



# INTERMEDIATE SMALL BANK

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## PUBLIC DISCLOSURE

May 10, 2012

### COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Eaton Federal Savings Bank  
Charter Number: 704194

236 S. Cochran Avenue  
Charlotte, MI 48813-1551

Office of the Comptroller of the Currency

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

**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 Outstanding**

**The Lending Test is rated: Outstanding.**

**The Community Development Test is rated: Satisfactory.**

The major factors supporting the institution's rating.

- The loan-to-deposit ratio is more than reasonable and exceeds the standard for satisfactory performance.
- The bank made a majority of loans within its assessment area and meets the standard for satisfactory performance.
- Lending to borrowers of different incomes reflects excellent penetration and exceeds the standard for satisfactory performance.
- The geographic distribution of loans reflects excellent dispersion and exceeds the standard for satisfactory performance.
- The bank's community development (CD) activity over the evaluation period demonstrated adequate responsiveness to CD needs in the assessment area.

## **Scope of Examination**

This Public Evaluation covers the period from December 17, 2008, the date of the last public evaluation, to May 10, 2012. We evaluated Eaton Federal Savings Bank (Eaton FSB) using full-scope intermediate small savings association Community Reinvestment Act (CRA) procedures. The procedures evaluate the institution's record of meeting the credit needs of its assessment area through its lending activities.

The review period on lending performance is January 1, 2009 through September 30, 2011. Eaton FSB is subject to the reporting requirements of the Home Mortgage Disclosure Act (HMDA). Residential loans are its primary lending product. Therefore, our analysis of lending performance included all residential loans originated within the bank's assessment areas.

Performance under the Community Development (CD) Test considered CD loans, qualified investments and services from December 17, 2008 through May 10, 2012.

Eaton FSB has two assessment areas for review at this examination. The primary assessment area consists of Eaton County and portions of Clinton and Ingham Counties. These counties are within the Lansing-East Lansing, MI Metropolitan Statistical Area (MSA). This assessment will receive a full-scope review where the bank maintains a majority of its branches, deposits and loans. See **Description of Assessment Area** for additional information.

A second assessment area consists of two census tracts in adjacent Barry County and part of the Grand Rapids-Wyoming, MI MSA. A limited-scope review will be performed for this assessment area. See **Limited Scope-Barry Assessment Area** for additional information.

We utilized 2000 U.S. Census, aggregate HMDA, peer group and individual lender data as part of this evaluation. Eaton FSB is part of a national peer group of OTS-regulated institutions with total assets between \$300 million and \$1 billion. This peer group is used in assessing the adequacy of its loan-to-deposit ratio performance in relation to similarly-situated financial institutions.

## Description of Institution

Eaton FSB is a federally chartered, mutual savings bank headquartered in Charlotte, Michigan and operates five retail offices in south central Michigan. Four of Eaton's offices are located in Eaton County, in the cities of Charlotte, Eaton Rapids, Grand Ledge and Olivet. An additional office is located in Nashville (Barry County). All offices are full-service facilities with drive-up service and automated teller machines (ATMs). No offices have been opened or closed since the last public evaluation.

Table 1 shows the distribution of branch offices within the assessment area based on 2000 Census Data.

<b>Census Tract Income Category</b>	<b>Branch Distribution</b>		<b>Population Distribution</b>	
	<b>% of Branches</b>	<b>% of Deposits</b>	<b>% Branch Tracts</b>	<b>% in All Tracts</b>
Moderate	20.0%	53.3%	23.9%	5.9%
Middle	80.0%	46.7%	76.1%	81.0%
Upper	0.0%	0.0%	0.0%	13.1%
<b>Total #</b>	<b>5</b>	<b>\$252,002</b>	<b>31,460</b>	<b>127,678</b>

Eaton FSB's main office in Charlotte is located in a moderate-income census tract. The remaining offices are all located in middle-income census tracts.

Eaton FSB does not operate under a holding company structure. It has one subsidiary, Discover Financial Services Corporation, offering private mortgage reinsurance and holds partial ownership of a title insurance agency.

Eaton FSB is a traditional savings association with a loan portfolio consisting of residential mortgage loans secured by one- to four-family dwellings, nonresidential mortgages, and consumer loans. Eaton FSB funds loans primarily through deposits with supplemental funding through Federal Home Loan Bank borrowings. This reflects the bank's business strategy throughout the review period.

