



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## **PUBLIC DISCLOSURE**

January 30, 2012

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

Homestead Savings Bank  
Charter Number 718109

415 S. Superior Street  
Albion, MI 49224

Office of the Comptroller of the Currency

Cleveland Field Office  
200 Public Square Suite 1610  
Cleveland, OH 44114-2301

**NOTE:** This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

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

Major factors supporting the institution's Community Reinvestment Act (CRA) Performance Evaluation rating include:

- Homestead Savings Bank (HSB) originates a majority of its loans within its assessment areas (AAs).
- The bank's loan-to-deposit ratio is reasonable.
- The bank's distribution of loans among borrowers of different income levels, including low- and moderate-income borrowers, is reasonable.
- The bank's geographic distribution of loans throughout its AAs is reasonable.
- No written complaints related to CRA performance were received during the evaluation period.

**SCOPE OF EXAMINATION**

The evaluation period for this review is from May 7, 2003, to December 31, 2011. However, we reached our conclusions through an analysis of Home Mortgage Disclosure Act – Loan/Application Register (HMDA-LAR) data for the three year period from January 1, 2009 through December 31, 2011. A data integrity examination was performed prior to this review, and HMDA-LAR data was found to be reliable and accurate. Based on both the number and dollar volume of loans that the bank has in its portfolio, we determined that residential real estate loans are the bank's primary loan product. Unless otherwise noted, demographic data in this evaluation is from the 2000 Census.

HSB's performance is being evaluated for three separate AAs which include Calhoun County, Jackson County, and Eaton/Ingham Counties. Please see the **Description of Assessment Area(s)** section below for additional details. Based on the bank's deposit breakdown, more weight was given to the Calhoun County AA than the other two AAs since more than half of the bank's deposits are from the Calhoun County AA.

**DESCRIPTION OF INSTITUTION**

HSB is a Mutual Savings Bank with its main office located in Albion, Michigan. Albion is located in the south central region of the Lower Peninsula of Michigan, and is approximately 50 miles south of Lansing, Michigan. The bank has three branch offices which are located in Leslie, Eaton Rapids, and Springport, Michigan. These branch

offices, along with the main office, help serve portions of Calhoun, Jackson, Ingham, and Eaton Counties.

HSB is a full-service community bank that offers various loan and deposit products. However, the bank’s primary business focus is on residential real estate loans. This includes: traditional home purchase loans, residential construction loans, home improvement loans, home equity loans and lines of credit, Federal Housing Administration (FHA) loans, and home loans under the USDA Rural Development program. The bank originated 16 loans under the USDA Rural Development loan program during the evaluation period. In addition, HSB is involved in the “Step Forward” program under Michigan State Housing Development Authority (MSDA), which provides homeowner assistance to those in danger of losing their homes. The bank originated 12 loans under this program during the evaluation period. HSB also offers commercial and commercial real estate loans and other consumer loans including student loans, automobile loans, and recreational vehicle loans. Finally, HSB offers a variety of savings and checking accounts for individuals and businesses, including IRA/Roth IRA accounts.

As of December 31, 2011, HSB reported \$76.7 million in total assets, \$65.7 million in total deposits, and \$5.2 million in Tier 1 Leverage capital. The breakdown of deposits from each of the three AA, as a percentage of total deposits, is as follows:

Calhoun County AA	65 percent
Eaton and Ingham Counties AA	24 percent
Jackson AA	11 percent

The deposit information above was based on deposits at branch offices within the AAs, and should be considered approximate figures. There are 27 financial institutions serving at least part of HSB’s AAs. HSB is ranked 19 among these institutions in deposit market share, based on the Federal Deposit Insurance Corporation (FDIC) Deposit Market Share Report for June 30, 2011. Of the 27 financial institutions, only five including HSB had total assets of \$100 million or less. HSB competes with many larger financial institutions, which offer more product types and services.

