convenient to customers. Branch lobbies are opened from 8:30 a.m to 4:00 p.m Monday through Thursday and 8:30 a.m. to 6:00 p.m. on Fridays. All of the bank offices offer Saturday hours from 8:30 a.m. to 12:00 noon. One branch within the moderate-income CT opens earlier (6:30 a.m.) than any other branch in the network.

First National Bank of Valparaiso's record of opening and closing branches has improved the accessibility of its delivery services. The bank opened two branches, one in a middle-income CT and one in an upper-income CT. Both of these branches are located in LaPorte County. The bank is physically located within the pocket occupied by low- and moderate-income families. The branch opened in La Crosse was opened at the request of the City of La Crosse. See "**Community Development Services**" for more details. The bank closed one branch during the past two years. This branch was located in an upper-income CT. The branch was located within another business and when that firm changed ownership, the bank was asked to discontinue their operations.

Alternative Delivery Systems

In addition to the 24 hour ATMs located at each of the branch offices, the bank has nine free standing ATMs. These free standing ATMs provide services to customers where branches are not located (i.e.

hospital, university, fast food location, grocery store/gas station, Hebron, and Lake Eliza). Three of the bank's newer ATMs offer check cashing services, dispense postage stamps, and produce full account statements. All of the bank's ATMs offer mini statements listing the last five transactions for each account.

The bank's drive-up facilities are open from 7:30 a.m. to 6:00 p.m. Monday through Friday and 8:30 a.m. to 12:00 p.m. on Saturdays. These facilities are opened an extra three hours per day to offer financial services to the bank's customers.

The bank offers a 24 hour bank by phone service. Customers can dial toll-free to obtain account information on loan and deposit accounts, transfer funds between accounts, and make loan payments through Checkmate telephone service.

The bank also has a web-site on the Internet which provides customers and non-customers with current rate information and explanation of the various products offered by the bank. In addition, the bank is in the process of starting computer banking.

Community Development Services

Community development services are activities that have as their primary purpose community development, are related to the provision of financial services, and have not been considered in the evaluation of the bank's retail banking services.

- ◆ First National Bank of Valparaiso provides a high level of community services to low- and moderate-income families.

The following are services provided by the bank:

- ◆ **Greater Valparaiso Community Development Corporation (CDC)** - The bank has two members on the board of this CDC. The bank plays a leadership role in providing financial advice, preparing/filing paperwork to obtain state funding, and soliciting support from other local banks. The CDC focus is building single family homes for low- and moderate-income families. A new project is in process which includes the building of fifteen (15) low- and moderate-income homes. The bank has assisted in determining the site location, preparing/filing state funding documentation, and soliciting the assistance of four local financial institutions. The last project complete in 1995 consisted of building ten low- and moderate-income houses. The bank originated three (30%) of the end loans on that project.
- ◆ **Northwest Indiana Regional Development Corporation (RDC)** - The bank's senior loan officer was appointed to the Board. The RDC administers the Small Business Administration's 504 loan program in Lake, Porter, LaPorte, Newton, Jasper, Pulaski and Starke Counties. The program helps secure financing for expanding businesses. See **Innovative/Flexible Lending** section for bank's participation in this program.
- ◆ **Lake Eliza Operational Center** - The bank received this property as other real estate owned. The property is located in an upper-income CT but is situated in a pocket where very low- and moderate-income families reside. The bank was unable to sell the property due to the poor and deteriorating condition of the property and surrounding area. The bank improved the area by installing a sewage system in the whole area, removing debris and cutting down weeds. The bank put down gravel to extend the dirt road to the major two lane street so that residents would have two ways to exit this area. The bank cleaned the lake and rehabilitated the building. Since the bank cleaned-up the area, several other home owners have started rehabilitating their properties.

The bank uses this location for their operations center. The bank installed a stand alone ATM to provide financial services for the residents of this small community. The bank's presence in this area has had a significant positive impact on this community. The bank's cost of improving the surrounding area was approximately \$60,300.

- ◆ **La Crosse, Indiana Branch** - During 1997, the bank built a branch in La Crosse, Indiana. Although this community is in a middle income CT, based on previously discussed demographic information, low- and moderate-income individuals are being served by this facility. Approximately three years ago the only bank in the city of La Crosse closed their branch location. Since that time, the city has not had access to financial services. The city of La Crosse requested the bank to open a branch in their community. The bank has provided more than 700 individuals with access to financial services with the opening of this branch. The downtown area has been deteriorating since the other bank was closed. Recently, a fire devastated the remainder of the downtown area. First National Bank of Valparaiso purchased two sites, an abandoned medical center and boarded up building. The medical center was rehabilitated and now serves as the bank's branch. The boarded up building was demolished by the bank on behalf of the La Crosse community and will be landscaped to beautify the area.

- ◆ **Affordable Gold Program:** The bank provides home ownership education and counseling seminars to customers applying for loans under this government sponsored program.

FAIR LENDING REVIEW

No violations of the substantive provisions of the anti-discrimination laws and regulations were identified during our review. First National Bank of Valparaiso's fair lending policies, procedures, training and internal controls are effective.