Table 2 shows a summary of Eaton's loan portfolio as of September 30, 2011.

<b>Loan Category</b>	<b>Amount (\$000's)</b>	<b>Percent of Total Loans</b>	<b>Percent of Total Assets</b>
Residential Mortgage	\$171,787	85.1%	53.6%
Nonresidential Mortgage	21,316	10.6%	6.7%
Commercial Nonmortgage	34	0.0%	0.0%
Consumer	8,726	4.3%	2.7%
Total	\$201,863	100.0%	63.0%

Eaton FSB offers a full range of deposit products and services including checking, savings, and certificates of deposits. Additional services include on-line banking, telephone banking, and bill pay.

Since the previous CRA evaluation, Eaton's assets have grown from \$315.5 million to \$320.5 million. The loan portfolio decreased from \$274.2 million to \$201.9 million in this same timeframe. Due to the uncertainties experienced in the financial markets, the institution received an influx of new deposits at a time when loan demand had significantly declined. Consequently, its mortgage backed securities portfolio increased from \$360 thousand to \$72.8 million while its loan portfolio numbers declined as noted above. This was part of Eaton's strategic decision to use the excess deposits by increasing the investment portfolio to offset lower loan demand.

There are no apparent factors pertaining to Eaton FSB's financial condition, size, product offerings, prior performance or legal impediments which would limit the institution's ability to meet the credit needs of its assessment areas.

The bank's previous public evaluation was dated December 17, 2008, conducted under full-scope intermediate small savings association CRA procedures, and assigned a rating of Satisfactory.

## Description of Assessment Area

Eaton FSB's primary assessment area consists of Eaton County (where four of its five offices are located) and parts of two other adjacent Michigan counties. These include two census tracts in Clinton County (adjacent to its Grand Ledge office), and one census tract in Ingham County (adjacent to its Eaton Rapids office). This assessment area will be referred to as the Eaton Assessment Area. The assessment area does not arbitrarily exclude any low- or moderate-income census tracts or any census tracts primarily populated by minority residents. No changes have occurred in the assessment area since the previous examination.

As of June 30, 2011, Eaton FSB had the highest level of FDIC-insured deposits (out of 12 institutions) in Eaton County, with 35.7 percent of the market share. Total FDIC-insured branch offices in Eaton County numbered 25. Strong competition for deposits came from five multi-billion dollar institutions and a number of regional, medium and local community banks.

Median family income for the Lansing-East Lansing, Michigan MSA was utilized to determine census tract and borrower income categories.<sup>1</sup> The HUD-estimated median family incomes for the Lansing-East Lansing MSA for the years 2009 through 2011 were as follows: \$67,000 (2009), \$65,900 (2010), and \$64,800 (2011). In 2011, the weighted average of median housing costs was \$115,454 for the assessment area.

Table 3 provides demographic information regarding the composition of the census tracts in the assessment area based on 2000 Census Data. The breakdown of census tracts and owner-occupied housing units (OOHUs) are presented below.

Type of Census Tract	Number of Census Tracts	Percentage of Census Tracts	Number of OOHUs	Percentage of OOHUs
Moderate-Income	1	4.4%	2,076	6.0%
Middle-Income	17	73.9%	26,911	78.0%
Upper-Income	5	21.7%	5,537	16.0%
<b>Total</b>	<b>23</b>	<b>100.0%</b>	<b>34,604</b>	<b>100.0%</b>

Table 4 provides information regarding the number and percentage of families by income level in the assessment area based on 2000 Census Data. Six percent of these families had income below the poverty level.

<sup>1</sup> Census tracts and borrowers are assigned to one of four categories based on income level. A low income-census tract has a median family income less than 50 percent of the median family income of the Lansing-East Lansing, MI and Grand Rapids-Wyoming, MI MSAs; a moderate- income census tract, 50 percent to less than 80 percent; a middle-income census tract, 80 percent to less than 120 percent; and an upper-income census tract, 120 percent or more. Similarly, borrowers and families are categorized by the ratio of their reported income to the median family income of the MSA.

<b>Income Level of Family</b>	<b>Number of Families</b>	<b>Percentage of Families</b>
Low-income	4,791	14.6%
Moderate-income	5,925	18.1%
Middle-income	8,515	26.0%
Upper-income	13,502	41.3%
<b>Total</b>	<b>32,733</b>	<b>100.0%</b>

Local economic conditions for the assessment area weakened during the review period due to disruptions in the financial markets resulting in an economic recession. However, signs of an economic recovery have recently started to materialize. Unemployment information from the Bureau of Labor Statistics for the Lansing-East Lansing MSA indicated a non-seasonally-adjusted unemployment rate of 7.7 percent in September 2011. This was lower than both the national average of 8.8 percent and the State of Michigan rate of 9.8 percent on that date.

