



Comptroller of the Currency
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PUBLIC DISCLOSURE

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

October 22, 1996

**The Merchants National Bank of Terre Haute
Charter Number 23076
701 Wabash Avenue
Terre Haute, Indiana 47808**

<p>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.</p>

GENERAL INFORMATION

This document is an evaluation of the Community Reinvestment Act (CRA) performance of **The Merchants National Bank of Terre Haute** prepared by the Office of the Comptroller of the Currency (OCC), the institution's supervisory agency.

The evaluation represents the OCC's current assessment and rating of the institution's CRA performance based on an examination conducted as of October 22, 1996. It does not reflect any CRA-related activities that may have been initiated or discontinued by the institution after the completion of the examination.

The purpose of the Community Reinvestment Act of 1977 (12 U.S.C. 2901), as amended, is to encourage each financial institution to help meet the credit needs of the communities in which it operates. The Act requires that in connection with its examination of a financial institution, each federal financial supervisory agency shall (1) assess the institution's record of helping to meet the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operations of the institution, and (2) take that record of performance into account when deciding whether to approve an application of the institution for a deposit facility.

The Financial Institutions Reform, Recovery and Enforcement Act of 1989, Pub. L. No. 101-73, amended the CRA to require the Agencies to make public certain portions of their CRA performance assessments of financial institutions.

Basis for the Rating

The assessment of the institution's record takes into account its financial capacity and size, legal impediments and local economic conditions and demographics, including the competitive environment in which it operates. Assessing the CRA performance is a process that does not rely on absolute standards. Institutions are not required to adopt specific activities, nor to offer specific types or amounts of credit. Each institution has considerable flexibility in determining how it can best help to meet the credit needs of its entire community. In that light, evaluations are based on a review of 12 assessment factors, which are grouped together under 5 performance categories, as detailed in the following section of this evaluation.

ASSIGNMENT OF RATING

Identification of Ratings

In connection with the assessment of each insured depository institution's CRA performance, a rating is assigned from the following groups:

Outstanding record of meeting community credit needs.

An institution in this group has an outstanding record of, and is a leader in, ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Satisfactory record of meeting community credit needs.

An institution in this group has a satisfactory record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Needs to improve record of meeting community credit needs.

An institution in this group needs to improve its overall record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Substantial noncompliance in meeting community credit needs.

An institution in this group has a substantially deficient record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

DISCUSSION OF INSTITUTION'S PERFORMANCE

Institution's Rating

Based on the findings presented below, this institution is rated: "**Satisfactory Record of Meeting Community Credit Needs.**"

Evaluation Period

This evaluation of The Merchants National Bank of Terre Haute covers the period of time from the last Performance Evaluation issued as of May 6, 1991 through October 22, 1996.

Community Profile

The Merchants National Bank of Terre Haute (MNB) is located in Terre Haute, Indiana. Terre Haute is in west central Indiana in Vigo County. Vigo County is Metropolitan Statistical Area (MSA) 8320. The bank's delineated community is defined as the entire county. The county population is approximately 107,000.

There are 29 census tracts in the MSA, with the city of Terre Haute consisting of 19 of the tracts with the remaining 10 tracts located in Vigo county. One census tract is designated as low-income, eleven tracts are designated as moderate-income, ten tracts are designated as middle-income, and seven tracts are designated as upper-income. The median family income for the MSA is \$35,900.

The local economy is stable but going through a slight period of economic depression. Unemployment for the county was 6.5% through June 30, 1996, and the City of Terre Haute had unemployment of 7.9%. These unemployment percentages are higher than the State of Indiana average of 4.2% and the United States average of 5.5% for the same time period. Major employers consist of: Columbia House Company, Union Hospital, and Indiana State University. Indiana State University has a student population of approximately 11,000.

Banking competition in the local market is intense. MNB is the second largest commercial bank in the area, with four other major commercial banking competitors. There are also numerous credit unions, finance companies and stock brokers providing financial services. Three new competitors plan to enter the Terre Haute market in the near future. These institutions are AMBANC, NationsBank, and Norwest.

