



## **PUBLIC DISCLOSURE**

May 12, 2014

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

Edgewater Bank  
Charter Number 704476

321 Main Street  
St Joseph, Michigan 49085

Office of the Comptroller of the Currency

2001 Butterfield Road  
Suite 400  
Downers Grove, IL 60515

**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 institution's lending in its assessment area is reasonable and meets the standard for satisfactory performance. A majority of the number and dollar amount of home purchase loans were originated within the institution's assessment area.
- The borrower distribution of home mortgage loans reflects reasonable penetration among all borrowers in the assessment area.
- The geographic distribution of loans reflects reasonable distribution throughout the assessment area, including low- and moderate-income geographies, given the institution's product offerings and local economic conditions.
- The quarterly average loan-to-deposit ratio is reasonable at 91 percent over the evaluation period.

**SCOPE OF EVALUATION**

This purpose of this evaluation was to assess Edgewater Bank's (Edgewater) ability to help meet the credit needs of its community. Edgewater is evaluated under the Small Bank examination procedures, which consist of a lending test that evaluates the institution's record of helping to meet the credit needs of its assessment area (AA) through lending activities. The evaluation period for this examination is from January 1, 2012 through December 31, 2013.

The lending test is based on Edgewater's primary loan product, which is residential real estate. This lending category represents 60 percent of the number and 79 percent of the dollar amount of loan originations during the evaluation period. It also represents 68 percent of gross loans as of December 31, 2013. Edgewater reports data under the requirements of the Home Mortgage Disclosure Act (HMDA). The data collected in 2012 and 2013 was tested and found to be reliable; therefore, it was used in our lending analysis.

**DESCRIPTION OF INSTITUTION**

Edgewater is a \$122 million intrastate financial institution with offices serving portions of Southwestern Michigan in the counties of Berrien, Van Buren, and Cass, Michigan. Edgewater Bank has two AAs encompassing 51 geographies, located in the Niles-Benton Harbor, Michigan Metropolitan Statistical Area (MSA), Kalamazoo-Portage MSA, and the South Bend-Mishawaka, Indiana-Michigan MSA. In a strategic move, the bank closed their loan production office (LPO) in South Bend, Indiana in 2009, eliminating their presence in that market. The vast majority of the bank's lending and deposit activity is conducted in the Benton Harbor, Michigan MSA, therefore this MSA

will receive a full scope review. Activity in the Kalamazoo-Portage, Michigan MSA received a limited scope review. Since the closing of the LPO, there has been no new activity originated or purchased during this evaluation period, therefore analysis would not be meaningful. For the period of this evaluation, the bank operated six full service locations, each equipped with an automated teller machine (ATM): the main office located in St. Joseph, and four branches, located in St. Joseph, Bridgman, Buchanan, and Coloma. The Decatur, Michigan branch was subsequently sold in January 2014, outside of this CRA evaluation period; therefore, activity from this branch will be considered in this analysis.

Edgewater's primary business is to provide household banking services in the form of residential real estate lending and deposit related banking services to its customers, and to a lesser extent, commercial loan products. The bank's business strategy is to provide its customers with a full range of products and services consistent with the community needs.

There are no legal impediments to Edgewater's ability to help meet the credit and service needs of its assessment area; however, the institution's ability to lend during this evaluation period has been impacted by weakened earnings and strong competition.

We conducted one community contact interview with a local government official in the area during this evaluation. Our contact stated the economic conditions in the area are stabilizing, but are slow to improve. Credit needs in the community are still focused on residential real estate, consumer, and small business.

Recent job growth remains negative. Home values are also stabilizing, but the area has the 2<sup>nd</sup> highest tax rate in the state, with surrounding towns seeing up to a 12 percent increase. Since the downturn in the economy, many of the homes in the area were foreclosed and/or abandoned, close to 90 percent of these were rental units. Edgewater led a proposal to have the town hold property auctions, with the restriction that the unit must be converted to homestead from rental, in an effort to further stabilize the area.

The majority of the banks in St Joseph, and surrounding areas are all active in the community, and involved with the community, business owners, and service groups in the area.

