



## **INTERMEDIATE SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks  
Washington, DC 20219

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### **PUBLIC DISCLOSURE**

**November 13, 2006**

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

**Lafayette Bank and Trust Company, National Association  
Charter Number 24482**

**133 North Fourth Street  
Lafayette, IN 47901**

**Comptroller of the Currency  
8777 Purdue Road, Suite 105  
Indianapolis, IN 46268**

**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.**

The Lending Test is rated: Satisfactory.

The Community Development Test is rated: Satisfactory.

The primary factors which support the bank's rating include:

- The quarterly average loan-to-deposit ratio is reasonable at 91 percent. This performance is satisfactory in comparison to other similarly situated banks in the assessment areas (AAs).
- A majority of loans, by both number and dollar amount, originated to borrowers inside the bank's AAs.
- The borrower and geographic distribution of loans is reasonable given the AA's demographics.
- Community development activities reflect a reasonable response to the needs in the AAs.

## **SCOPE OF EXAMINATION**

Lafayette Bank & Trust Company, National Association (LB&T) converted to a national charter January 1, 2004; therefore, our evaluation period for this examination is January 1, 2004 through December 10, 2006. We evaluated LB&T under the Intermediate Small Bank performance standards, which are comprised of a lending test and community development test. Using Call Report loan information for the period January 1, 2004 through June 30, 2006 and after discussions with bank management, we determined that the bank's primary credit products by dollar and number to be home mortgage loans, small business loans, and small farm loans. Therefore our analysis will focus on HMDA reportable home mortgage loans and CRA reportable small business and small farm loans. During the examination, we conducted a review of the loan data to verify the validity of the data used for our analysis. The evaluation period for the community development test is January 1, 2004 to December 10, 2006; however, we gave consideration to any outstanding community development loans or investments originated since the bank's last CRA evaluation which was in February 2003. There is no affiliate activity considered in this evaluation.

## **DESCRIPTION OF INSTITUTION**

Lafayette Bank & Trust is a full service financial institution, headquartered in Lafayette, Indiana. As previously mentioned, LB&T converted from a state charter to a national charter in January 2004.

LB&T is an intrastate bank with nineteen branch offices and seventeen automated teller

machines (ATMs) located throughout its assessment areas (AAs). In October 2005, LB&T opened two branch offices in the city of West Lafayette. In July 2005, LB&T consolidated an in-store branch located in a large retail department store into an existing stand-alone branch office. In September 2005, LB&T consolidated another in-store branch located in a super market into an existing branch located in a small shopping center. LB&T is a wholly owned subsidiary of First Merchants Corporation (FMC), a \$3.4 billion holding company headquartered in Muncie, Indiana. FMC owns eight banks which operate in the states of Indiana and Ohio, an insurance company, and a separately chartered Trust Company. FMC is the majority shareholder in a title insurance company.

As of September 30, 2006, LB&T had total assets of \$982 million and the net loans and leases total \$648 million representing 66 percent of total assets and 86 percent of deposits. By dollar volume, the loan portfolio is comprised of 43 percent residential real estate, 36 percent commercial and commercial real estate, 10 percent consumer, 10 percent agriculture, and 1 percent other loans. Tier 1 Capital is \$71 million. The bank's business strategy is to grow through mortgage lending, commercial lending, and agricultural lending. The bank actively seeks lending opportunities both inside and outside the AAs.

LB&T does not have any legal or financial circumstances which would impede their ability to meet the credit needs of the AAs. LB&T has the resources and financial strength to meet the credit needs and to provide the products and services needed by individual and business customers in their communities.

The bank received a satisfactory rating on their previous CRA examination dated February 12, 2003, performed by the Federal Deposit Insurance Corporation.

## **DESCRIPTION OF THE ASSESSMENT AREAS**

The bank has three assessment areas (AAs); the Carroll and Tippecanoe Counties AA (two of three counties of the Lafayette, Indiana MSA # 29140), the White County AA (a non-MSA Indiana county adjacent to Carroll and Tippecanoe Counties), and the Jasper County AA (the southern most county of the Gary, Indiana MSA # 23844 adjacent to White County). For this analysis, we conducted a full scope review of the Carroll and Tippecanoe AA, and limited scope reviews of the White County and Jasper County AAs. This was based on the fact that the majority of the bank's loans, deposits, branches, and activity are in the Carroll and Tippecanoe AA. All of the AAs are legal, meet the requirements of the regulation, and do not arbitrarily exclude any low- or moderate-income geographies.