Bank Profile

Merchants National Bank (MNB) is the second largest bank in Terre Haute with \$456 million in total assets. It is a member of the Old National Bancorp headquartered in Evansville, Indiana. Old National Bancorp is the largest independently-owned bank holding company in

Indiana with more than \$5 billion in total assets. The bank is a full-service institution offering a wide variety of products and services striving to meet the banking needs of the local community. MNB's main office is located in downtown Terre Haute with twelve additional full-service branches located within the community. There are also four other locations in the community that have automated teller machines only.

The bank's return on average assets (ROAA) is 1.41%. This compares favorably with the ROAA of the bank's major local competitors. MNB has maintained an ROAA of approximately 1.32% for the past three years.

The bank's loan-to-deposit ratio is 84%, which is in line with the ratios of other local institutions. Primary lending activities of the MNB are 1-4 family residential real estate loans (45% of the portfolio), other real estate loans (19% of the portfolio), consumer loans (21% of the portfolio), and commercial loans (15% of the portfolio).

I. ASCERTAINMENT OF COMMUNITY CREDIT NEEDS

Assessment Factor A - Activities conducted by the institution to ascertain the credit needs of its community, including the extent of the institution's efforts to communicate with members of its community regarding the credit services being provided by the institution.

- **The Board of Directors and management have a satisfactory record of determining credit needs of the local community, including low- and moderate-income (LMI) neighborhoods.**

The bank has a formal, written CRA statement which states that "Merchants Bank has maintained a commitment to addressing the credit needs and assisting in the growth and development of the community we serve." To accomplish this goal, the bank's officers and Directors are involved in many civic, social, religious and commercial development organizations. Officer participation in these groups promotes communication with a cross section of the community. The bank also maintains regular contact with the Department of Redevelopment, the Housing Authority, city and county government officials, including the mayor's office, and local colleges and universities.

The President/CEO of the bank is a board member of the Terre Haute Housing Authority, the Wabash Valley Community Foundation, and the Alliance for Growth and Progress. Other senior bank officers participate as Directors of organizations such as the Chamber of Commerce, Advisory Council of Consumer Credit Counseling Service, Inc., the Wabash Valley Chapter of the Indiana Mortgage Bankers, the Hyte Community Center, and the Vigo County Education Foundation.

The bank has sponsored a series of Saturday morning breakfasts with area ministers of churches that are located in low- and moderate-income areas of the city. These meetings are

being held to raise the awareness in these communities about the bank's commitment to serve the entire area.

From these efforts, management and the Board have determined that mortgage loan programs for low- and moderate-income families are the primary credit need in the community. To meet this need, the bank has participated in several loan programs over the last several years.

Assessment Factor C - The extent of participation by the institution's Board of Directors in formulating the institution's policies and reviewing its performance with respect to the purpose of the Community Reinvestment Act.

- **The Board is satisfactorily involved in developing policies and evaluating the bank's Community Reinvestment Act performance.**

The Board of Directors plays a satisfactory role in the bank's CRA activities. They are involved in approving policies, overseeing product development, and reviewing reports submitted by management. Quarterly reports include information on the number of loans made, the census tract location where loans are made, and the volume of minority loans approved and denied. The Board also approves the bank's CRA statement on an annual basis. Self-assessment and formal reviews are limited to quarterly reports presented by the bank's CRA officer.

Senior management is responsible for implementing and maintaining the CRA program as well as providing quarterly reports to the Board. Policy formation, new product development, CRA training, and compliance with regulatory requirements are activities vested in senior management. The bank's public comment file, public notice, and CRA statement are in technical compliance with the regulatory requirements.

Directors also serve as members or directors of numerous local organizations, these include: Alliance for Growth and Progress, Chamber of Commerce, Indiana Housing Authority, and the YMCA.