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

Edgewater Bank has two AA encompassing 51 geographies, located in the Niles-Benton Harbor, Kalamazoo-Portage, Michigan Metropolitan Statistical Area's (MSA's). Edgewater Bank is an intrastate financial institution with offices serving portions of Southwestern Michigan in the counties of Berrien, Van Buren, and Cass, Michigan. The bank has six locations located in St. Joseph, Bridgman, Buchanan, and Coloma, Michigan. The geographies are designated low-, moderate-, middle-, and upper-

income. There are six low- and six moderate-income geographies in the AAs. The bank's AAs have not changed from the prior evaluation.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

### Loan-to-Deposit Ratio

Edgewater's net average loan-to-deposit ratio is more than reasonable given the institution's size, financial condition, and AA credit needs. As of December 31, 2013, Edgewater had total assets of \$121 million, total loans of \$87 million, and total deposits of \$109 million. Their average quarterly loan-to-deposit ratio was 91 percent for the period ranging from January 1, 2010 to December 31, 2013, and ranks in the upper-range of other similarly situated institutions. The similarly situated institutions utilized for comparison purposes range in asset size from \$12 million to \$473 million and are located in the AA. Their average quarterly loan-to-deposit ratio was 79 percent, and ranged from 68 percent to 86 percent during the evaluation period.

### Lending in Assessment Areas

Edgewater's lending in its AAs is reasonable and meets the standard for satisfactory performance. A majority of the number and dollar amount of home purchase loans were originated within the institution's AAs. Lending inside the AAs is 90 percent by number and 84 percent by dollar amount.

2012 - 2013 Loans Originated within the Assessment Areas										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total \$(000)
	#	%	#	%		\$0	%	\$0	%	
Residential RE	546	53%	76	7%	622	81,233	68%	12,755	11%	93,988
Commercial	121	12%	18	2%	139	13,905	12%	6,119	5%	20,024
Consumer	262	25%	10	1%	272	5,070	4%	159	0%	5,229
Totals	929	90%	104	10%	1033	100,208	84%	19,033	16%	119,241

Source: Bank loan origination records from January 1, 2012 through December 31, 2013

### Lending to Borrowers of Different Incomes

Home mortgage lending performance to low- and moderate-income borrowers in 2012 and 2013 meets the standard for satisfactory performance. Performance deteriorated in these years due to higher median housing values, continued income constraints, and increased competition.

Our evaluation focused on the institution’s lending performance to low- and moderate-income borrowers in the AA compared to the aggregate industry lending percentage distribution. We also compared Edgewater’s performance to the level of low- and moderate-income families within the AA.

There are limited opportunities to make loans in the AA considering the median housing value, a high unemployment rate, and a moderate level of households that are below the poverty level. In addition, competition in the institution’s AA is strong. Per the 2012 Peer Data Loan Market Share report, the bank has 2.31 percent market share of 291 financial institutions in the AA originating home mortgage loans during the evaluation period. The majority of these are large regional institutions. Despite the limited opportunities in the AA, the bank was able to identify and provide home purchase and refinance lending to low- and moderate-income individuals. In addition, the bank was a leader in the community effort to assist home owners through foreclosure prevention programs.

**Borrower Distribution Residential RE Loans 2012 – 2013 Niles Benton Harbor MSA**

Mortgage Loan Types	Total Loans		Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers	
	#	% of Total	% Families	% Bank Loans	% Families	% Bank Loans	% Families	% Bank Loans	% Families	% Bank Loans
Home Purchase	49	100	21.66	6.12	18.24	8.16	19.92	18.37	40.18	67.35
Home Improvement	0	0	21.66	0	18.24	0	19.92	0	40.18	0
Home Refinance	246	100	21.66	5.42	18.24	13.75	19.92	22.50	40.18	58.33

*Source: All HMDA loans originated from January 1, 2012 through October 31, 2013. Percentage of families is based on 2010 Census Data. Aggregate industry lending percentage is based on 2012 Peer Mortgage Data.*

The borrower distribution of home purchase loans is reasonable. Within the institution’s AA, opportunities to make home purchase loans to low-income borrowers is limited due to the median housing value of \$146 thousand, a median family income of \$54 thousand, a high poverty level of 15 percent, and the high unemployment rate of 10 percent. Local economic conditions continued to hamper the bank’s home mortgage lending performance in 2012 and 2013. It is often difficult for low-income individuals to qualify for mortgage loans at median housing values due to insufficient income levels and/or down payments. Despite this, approximately seven percent of the bank’s lending during the evaluation period are to low- and moderate- income individuals.