The Carroll and Tippecanoe AA is comprised of 44 census tracts. Four tracts (9 percent) are designated as low-income; six (14 percent) are moderate-income; twenty-three (52 percent) are middle-income; ten (23 percent) are upper-income tracts; and, one tract (2 percent) has no income designation. The total population in the AA is 169,120. Ten percent of the population resides in the low-income census tract, 12 percent in moderate-income, 49 percent in middle-income, 25 percent in upper-income tracts, and 4 percent in the tract with no income designation. The 2005 updated median family income is \$58,750. Approximately 18 percent of the families in the AA are low-income and 19 percent are moderate-income. The weighted average

household income is \$40,579. Low- and moderate-income households account for 8 and 15 percent, respectively, of all households in the AA. There are 8,080 businesses in the AA with five percent of the businesses located in the low-income tract and 28 percent in the moderate-income tracts. Among businesses reporting revenue, 63 percent have revenue of less than \$1 million and six percent have revenue over \$1 million.

The Carroll and Tippecanoe AA is located 60 miles northwest of Indianapolis. Lafayette, the county seat of Tippecanoe County, is the largest city in the AA and the eighth largest city in the state of Indiana. The economy of the AA is stable with several of the major employers expanding and hiring more employees. The unemployment rate in the AA as of August 2006 was a low four percent compared to the state of Indiana's rate of five percent.

Major employers in the AA include Purdue University, Subaru-Isuzu, Caterpillar Inc., Wabash National Corporation, Greater Lafayette Health Services, and Lilly Pharmaceuticals. The Subaru-Isuzu facility plans to add a manufacturing line in early 2007 and will hire 1,000 new workers, Purdue University is expanding and anticipates hiring an additional 100 employees, and the Greater Lafayette Health Services is expanding and will hire an additional 150 employees.

During this examination, we reviewed a previously performed community contact with a government housing group, and we made one community contact with a representative of the local city government. From these two contacts, we concluded that the credit needs of the AAs include small business loans for inventory, equipment and working capital, and residential real estate loans.

## **CONCLUSIONS ABOUT PERFORMANCE CRITERIA**

### **Lending Test**

LB&T demonstrates satisfactory performance in the lending test. The bank's loan-to-deposit ratio reflects a reasonable volume of lending activity and a majority of loan originations are to borrowers inside the AAs. The borrower and geographic distribution of loans is reasonable. We did not identify any lending gaps or areas of low penetration in our analysis of the geographic distribution of loans.

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

LB&T's loan-to-deposit ratio is reasonable given the bank's size, financial condition, and the AA's credit needs. The bank's loan-to-deposit ratio averaged 91 percent over ten quarters from March 31, 2004 to June 30, 2006, with a low of 85 percent and a high of 94 percent.

LB&T ranks second among the five other banks that LB&T considers to be their local competitors. The bank with the highest average ratio has an average loan-to-deposit ratio of 112 percent. The five competitor banks range in size from \$26 million to \$314 million and have a presence in the four counties of LB&T's AAs. These banks have an average loan-to-deposit ratio of 89 percent ranging from a low of 84 percent to a high of 92 percent.

In the Carroll and Tippecanoe Counties AA, LB&T and a large multi-national bank tied for first place in deposit market share among all financial institutions as of the June 30, 2006 Deposit Market Share Report. LB&T had deposits of \$437 million with 20 percent of the market, while the other bank had deposits of \$441 million and 20 percent of the market. In the White County AA, LB&T ranked first in deposit market share with deposits of \$110 million and 33 percent of the market. In the Jasper County AA, LB&T also ranked first in deposit market share with deposits of \$140 million and 29 percent of the market.