II. **MARKETING AND TYPES OF CREDIT OFFERED AND EXTENDED**

Assessment Factor B - The extent of the institution's marketing and special credit-related programs to make members of the community aware of the credit services offered by the institution.

- **The bank has an adequate marketing program in place which communicates to the entire community the loan and deposit programs offered by the bank.**

MNB's marketing program provides adequate advertising of its credit services to members of the community. Bank advertising is centered in radio and television commercials, local

newspapers, and lobby brochures, with name recognition as its primary strategy. Several newspaper advertising campaigns focused on deposit services offered by the bank, with limited advertisements for home equity and consumer loans. The bank also uses lobby brochures to promote a full line of loan products. The CRA Officer provides quarterly reports to the Board which detail the loans made under the various loan programs in order to show the effectiveness of the bank's advertising efforts.

The bank has conducted a series of breakfast meetings with local minority ministers to raise awareness of the bank's commitment to serve the entire community including the LMI areas. MNB also formed a CRA advisory committee in 1993, which consists of three prominent minority members of the community, the bank's marketing assistant and the bank's CRA Officer. One of the functions of this committee is to provide suggestions for marketing to the low-and moderate-income members of the community. Bank personnel also routinely provide assistance to customers in applying for credit.

Assessment Factor I - The institution's origination of residential mortgage loans, housing rehabilitation loans, home improvement loans, and small business or small farm loans within its community, or the purchase of such loans originated in its community.

- **The bank's record of originating loans that meet the needs of the community, and the level of lending that is done within the community are both good.**

MNB's loan-to-deposit ratio as of June 30, 1996 was 84%. This is in line with the ratios of the other two banks in Terre Haute that Merchant's considers to be its primary competition. Since 1992, these banks have had an average loan-to-deposit ratio of 85% while the national peer ratio has been only 70%. This high level of lending indicates that MNB makes a firm commitment to make loans to meet the needs of its community.

An analysis of the bank's lending activity shows that from December 1992 through March 1996 total assets have grown 13%, from \$323 million to \$365 million, while total loans have grown 35%, from \$211 million to \$283 million. Of special notice is the fact that the primary credit need of the community, 1-4 family residential real estate loans, has increased 61%, from \$77 million to \$124 million during the same time period.

The bank's ascertainment efforts have shown that the credit needs of the community are being met by all of the banks in town. Contact with several community groups also disclosed that local credit needs are being met.

Merchant National Bank's market share of residential type loans is satisfactory based on its size and market focus. In Terre Haute there is one bank with approximately \$941 million in total assets and several other banks of similar size to MNB. As would be expected, the larger bank has a much bigger market share than the others, but MNB and the other banks still make an adequate number of real estate loans. Table 1 shows the market share of this larger bank and MNB for originations of home purchase loans, home improvement loans, and refinancing of home loans. It demonstrates a satisfactory level of these types of loans given MNB's size.

TABLE 1

MARKET SHARE OF RESIDENTIAL TYPE REAL ESTATE LOANS						
	Home Purchase		Home Improvement		Refinance	
	1994	1995	1994	1995	1994	1995
Bank with largest share	41%	33%	74%	60%	33%	43%
MNB's market share	11%	11%	5%	7%	11%	9%

Source: PCI Services, Inc., CRA Wiz

In response to the identified credit need for mortgage loans for LMI families MNB has done the following:

- In 1992 the bank developed a mortgage loan program targeted to LMI members of the community. The program, The Affordable Housing and Renovation Program, featured mortgage loans with no down payment, reduced closing costs, and 100% financing. In 1992, 15 loans were made under the program for more than \$348,000. The program was reestablished in 1995 and has continued into 1996. In 1995, there were 22 loans originated for more than \$891,000, and as of 1996 year-to-date there have been 40 loans made for \$1,655,980.
- In 1993 the bank offered a low-income mortgage product patterned after the Federal National Mortgage Association's 3-2 mortgage loan program. This program allowed two percent of the down payment to be paid by a nonprofit organization or family member, with the borrower only having to pay three percent down. In 1995 the down payment requirement was changed so that the borrower only had to pay the three percent down, with no requirement for the additional two percent gift or grant provision. The program also offers relaxed credit standards and higher debt to income ratios.
- The bank also participated with the City of Terre Haute's Rental Program, which was introduced by the Department of Redevelopment. MNB participated with the city to provide loans for the renovation of rental properties in low- and moderate-income neighborhoods