We determined community credit needs by contacting representatives from affordable housing agencies and a government office, reviewing CRA public evaluations of area institutions, as well as conducting discussions with bank management. We also discussed the needs and opportunities for community development loans, qualified investments and services with these same representatives. Credit, non-credit, and community development needs of the community include:

- Financial support for the foreclosure prevention and homebuyer counseling programs.
- Financial support to provide more individual deposit account (IDA) counselors and funding for the existing program.
- Providing closing cost assistance through either a waiver or a subsidy which would augment their down payment assistance program.
- Serving on boards of affordable housing agencies and economic development corporations.
- Financial support for neighborhood stabilization and downtown revitalization programs.
- Financial support for the County Land Bank to acquire and rehabilitate foreclosed properties.

## **Conclusions with Respect to Performance Tests**

### **LENDING TEST**

The bank's overall lending performance is Outstanding. As a HMDA reporter, Eaton FSB has maintained a log of all residential loans completed each calendar year. Our

conclusions are based on all residential loans originated by the bank within its assessment area during the review period.

**Loan-to-Deposit Ratio**

Eaton FSB’s net loan-to-deposit ratio is more than reasonable and exceeds the standards for satisfactory performance given the bank’s size, financial condition, and the credit needs of the bank’s assessment areas. The bank’s average quarterly loan-to-deposit ratio over the 13 quarters ending September 30, 2011 is 97.3 percent. This was well above the 91.9 percent experienced by its national peer group of banks during the same period.

**Lending in Assessment Area**

Table 5 details Eaton FSB’s aggregate lending in its assessment area by number of loan originations and dollar volume during the review period.

Eaton’s record of lending in its assessment area meets the standards for satisfactory performance. A majority of lending activity has occurred inside the bank’s assessment area. As reflected in Table 5, approximately 73 percent of the number of loans originated during the review period were located within the bank’s assessment area.

<b>Table 5 - Concentration of Eaton FSB HMDA Loans Originated In and Outside of the Reviewed Assessment Areas</b>		
	<b>HMDA Loans</b>	
	<b>% of Loans</b>	<b>% of \$ Volume</b>
Within Reviewed Area	72.9%	69.7%
Outside Area	27.1%	30.3%
<b>Total # and \$</b>	<b>535</b>	<b>\$60,108</b>

**Lending to Borrowers of Different Incomes**

Residential lending to borrowers of different incomes reflects excellent penetration in the assessment areas.

**Eaton Assessment Area**

This analysis was based on Eaton FSB’s residential lending within the assessment area during the review period, categorized by the income level of the borrowers. For comparative purposes, we considered aggregate data and the family income

percentages shown below. Aggregate data reflects the 2010 lending distribution for FDIC-insured institutions that reported HMDA loans (aggregate), the most recent data available.

Table 6 shows Eaton FSB's distribution, based on borrower income, of the residential loans made during the review period in the assessment area.

<b>Borrower Income Category</b>	<b>% of Loans</b>	<b>% of \$ Volume</b>	<b>% Family Distribution</b>	<b>% of Aggregate (or Peers)</b>
Low	11.0%	6.6%	14.6%	11.0%
Moderate	21.5%	17.0%	18.1%	24.4%
Middle	31.0%	31.1%	26.0%	26.8%
Upper	33.1%	42.4%	41.3%	29.1%
NA	3.4%	2.9%	0.0%	8.7%
<b>Total # and \$</b>	<b>390</b>	<b>\$41,910</b>	<b>32,733</b>	<b>100%</b>

Eaton's percent of lending to low-income borrowers initially reflects reasonable penetration matching the aggregate lender percentage levels in this category and comparable to the percentage of low-income families residing in the assessment area.

In evaluating the borrower distribution of residential loans, we considered that six percent of families live below the poverty level and the barriers this may have on home ownership. It is especially difficult for this segment of the low-income population living below the poverty level to afford and maintain a home.