The following table presents the bank’s loan portfolio mix as of December 31, 2011:

<b>Loan Portfolio Summary by Loan Product</b>	
<b>Loan Category</b>	<b>Percentage of Dollars Outstanding</b>
Residential Real Estate Loans	78.7%
Commercial and Commercial Real Estate Loans	20.1%
Consumer Loans	1.2%

There are no financial, legal, or other impediments that would hinder the bank’s ability to meet the credit needs of its AAs. HSB’s activities are consistent with its size, local economic conditions, and credit needs of its community. We conducted two community contacts during this examination to better assess the bank’s performance in meeting the community needs. Both contacts were real estate agents who indicated

a need for more jobs in the local area, due to the poor economy. The bank was rated Satisfactory at its last CRA Performance Evaluations, dated May 7, 2003.

## **DESCRIPTION OF ASSESSMENT AREA(S)**

The bank is being evaluated under three AAs which include Calhoun County, Jackson County, and Eaton/Ingham Counties. These AAs are contiguous, and located in the south central region of the Lower Peninsula of Michigan. HSB only includes portions each of these counties in its AAs, which is reasonable given the number and locations of its branch offices. The AAs meet CRA requirements, and do not arbitrarily exclude any low- or moderate-income geographies.

### Calhoun County AA

HSB has one branch office in the Calhoun County AA, which also serves as its main office. This AA is comprised of nine census tracts within Calhoun County, including no low-income tracts, two moderate-income tracts, seven middle-income tracts, and no upper-income tracts. Approximately 65 percent of HSB's deposits are from this AA. The AA is part of the Battle Creek Metropolitan Statistical Area (MSA), which had a 7.6 percent unemployment rate as of December 2011 (below the 9.3 percent unemployment rate for the State of Michigan and the 8.5 percent unemployment rate for the entire United States). The AA has a population of 26,429, based on the 2000 U.S. Census. The Housing and Urban Development (HUD) adjusted median family income for 2011 is \$48,800, and 13 percent of the households in the AA are living below the poverty level. Major employers in Calhoun County include Kellogg Company, Albion College, Denso Manufacturing, Krafts Foods Global Inc., and Battle Creek Health System.

### Jackson County AA

HSB has one branch office in the Jackson County AA, which is located in the City of Springport. This AA is comprised of 25 census tracts within Jackson County, including two low-income tracts, eight moderate-income tracts, 13 middle-income tracts, and two upper-income tracts. Approximately 11 percent of HSB's deposits are from this AA. The AA is part of the Jackson MSA, which had an 8.6 percent unemployment rate as of December 2011 (below the unemployment rate for the State of Michigan, but slightly above the unemployment rate for the entire United States). The AA has a population of 95,558, based on the 2000 U.S. Census. The HUD adjusted median family income for 2011 is \$60,800, and 11 percent of the households in the AA are living below the poverty level. Major employers in Jackson County include WA Foote Memorial Hospital, Michigan Automotive Compressor, State Prison, and the Eaton Corporation.

## Eaton and Ingham Counties AA

HSB has two branch offices in the Eaton and Ingham Counties AA. One branch office is located in the City of Leslie, and the other is located in Eaton Rapids. This AA is comprised of four census tracts within Eaton and Ingham Counties, including no low-income tracts, no moderate-income tracts, four middle-income tracts, and no upper-income tracts. Approximately 24 percent of HSB's deposits are from this AA. The AA is part of the Lansing/East-Lansing MSA, which had a 7.0 percent unemployment rate as of December 2011 (below the unemployment rate for the State of Michigan and the United States). The AA has a population of 22,751, based on the 2000 U.S. Census. The HUD adjusted median family income for 2011 is \$67,800, and 5 percent of the households in the AA are living below the poverty level. Major employers in Eaton County include Ryder Integrated Logistics Inc., General Motors, Blue Cross & Blue Shield of Michigan, and Meijer Incorporated. Major employers in Ingham County include Michigan State University, Edward W. Sparrow Hospital, Michigan Department of Environment, and Electronic Data Systems Corporation.

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

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

HSB's loan-to-deposit ratio is reasonable and meets the standards for satisfactory performance given the bank's size and financial condition, the AA's credit needs, and local competition.