A large number of the bank's loans have been made within its delineated community. Table 2 shows the percentage of loans outstanding as of January 31, 1996 (the last date the information was available prior to implementation of a new system) that are located within the delineated community.

TABLE 2

LOANS WITHIN THE DELINEATED COMMUNITY	
Real Estate Loans	88%
HMDA Reportable Loans	93%
Commercial Loans	75%
Consumer Loans	84%

Assessment Factor J - The institution's participation in governmentally-insured, guaranteed or subsidized loan programs for housing, small businesses, or small farms.

- **The bank's participation in governmentally-insured, guaranteed or subsidized loan programs for housing, small business, and small farms is adequate.**

Merchants National Bank's participation in governmentally-insured, guaranteed, or subsidized loan programs is limited to participation in the Small Business Administration (SBA) loan program and the City of Terre Haute's Department of Redevelopment mortgage program through the Terre Haute Housing Authority. The bank's limited participation in government programs is due to the level of local competition, and the fact that the bank's own internal loan programs meet the credit needs of a majority of the community. Bank management is willing to participate in other government loan programs when a particular credit need is identified and a program is available to meet the need.

Participation in the SBA loan program consists of one loan for \$50,000 which was approved in 1995. This is reasonable considering the high level of small business loans the bank has originated through its normal commercial loan program (see Factor I for more details), and the fact that there were only 21 SBA loans originated in the Terre Haute/Vigo County area for the entire year of 1995 and through August 29, 1996.

The major government subsidized loan program the bank is involved with is a program with the City of Terre Haute's Department of Redevelopment through the Terre Haute Housing Authority. The purpose of the program is to renovate homes that will be rented to low- and moderate-income individuals. The Terre Haute Housing Authority uses funds obtained from the Department of Housing and Urban Development (HUD) designated for LMI housing, and first mortgage loans from MNB to renovate substandard homes for LMI individuals. This program allows the Housing Authority to leverage funds to renovate more homes than could be renovated using the HUD funds alone. During 1993, MNB participated in 16 loans that provided 16 housing units and made mortgages for \$448,247. This matched the \$530,168 portion of HUD funds. In 1994, the bank participated in four loans for four housing units for \$124,000, matching HUD's participation of \$88,116.

In 1995 and 1996 the bank's participation changed slightly as not-for-profit organizations became involved with the program. These private groups received a subsidy from the City of Terre Haute through its Department of Redevelopment only after they had obtained a firm commitment from MNB to fund the loan. Although MNB is indirectly involved in the loan, their participation is what allows the houses to be built for LMI individuals. During 1995 and year-to-date 1996, there have been 18 loans for 32 housing units for mortgages of \$1,214,314. This matched HUD's funds of \$1,234,079.

III. GEOGRAPHIC DISTRIBUTION AND RECORD OF OPENING AND CLOSING OFFICES.

Reasonableness of Delineated Community

- **The bank's delineated community is reasonable and does not exclude low- and moderate-income areas.**

MNB's delineated community consists of Vigo County, Indiana. This community delineation is reasonable, based on the fact that the majority of the bank's loans and deposits are originated within the county.

Assessment Factor E - The geographic distribution of the institution's credit extensions, credit applications, and credit denials.

- **An analysis of the geographic distribution of the bank's loans and loan applications shows that Merchants National Bank serves all segments of the delineated community.**

The CRA officer provides reports to the Board of Directors and senior management showing the distribution of applications taken and of loans made throughout the different census tracts of the delineated community. The data for the real estate type loans is gathered from HMDA reports and the information on business loans comes from the bank's own internal information.