Consideration was also given to other factors that impact our findings. The economic recession which occurred during the review period reduced the demand for residential lending to lower levels than the previous review period. Property values in moderate-income census tracts tend to be lower resulting in a lower proportion of dollars directed to these demographic segments. Bank performance matched aggregate lender performance reflecting limited lending opportunities to this demographic during the review period.

The previous table also shows that Eaton's percentage of loans to moderate-income borrowers was comparable to the aggregate lender percentage levels in this category but exceeded the percent of moderate-income families in the assessment area. Thus we conclude Eaton FSB's lending to moderate-income borrowers reflects excellent penetration to this market segment.

## Limited Scope – Barry Assessment Area

Based on our limited-scope review, Eaton FSB's performance in the Barry assessment area is not inconsistent with the bank's excellent performance in the Eaton assessment area. Our analysis is based on nine residential loans originated by the bank within the assessment area during the evaluation period.

<b>Borrower Income Category</b>	<b>% of Loans</b>	<b>% of \$ Volume</b>	<b>% Family Distribution</b>	<b>% of Aggregate (or Peers)</b>
Low	22.2%	13.4%	21.2%	11.6%
Moderate	22.2%	21.9%	23.0%	28.8%
Middle	44.4%	46.6%	24.4%	27.2%
Upper	11.1%	18.1%	31.4%	24.5%
NA	0.0%	0.0%	0.0%	7.9%
<b>Total # and \$</b>	<b>9</b>	<b>\$1,096</b>	<b>2,621</b>	<b>100%</b>

Overall, the distribution of residential loans reflects excellent penetration among borrowers of different income levels. Although residential loans made to both low-income and moderate-income borrowers is comparable to the number of low- and moderate-income families in the assessment area, the bank significantly outperformed its peer aggregate in the low-income borrower category.

## Geographic Distribution of Loans

The geographic distribution of residential loans reflects excellent dispersion in the assessment area.

## Eaton Assessment Area

This analysis was based on Eaton FSB's residential lending within the assessment area during the review period, categorized by location of the properties secured by Eaton's loans. For comparative purposes, we considered aggregate data and the owner-occupied housing unit percentages as noted below. Aggregate data reflects the 2010 lending distribution for FDIC-insured institutions that reported HMDA loans (aggregate), the most recent data available.

Table 8 shows Eaton FSB's overall geographic distribution of residential loans in the assessment area during the review period. As previously noted, there are no low-

income census tracts in the assessment area. The analysis reflects lending in all but one upper-income census tract.

<b>Table 8- Distribution of Eaton FSB HMDA Loans By Census Tract Income Level in the Eaton AA</b>				
<b>Census Tract Income Category</b>	<b>% of Loans</b>	<b>% of \$ Volume</b>	<b>% Owner Occupied</b>	<b>% of Aggregate (or Peers)</b>
Moderate	11.3%	9.0%	6.0%	4.6%
Middle	73.5%	71.9%	78.0%	73.4%
Upper	15.2%	19.1%	16.0%	22.0%
<b>Total # and \$</b>	<b>390</b>	<b>\$41,910</b>	<b>34,604</b>	<b>100%</b>

Eaton’s percent of lending in the moderate-income census tracts reflects excellent dispersion exceeding the percentage levels of both owner-occupied housing units and aggregate lender performance.

**Barry Assessment Area**

An evaluation of the geographic distribution of loans is not meaningful in the Barry assessment area as there are no low- or moderate-income census tracts in this assessment area as previously noted.

**Responses to Complaints**

During the review period, Eaton FSB received no known written complaints pertaining to its performance in helping meet the credit needs within its assessment area.

**COMMUNITY DEVELOPMENT TEST**

Eaton FSB’s community development performance, shown through its record of retail services, community development loans, qualified investments, and community development services, demonstrates adequate responsiveness to community development needs in its assessment areas and rated Satisfactory.

**Number and Amount of Community Development Loans**

**Eaton Assessment Area**

Eaton FSB originated two community development loans during the review period totaling \$423 thousand. One loan was made to finance improvements in a Housing and Urban Development (HUD) senior housing project. A second loan was made for small business retention providing a working capital line of credit to a local transportation authority which provides free transportation to low- and moderate-income and

handicapped individuals throughout Eaton County.