***Lending in Assessment Areas***

LB&T originated a majority of its loans within its three defined AAs. Eighty-one percent of the number and 79 percent of the dollar volume of loans originated to borrowers in the bank’s AAs. Table 1 illustrates the bank’s performance by product type.

<b>Table 1 - Lending in Assessment Areas</b>										
	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total (000's)
Loan Type	#	%	#	%		\$ (000's)	%	\$ (000's)	%	
Small Business	783	83%	162	17%	945	\$85,789	80%	\$21,520	20%	\$107,309
Small Farm	810	73%	301	27%	1,111	\$72,745	69%	\$32,425	31%	\$105,170
Mortgage	1,319	85%	225	15%	1,544	\$140,615	86%	\$23,567	14%	\$164,182
<b>Totals</b>	<b>2,912</b>	<b>81%</b>	<b>688</b>	<b>19%</b>	<b>3,600</b>	<b>\$299,149</b>	<b>79%</b>	<b>\$77,512</b>	<b>21%</b>	<b>\$376,661</b>

Source: CRA and HMDA data of January 1, 2004 to December 31, 2005

***Lending to Businesses and Farms of Different Sizes, and to Borrowers of Different Incomes in the Carroll and Tippecanoe AA.***

The distribution of loans to businesses of different sizes is reasonable. The percentage of loans to businesses with revenues of \$1 million or less is higher than the percentage of businesses that reported revenues of less than \$1 million. However, in this AA the percentage of businesses with unreported revenue is high at 31 percent. Discussions with the bank’s CRA Officer and information obtained from community contacts indicate that the percentage of businesses with revenues of less than \$1 million is closer to 75 percent for this AA. Table 2A illustrates the borrower distribution of loans to businesses in the AA.

<b>Table 2A - Borrower Distribution of Loans to Businesses</b>			
Business Revenues	≤\$1,000,000	>\$1,000,000	Unknown
% of AA Businesses	63%	6%	31%

% of Bank Loans in AA by #	72%	26%	2%
% of Bank Loans in AA by \$	62%	37%	1%

Source: CRA data of January 1, 2004 to December 31, 2005

The distribution of loans to farms of different sizes is reasonable. Table 2B illustrates the borrower distribution of loans to farms in the AA.

<b>Table 2B - Borrower Distribution of Loans to Farms</b>			
Farm Revenues	≤\$1,000,000	>\$1,000,000	Unknown
% of AA Farms	93%	4%	2%
% of Bank Loans in AA by #	95%	5%	0%
% of Bank Loans in AA by \$	92%	8%	0%

Source: CRA data of January 1, 2004 to December 31, 2005

The distribution of home mortgage loans to borrowers of different income levels is reasonable. Lending to low-income and moderate-income families is good. Table 2C illustrates the borrower distribution of mortgage loans to borrowers in the AA.

<b>Table 2C - Borrower Distribution of Mortgage Loans</b>								
Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Loans	% of AA Families	% of Loans	% of AA Families	% of Loans	% of AA Families	% of Loans
Home Purchase	18%	15%	19%	26%	25%	31%	38%	27%
Home Improvement	18%	23%	19%	19%	25%	27%	38%	22%
Refinance	18%	14%	19%	18%	25%	25%	38%	29%
Total	18%	15%	19%	23%	25%	29%	38%	27%

Source: HMDA data of January 1, 2004 to December 31, 2005.

Lending to businesses and farms of different sizes and to borrowers of different incomes in the Jasper County AA and the White County AA is consistent with performance in the Carroll and Tippecanoe AA.

***Geographic Distribution of Loans in the Carroll and Tippecanoe AA.***

The geographic distribution of loans to businesses is reasonable. The percentage of loans in the low-income tract is lower than the demographic comparator, but is considered reasonable given that 67 percent of all businesses in the AA are located in the middle- and upper-income tracts and that the distribution of loans in the moderate-income tract is 7 percent above the demographics. Table 3A illustrates the geographic distribution of business loans in the AA.

<b>Table 3A - Geographic Distribution of Loans to Businesses</b>								
Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Loans	% of AA Businesses	% of Loans	% of AA Businesses	% of Loans	% of AA Businesses	% of Loans
Business	5%	1%	28%	35%	45%	44%	22%	20%

Source: CRA data of January 1, 2004 to December 31, 2005.