An analysis of the HMDA data for 1994, 1995, and through September 1996 shows that the bank's level of accepting loan applications and making loans is consistent with community population distribution patterns. Table 3 shows that loans are spread equally throughout the entire community.

TABLE 3

DISTRIBUTION OF POPULATION AND HMDA LOANS BY CENSUS TRACTS

Census Tract	Percent of Population	Percent of Households	Percent of Loan Applications*			Percent of Loan Approvals*		
			1994	1995	1996	1994	1995	1996
LMI Tracts	31%	34%	20%	26%	28%	18%	24%	27%
Middle Tracts	38%	41%	45%	40%	41%	45%	40%	38%
Upper Tracts	31%	25%	35%	34%	31%	37%	36%	35%
	100%	100%	100%	100%	100%	100%	100%	100%

* These numbers are based on the actual number of loans.

An analysis of this same data shows that loan applications and actual loans made are equally distributed to applicants and borrowers of the different income levels. Table 4 shows that applicants and borrowers of all income levels receive the same consideration in the loan process.

TABLE 4

DISTRIBUTION OF HMDA LOANS BY INCOME LEVEL						
Income level	Percent of Loan Applications*			Percentage of Loan Approvals*		
	1994	1995	1996	1994	1995	1996
LMI Borrower	38%	42%	41%	35%	40%	38%
Middle Income Borrower	10%	11%	10%	11%	10%	11%
Upper Income Borrower	52%	47%	49%	54%	50%	51%
	100%	100%	100%	100%	100%	100%

*These numbers are based on the actual number of loans.

An analysis of small business loans made since January 1, 1995 shows that these loans are also equally distributed throughout the entire community. Table 5 shows the distribution of small business loans.

TABLE 5

DISTRIBUTION OF SMALL BUSINESS LOANS BY CENSUS TRACT		
Census Tracts	Percent of Tracts	Percent of Small Business Loans*
LMI TRACTS	41%	34%
MIDDLE TRACTS	34%	42%
UPPER TRACTS	25%	24%
	100%	100%

*These numbers are based on the actual number of loans.

A review of this data shows that Merchants National Bank has a good distribution of loan applications and loans made throughout the entire community.

Assessment Factor G - The institution's record of opening and closing offices and providing services at offices.

- **The bank's record of opening and closing offices and providing services is good. Offices are located throughout the delineated community, and business hours and services have been designed to meet the needs of community members.**

MNB has a main office located in downtown Terre Haute, with an additional twelve full service branches. These offices are located throughout the local community and are easily accessible to all members of the community. For additional customer convenience, there are automated teller machines (ATM's) available at eleven of the thirteen full service offices, and four additional ATM only locations. Business hours are offered in a variety of combinations, tailored toward the needs of the customers around each branch location. Based upon a review of customer transactions, the Board approved changes in banking hours. The most common business hours are 9:00 A.M. to 3:00 P.M. Monday through Thursday, 9:00 A.M. to 5:00 P.M. on Friday, and 9:00 A.M. to 12:00 P.M. on Saturday.

MNB is in the process of closing the Fort Harrison branch located on the north side of Terre Haute. This branch is being closed due to the close proximity of another branch. The bank followed its branch closing policy and provided proper notification to affected branch customers. The branch closed on October 15, 1996. The bank has no plans to close any other branches at this time.

IV. DISCRIMINATION AND OTHER ILLEGAL CREDIT PRACTICES

Assessment Factor D - Any practices intended to discourage applications for types of credit set forth in the institution's CRA Statement(s).

- **The bank's lending practices do not discourage applications for the types of credit offered by the bank.**

There is no indication that the bank has any practices that intend or actually discourage applications from community members for the types of credit offered by the bank. All of the bank's policies, practices, procedures, and training efforts stress the fact that MNB, through the actions of its Board of Directors, officers, and employees, commits to the letter and intent of all applicable consumer and fair lending laws. The bank takes positive steps to ensure that no individual will be denied the services of MNB due to discrimination because of race, color, religion, national origin, sex, marital status, age, or other prohibited basis. Employees are committed to treating all persons fairly and to encourage their applications for credit.