Eaton FSB also offers two home loan programs for borrowers who do not qualify for credit under traditional loan programs. The Neighborhood Improvement and Home Ownership Programs are sponsored through the Federal Home Loan Bank. These programs address the needs of low- and moderate-income borrowers, individuals located in underserved areas, and first-time home buyers. Borrowers in each program must meet income eligibility requirements. Features include low down payment amounts, down payment or closing cost assistance, and flexible credit terms. As of May 1, 2012, the bank made five loans through these programs totaling \$49 thousand. Performance in this assessment area reflects adequate responsiveness to community development credit needs.

### **Barry Assessment Area**

Eaton FSB did not make any qualified community development loans in the Barry assessment area during the review period. This had a neutral impact on the institution's lending performance in the Barry assessment area due to the bank's limited presence within this assessment area.

### **Number and Amount of Qualified Investments**

#### **Eaton Assessment Area**

During the review period, Eaton FSB's qualified investments included a \$1.5 million investment in the Great Lakes Capital Fund. The Great Lakes Capital Fund invests in residential real estate housing projects throughout the state of Michigan earmarked for either low- and moderate-income households or census tracts. In addition, the institution made 40 qualified donations to 17 organizations totaling \$33 thousand. All funds are specifically targeted to benefit low- and moderate-income persons, low- and moderate-income census tracts within the assessment area, or support organizations whose main purpose is providing economic development, revitalization of central business districts, and offering assistance to attract, expand and retain small business entities, payrolls, and job levels throughout the assessment area.

Analysis of the \$500 thousand committed for investments in the fund during the review period indicate it had no significant impact on the assessment area. The remaining \$1 million represents an unfunded commitment to the fund for future projects. Performance in this assessment area reflects adequate responsiveness to community development investment needs.

## **Barry Assessment Area**

During the review period, the institution made six qualified donations to five organizations totaling \$4 thousand. All funds are specifically targeted to benefit low- and moderate-income persons, low- and moderate-income census tracts within the assessment area, or support organizations whose main purpose is providing economic development, revitalization of central business districts, and offering assistance to attract, expand and retain small business entities, payrolls, and job levels throughout the assessment area. This had a neutral impact on the institution's lending performance in the Barry assessment area due to the bank's limited presence within this assessment area.

## **Extent to Which the Bank Provides Community Development Services**

### **Eaton Assessment Area**

Eaton FSB has five branches and five ATMs in its assessment area. The main office is located in a moderate-income census tract with the remaining offices located in middle-income census tracts

In addition to its full-service branches and ATM locations, which offer a full range of residential and consumer banking products and services, Eaton offers on-line banking services (providing customer access to accounts and an automated bill payment system) as well as a telephone bill payment system (allowing customers to make payments directly from their deposit accounts). Two free checking account products are available to all customers. Since there is no data to reflect how this has impacted low- and moderate-income segments of the community, we cannot place any weight on this for CRA purposes.

Eaton FSB participates in the following financial education programs in the assessment area. Incorporating the American Bankers Association (ABA) Savers Program, Eaton provides financial education to elementary schools on the importance of saving money. Students are enrolled in the Penny Savers Kids Club which awards prizes throughout the year whenever deposits are made during special promotions. The program culminates in Teach A Child to Save Day with a visit by the bank's mascot Miss Penny to reinforce the benefits of saving. As these programs benefit all segments of the population including low- and moderate-income students, our consideration of these activities for CRA purposes is limited.

Through its employees, Eaton FSB is involved in a variety of community development services. Many of the bank's employees and officers, using their financial expertise, are

involved in non-profit organizations providing services for low- and moderate-income individuals or economic development for small businesses. Eaton participates in 12 of the major groups active in meeting housing, service, or economic needs of low- to moderate income households and census tracts. Senior management is actively involved in several organizations which meet small business needs by providing funding for the rehabilitation and re-stabilization of central business districts. Performance in this assessment area reflects adequate responsiveness to community development service needs.

### **Barry Assessment Area**

Eaton FSB provides community development services to the Barry assessment area through various organizations which service the Nashville area. Employees participate in the ABA savers program, Teach A Child to Save Day, and the Penny Savers Kids Club as previously described. Employees also conduct an annual financial education program with high school students on managing their money through the use of checking accounts. In addition, Eaton operates a full-service branch with an ATM in Nashville. This had a neutral impact on the institution's lending performance in the Barry assessment area despite the bank's limited presence within the assessment area.

### **Responsiveness to Community Development Needs**

Eaton FSB demonstrates adequate responsiveness through its community development loans, qualified investments, and services to the community development lending, qualified investment, and service needs in its assessment areas.

### **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.