The bank's loan-to-deposit ratio averaged 90.0 percent over the last 21 quarters (December 31, 2006, through December 31, 2011). The ratio ranged from a high of 101.8 percent at June 30, 2007, to a low of 82.2 percent at March 31, 2011. The steady decrease is due, in part, to growth in deposits. HSB is active in selling residential real estate loans in the secondary market, which is not reflected in its loan-to-deposit ratio. The bank sold \$10.3 million of loans in 2009, \$11.4 million in 2010, and \$10.9 million in 2011.

### **Lending in Assessment Area**

The bank originates a majority of its loans in its AAs, which meets the standard for satisfactory performance. During the three-year period ending December 31, 2011, HSB originated 304 residential real estate loans in the three AAs. This represents 58.8 percent of the total residential real estate loans originated by HSB during this period. As a dollar amount, the bank originated \$27.6 million in residential real estate loans in the three AAs, representing 52.1 percent of the residential real estate loans originated by HSB during this period. In light of the bank's size, financial resources, and a comparison to other financial institutions in the local area, HSB's performance in lending inside versus outside its AAs is reasonable.

## Lending to Borrowers of Different Incomes and to Businesses of Different Sizes

HSB's overall distribution of loans to borrowers of different income levels meets the standards for satisfactory performance. This evaluation considered home purchase and home mortgage refinance loans over a three year period.

Borrower Income Distribution								
Home Purchase Loans								
Assessment Area** / Borrower Income Level	Low-Income (HSB) %	Low-Income (peer*) %	Moderate-Income (HSB) %	Moderate-Income (peer*) %	Middle-Income (HSB) %	Middle-Income (peer*) %	Upper-Income (bank) %	Upper-Income (peer*) %
<i>Calhoun County AA</i>	18.7	14.7	34.4	26.8	21.9	23.5	25.0	35.0
<i>Jackson County AA</i>	22.2	23.8	16.7	35.7	38.9	22.5	22.2	18.0
<i>Eaton &amp; Ingham Counties AA</i>	25.0	21.3	30.0	42.1	25.0	24.7	20.0	11.9

\*Represents the Aggregate HMDA Peer Group Distribution Percentages by income level for 2010.  
 \*\* The bank's AA represents only portions of these counties.

Borrower Income Distribution								
Home Mortgage Refinance Loans								
Assessment Area** / Borrower Income Level	Low-Income (HSB) %	Low-Income (peer*) %	Moderate-Income (HSB) %	Moderate-Income (peer*) %	Middle-Income (HSB) %	Middle-Income (peer*) %	Upper-Income (bank) %	Upper-Income (peer*) %
<i>Calhoun County AA</i>	8.7	8.5	17.3	19.8	26.9	22.0	47.1	49.7
<i>Jackson County AA</i>	3.1	9.0	24.6	21.7	24.6	25.3	47.7	44.0
<i>Eaton &amp; Ingham Counties AA</i>	5.9	7.5	27.4	19.8	35.3	32.2	31.4	40.5

\*Represents the Aggregate HMDA Peer Group Distribution Percentages by income level for 2010.  
 \*\* The bank's AA represents only portions of these counties.

### Performance in the Calhoun County AA

The distribution of residential real estate loans among borrowers of different income levels for the Calhoun AA is reasonable. The bank originated 33 home purchase loans and 106 home refinance loans in this AA over the three year period ending December 31, 2011. HSB exceeded peer averages for both home purchase and home refinance loans to low-income borrowers. Home refinance loans to moderate-income borrowers were somewhat below the peer average, but still represent reasonable performance.

### Performance in the Jackson County AA

The distribution of residential real estate loans among borrowers of different income levels for the Jackson County AA is reasonable. More weight is given to home refinance loans, since they represent a higher percentage of the loans that HSB originated compared to home purchase loans. The bank originated 66 home refinance loans and 19 home purchase loans in this AA over the three year period ending December 31, 2011.

HSB's performance is similar to the peer average for originating home purchase loans to low-income borrowers, but is significantly below the peer average for home purchase loans to moderate-income borrowers. The bank originated 16.7 percent of its home purchase loans in this AA to moderate-income borrowers, which compares unfavorably to the peer average of 35.7 percent. However, in aggregate, the bank's performance of originating home purchase loans to both low- and moderate-income borrowers was determined to be reasonable performance given the bank's size and resources.