Assessment Factor F - Evidence of prohibited discriminatory or other illegal credit practices.

- **No evidence of discriminatory or other illegal credit practices was found during this examination.**

During our examination, we tested residential real estate loan applications to determine if all applicants had an fair chance of obtaining a loan. To accomplish this, we compared the home purchase and refinance applications of unsuccessful minority applicants to those of successful non-minority applicants. We also determined the level of assistance provided to each during the application process. Our analysis found that both groups were treated similarly, and each received comparable levels of assistance throughout the entire process.

V. COMMUNITY DEVELOPMENT

Assessment Factor H - The institution's participation, including investments, in local community development and redevelopment projects or programs.

- **The bank is an active participant in community development and redevelopment projects and programs.**

The Board and management are committed to ongoing involvement with community development and redevelopment projects. Bank officers are active in, and maintain ongoing contacts with local organizations such as the City of Terre Haute's Department of Redevelopment (CTHDR), the Indiana Community Business Credit Corporation (ICBCC), and the Indiana Statewide Certified Development Corporation (ISCDC). The CTHDR

sponsors programs to provide funds for the purchase and renovation of housing in LMI areas. The ICBCC and the ISCDC provide funds for the development of Indiana's industrial base.

MNB also supports the local area by extending loans to community organizations for development or redevelopment projects within the community. The bank's Directors and senior management are active members of local organizations and committees. Their participation provides continuing awareness of local needs and opportunities. Involvement in local projects includes the following:

- In March 1995 the bank approved a construction loan to a non-profit subsidiary of the Terre Haute Housing Authority Development Corporation for \$1,322,500 to construct 30 houses. All of these houses must be rented to persons with incomes less than 60% of the median income in Vigo County.
- The bank provided \$231,000 of funding in conjunction with the Small Business Administration for the construction of a manufacturing and warehouse building in nearby Fontanet, Indiana, in September 1994. The building is located in a low-income area.
- During the years 1993 through year-to-date 1996, the bank has made loans of more than \$388,000 to area religious organizations for capital improvements. There are a total of seven loans to five different churches located in LMI areas.
- The bank loaned the Wabash Valley Habitat for Humanity (WVHFH) \$50,000 in May 1996 for the construction of houses that are to be sold to LMI members of the community. MNB will reimburse WVHFH all of the accrued interest as a donation.

Assessment Factor K - The institution's ability to meet various community credit needs based on its financial condition and size, legal impediments, local economic conditions and other factors.

- **The bank's efforts to meet its community's credit needs are consistent with its size and financial condition. No legal impediments were noted which inhibit the bank's efforts to meet its community's credit needs.**

There are no constraints on CRA performance posed by local economic conditions, the bank's financial condition and size, or legal impediments. The bank is an active participant in community development programs and activities. Profiles of the local community and of the bank are detailed at the front of this evaluation.

Assessment Factor L - Any other factors that, in the regulatory authority's judgment, reasonably bear upon the extent to which an institution is helping to meet the credit needs of its entire community.

- **MNB is involved in various community activities that provide additional insight to community credit needs.**

MNB is engaged in various community outreach programs to encourage consumers to take advantage of bank services. Outreach efforts are aimed at reaching LMI consumers and small businesses. Listed below are ways the bank has promoted its products through community outreach:

- MNB provides home study courses to be used in conjunction with the bank's home buyer programs targeting low- and moderate-income families. These programs are designed to help applicants understand the home loan application process.
- The bank provides credit counseling to small businesses.
- MNB provides guest speakers at local high schools and universities to discuss personal financial matters. Bank personnel also teach fundamentals of banking at various general assemblies with the Partnership in Education program.