Home purchase loans made to low-income borrowers is below the percentage of low-income families and the aggregate industry lending percentage of 12 percent. Home purchase loans made to moderate-income borrowers is below the percentage of moderate-income families and the aggregate industry lending percentage of 21 percent.

The borrower distribution of home refinance loans is reasonable. Home refinance loans made to low-income borrowers is below the percentage of low-income families but is

commensurate with the aggregate industry lending percentage of six percent. Home refinance loans made to moderate-income borrowers is below the percentage of moderate-income families and exceeds the aggregate industry lending percentage of 13 percent.

We did not rely on Edgewater’s home improvement lending performance in 2012 and 2013 to assess borrower distribution. In a strategic decision, Edgewater discontinued the home improvement loan product in 2011. Therefore, analysis of this product would not be meaningful.

Borrower Distribution Residential RE Loans 2012 – 2013 South Bend - Mishawaka MSA

Activity in the Kalamazoo-Portage, Michigan MSA received a limited scope review. Since the closing of the LPO, there has been no new activity originated or purchased during this evaluation period, therefore analysis would not be meaningful. Competition is strong in this MSA with over 250 financial institutions originating or purchasing home mortgage loans, the majority of which are large regional institutions. The banks presence is limited to two geographies. The bank’s efforts during this evaluation period centered on their established market in the Niles-Benton Harbor Michigan MSA.

**Geographic Distribution of Loans**

The geographic distribution of loans reflects reasonable distribution throughout the AA, including low- and moderate-income geographies, given the institution’s product offerings and local economic conditions.

Geographic Distribution Residential RE Loans 2012 – 2013 Niles Benton Harbor MSA

Mortgage Loans	Total Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies	
	#	% of Total	% OO Units*	% Bank Loans	% OO Units*	% Bank Loans	% OO Units*	% Bank Loans	% OO Units*	% Bank Loans
Home Purchase	49	100	4.11	4.08	11.74	4.08	47.96	36.73	36.19	55.10
Home Improvement	0	0	4.11		11.74					
Home Refinance	246	100	4.11	0.81	11.74	5.28	47.96	34.15	36.19	59.76

*Source: All HMDA loans originated from January 1, 2012 through October 31, 2013. Percentage of owner-occupied (OO) units is based on the 2010 Census Data. Aggregate industry lending percentage is based on 2012 Peer Mortgage Data.*

The geographic distribution of home purchase loans is reasonable. The distribution of home purchase loans in low-income geographies is near the percentage of owner-occupied units, and well exceeds the aggregate industry lending percentage of 1.84 percent in those geographies. The distribution of home purchase loans made in moderate-income geographies is below the percentage of owner-occupied units, and the aggregate industry lending percentage of nine percent. Opportunities to make home purchase loans in low- and moderate-income geographies are limited as only four

percent, and 12 percent of units are owner occupied and competition is high from larger regional institutions, respectively.

The geographic distribution of home refinance loans is reasonable. Distribution of home refinance loans in the low-income geographies is well below the percentage of owner-occupied units in those geographies but exceeds the aggregate industry lending percentage of 0.68 percent. Distribution of home refinance loans made in the moderate-income geographies is below the percentage of owner occupied units in those geographies and is commensurate with the aggregate industry lending percentage of six percent. This performance is reasonable given the low aggregate HMDA lending percentage in low- and moderate-income geographies.

We did not rely on home improvement lending performance in 2012 and 2013 for the analysis of geographic distribution. In a strategic decision, the bank discontinued the home improvement loan product in 2011. Therefore, analysis would not be meaningful.

#### Geographic Distribution Residential RE Loans 2012 – 2013 Kalamazoo-Portage MSA

There are no low- or moderate- income geographies in the AA, therefore geographic distribution analysis would not be meaningful.

#### **Responses to Complaints**

Edgewater has not received any complaints about its performance in meeting the credit needs of the community during this evaluation period.

#### **FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW**

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

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