The geographic distribution of loans to farms is reasonable. The percentage of loans in the moderate-income tract is lower than the demographic comparator, but is considered reasonable given that 96 percent of all farms in the AA are located in the middle- and upper-income tracts. Table 3B illustrates the geographic distribution of business loans in the AA.

<b>Table 3B - Geographic Distribution of Loans to Farms</b>								
Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Farms	% of Loans	% of AA Farms	% of Loans	% of AA Farms	% of Loans	% of AA Farms	% of Loans
Farm	0%	0%	4%	1%	77%	93%	19%	6%

Source: CRA data of January 1, 2004 to December 31, 2005.

The geographic distribution of mortgage loans is reasonable. The distribution of consumer loans to both low- and moderate-income tracts is similar to the demographics. Table 3C illustrates the geographic distribution of consumer loans in the AA.

Table 3C - Geographic Distribution of Mortgage Loans								
Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of Owner-Occupied Housing	% of Loans	% of Owner-Occupied Housing	% of Loans	% of Owner-Occupied Housing	% of Loans	% of Owner-Occupied Housing	% of Loans
Home Purchase	0%	0%	8%	6%	62%	51%	30%	43%
Home Improvement	0%	0%	8%	11%	62%	60%	30%	29%
Refinance	0%	5%	8%	9%	62%	51%	30%	35%
Total	0%	2%	8%	7%	62%	52%	30%	39%

Source: HMDA data of January 1, 2004 to December 31, 2005

The geographic distribution of loans in the Jasper County AA and the White County AA is consistent with performance in the Carroll and Tippecanoe AA.

### ***Responses to Complaints***

The bank has not received any CRA related complaints.

### **Community Development Test**

Lafayette Bank & Trust's overall performance under the Community Development Test is satisfactory. Community development performance in the Carroll and Tippecanoe AA demonstrates good responsiveness to community development needs through community development loans, investments, and services given the bank's capacity, and the need and availability of such opportunities for community development in the bank's AA. The bank's performance in the White County AA and the Jasper County AA is consistent with its performance in the Carroll and Tippecanoe AA.

### ***Number and amount of qualified community development loans***

The bank originated thirteen community development loans totaling \$6.5 million during the evaluation period including:

- Seven loans totaling \$5.7 million to a non-profit organization that provides affordable housing for low- and moderate-income families and individuals in the city of Lafayette.

- A \$368 thousand loan to a non-profit organization that provides shelter for domestic violence victims.
- Two loans for \$249 thousand to a youth service organization that serves low- and moderate-income families.
- A loan for \$100 thousand to a local economic development organization that, together with eight other banks, has a pool of \$900 thousand to provide financing to small businesses in the AA.

### ***Number and amount of qualified investments***

Qualified investments total \$3.3 million. This amount includes 28 grants or donations for \$118 thousand and the purchase of two bonds from the Lafayette Redevelopment Authority for \$3.2 million. The grants and donations were to organizations that provide services to low- and moderate-income families. The bonds were for the development of the Creasy-Treece Development Area of Lafayette.

### ***Extent to which the bank provides community development services***

Delivery systems are reasonably accessible to individuals of different income levels. The bank operates nine full-service offices where all loan and deposit products are available and eleven ATMs. All of the offices are open on Saturdays with the exception of the two offices located in nursing home facilities, which are only open on Tuesdays. One of the bank's offices is located adjacent to a low-income tract and four offices are located in moderate-income tracts.

During the evaluation period, LB&T employees provided technical assistance and financial expertise to twenty-six different community development organizations. Bank personnel serve as board members and officers for organizations that provide services to low- and moderate-income individuals, for organizations that provide affordable housing for low- and moderate-income individuals, and for organizations that target economic development in low- and moderate-income areas.

### ***Bank's responsiveness, through community development activities, to community development lending, investment, and services needs***

The bank's community development activities reflect a satisfactory response to the needs in the AA in relation to the bank's capacity and AA opportunities. Community contacts and contextual research showed that there were limited opportunities in the AA for these types of activities.

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

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