The percentage of home refinance loans to low-income borrowers is below the peer average, but for moderate-income borrowers it is above the peer average. HSB originated 27.7 percent of its home refinance loans in this AA to low- and moderate-income borrowers, which is comparable to the peer average of 30.7 percent. This represents reasonable performance for home refinance lending to borrowers of different income levels in this AA.

### Performance in the Eaton and Ingham Counties AA

The distribution of residential real estate loans among borrowers of different income levels for the Eaton and Ingham Counties AA is reasonable. More weight is given to home refinance loans, since they represent a higher percentage of the loans that HSB originated compared to home purchase loans. The bank originated 53 home refinance loans and 20 home purchase loans in this AA over the three year period ending December 31, 2011.

In aggregate, HSB originated 55.0 percent of its home purchase loans in this AA to low- and moderate-income borrowers, compared to the peer average of 63.4 percent. This was determined to be reasonable performance given the bank's size and resources.

The percentage of home refinance loans to low-income borrowers is comparable to the peer average, and HSB originated 27.4 percent of its home refinance loans in this AA to moderate-income borrowers, which compares favorably to the peer average of 19.8 percent. This represents reasonable performance given the bank's overall home refinance activity in this AA.

## **Geographic Distribution of Loans**

HSB's overall geographic distribution of loans, including in low- and moderate-income geographies (census tracts), meets the standards for satisfactory performance.

HSB's geographic distribution of loans in the Calhoun County AA is excellent, but its geographic distribution of loans in the Jackson County AA is weak. No meaningful analysis could be performed for the Eaton and Ingham Counties AA, since it does not include any low- or moderate-income census tracts.

### Performance in the Calhoun County AA

HSB's geographic distribution of loans throughout the Calhoun County AA over the three year period ending December 31, 2011, is excellent. This AA has no low-income census tracts, but two moderate-income tracts. The bank originated 18.2 percent of its home purchase loans in this AA in the two moderate-income tracts, which exceeds the peer average of 7.9 percent. HSB also originated 17.9 percent of its home refinance loans in the two moderate-income tracts, which exceeds the peer average of 5.4 percent. Furthermore, the bank's percentage of loans in the two moderate-income tracts exceeds the 14.6 percent of owner occupied homes that are in those tracts.

### Performance in the Jackson County AA

HSB's geographic distribution of loans throughout the Jackson County AA over the three year period ending December 31, 2011, is weak. This AA has two low-income census tracts and eight moderate-income tracts. HSB did not originate any home refinance loans over this time period in the low- or moderate-income tracts. However, the peer average for home refinance loans in the low-income tracts was less than 0.5 percent, and the percentage of owner-occupied homes in the low-income tracts is only 1.1 percent. As a result, there are limited opportunities to lend in these low-income tracts. These facts explain HSB's very limited or lack of lending activity in these low-income tracts. HSB also did not originate any home refinance loans in the eight moderate-income tracts over the three year time period, which represents weak performance. The aggregate HMDA peer level home refinance activity in the moderate-income tracts was 8.2 percent over the three year time period. In addition, the percentage of owner-occupied homes in the moderate-income tracts is 22.0 percent.

The bank originated no home purchase loans in the two low-income tracts. However, given the low percentage of owner-occupied homes in the low-income tracts, there are limited opportunities to lend. The aggregate HMDA peer level of home purchase lending activity for the low-income tracts over the three year period was only 1.1 percent. HSB originated 10.5 percent of its home purchase loans in the moderate-income tracts, which is comparable to the aggregate HMDA peer level of 13.7 percent. The percentage of owner-occupied homes in the moderate-income tracts is 22.0 percent.

## **Responses to Complaints**

HSB did not receive any complaints about its performance in helping to meet the AAs needs during the evaluation period.

## **Fair Lending or Other Illegal Credit Practices Review**

Pursuant to 12 C.F.R. 25.28(c), or 12 C.F.R. 195.28(c), in determining a national bank's (bank) or Federal savings association's (FSA) CRA rating, respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or FSA, or in any assessment area by an affiliate whose loans have been considered as part of the bank's or FSA's lending performance.

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.