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Comptroller of the Currency  
Administrator of National Banks

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## **PUBLIC DISCLOSURE**

February 28, 1997

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

**First National Bank of Warsaw  
Charter #14382  
102 South Buffalo Street  
Warsaw, Indiana**

**Office of the Comptroller of the Currency  
Kalamazoo Duty Station  
4341 South Westnedge, Suite 2108  
Kalamazoo, Michigan 49008**

**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.**

## GENERAL INFORMATION

This document is an evaluation of the Community Reinvestment Act (CRA) performance of **First National Bank of Warsaw** 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 institutions' CRA performance based on an examination conducted as of **February 28, 1997**. 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 USC 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 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 five 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 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:

### **OUTSTANDING RECORD OF MEETING COMMUNITY CREDIT NEEDS.**

The purpose of CRA is to ensure that financial institutions help meet the credit needs of their local communities. We rated this institution's CRA record as Outstanding because:

- The bank is a leader in ascertaining and helping meet community credit needs through traditional and innovative products;
- The bank's volume of residential mortgage loans is outstanding and represents a significant portion of the mortgages originated within Kosciusko County; and
- The bank is a leader in community development programs.

### **Bank Profile**

First National Bank of Warsaw (FNBW) is a \$326 million full-service bank located in Warsaw, Indiana. As of December 31, 1996, the bank has total loans of \$184 million and deposits of \$263 million. FNBW's loan portfolio is composed of real estate loans totaling \$101 million, \$37 million in loans to individuals, commercial loans totaling \$30 million and \$15 million in agricultural loans. The bank has seven full-service banking offices, a drive-up bank and an office providing deposit services in a retirement community. It also offers trust services, mutual fund sales and discount brokerage activities. FNBW is a wholly-owned subsidiary of Fort Wayne National Corporation (FWNC), a \$3.2 billion seven-bank holding company headquartered in Fort Wayne, Indiana.

### **Community Profile**

FNBW's delineated community is Kosciusko County. It is located in north central Indiana, approximately 40 miles northwest of Fort Wayne. Warsaw is the county seat and largest city in Kosciusko County. The county is not located in a Metropolitan Statistical Area (MSA).

Kosciusko County, according to 1990 Census data obtained from CRA Wiz, consists of 19 block numbering areas, 15 middle-income areas and four upper-income areas. Its population is 65,294 and the county has 23,429 households and 17,997 families. According to the 1990 Census data, median family income for the county is \$35,548 compared to the median family income for all non-Metropolitan Statistical Areas (MSA) of \$30,800. There are 3,468 low-income households and 3,179 moderate-income households in Kosciusko County. Additionally, there are 1,992 low-income families and 2,813 moderate-income families in the county, according to the same data.

The local economy is strong. Kosciusko County has experienced continual growth in employment and income during the past few years. Its unemployment rate is low and reflects the robust economic conditions. The unemployment rate for Kosciusko County was 3.3% in November 1996. The housing market reflects the strong economic conditions in the community. The average price of a new home is \$125,000 and the average price of an existing home is \$92,000.

The local economy's strength is derived from agriculture and manufacturing. Total agricultural income is higher in Kosciusko County than in any other county in Indiana. Agricultural production is concentrated in cash crops and specialized poultry production. Manufacturing income in Kosciusko County is also very high compared to other counties in Indiana. Large manufacturers in the county include R.R. Donnelley & Sons, Zimmer, Biomet, DePuy, Dalton Foundries and the Kimble Products Division of Owens Illinois.

### **Reasonableness of Delineated Community**

FNBW's delineated community is reasonable. It is based upon the bank's effective service area. Management determines the effective service area by analyzing the geographic distribution of the bank's loans and deposits. The analysis shows that 82% of its loans and 89% of its deposits originated within Kosciusko County. The Board reviews and approves the delineated community on an annual basis. There have not been any changes in the delineated community since our last assessment of the bank's CRA performance in 1995.

As noted in the community profile, Kosciusko County does not have any designated low-or moderate-income block numbering areas. However, it has pockets of low- and moderate-income families. A review of the delineated community reveals it does not arbitrarily exclude any of those areas.

## **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.

- **FNBW is very effective in ascertaining community credit needs.**

FNBW's Board and management are actively involved in community activities. They ascertain community banking and credit needs through their direct contact with members of the community. Primary means of community involvement include:

- \* An ongoing officer call program. During 1995 and 1996, bank officers made over 2,800 business development and personal banking calls to ascertain credit needs and promote the bank's ability to meet those needs.
- \* Bank participation in local, private and governmental organizations. Some of these organizations include the Warsaw Housing Authority, the Home Builders

Association of Kosciusko County, the Warsaw/Kosciusko County Chamber of Commerce, the Warsaw Community Development Corporation and the Consumer Credit Counseling Board.

- \* Ongoing contact with local realtors, developers and government agencies. Bank officers participate on the Board of Realtors. The bank also has a mortgage originator to promote bank products and ascertain community housing credit needs through weekly calls on realtors.
- \* Sponsoring and participating in credit-related seminars. The bank sponsored two seminars in 1995 and four in 1996.

The bank has identified several community needs through these efforts. Credit needs that have been identified include home and business rehabilitation loans; residential mortgages, including programs for helping first time home buyers; loans for small business; and agricultural loans. The bank also determined that educational programs were needed in the community because many people were uninformed about bank services and loan and deposit programs.

In response to those needs, the Board and management have expanded the bank's lending programs, assumed leadership positions in several community development organizations and sponsored educational efforts. Products implemented by the bank include loans guaranteed by the Farmers Home Administration (FmHA), the Federal Housing Administration (FHA) and the Small Business Administration (SBA). FNBW developed a loan program in conjunction with the Warsaw Housing Authority and offers loans through that program and a program sponsored by the Warsaw City Planning Commission. The bank also offers Affordable Gold Housing loans and mortgage assistance through the Mortgage Guarantee Insurance Corporation (MGIC). Since the CRA examination in 1995, the bank began offering the FmHA-guaranteed and Affordable Gold Housing loans and loans through the program developed by the Warsaw City Planning Commission.

**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 purposes of the Community Reinvestment Act.

- **The Board of Directors and management are actively involved in the bank's CRA activities.**

FNBW's CRA activities are supervised by the Board. Management reviews and analyzes the bank's CRA performance in an annual self-assessment. The Board annually reviews and approves the self-assessment, the bank's extended CRA Statement and its delineated community. The Board also periodically reviews information about community credit needs and the bank's marketing program. Additionally, Board members are actively involved in many of the activities used to ascertain community credit needs and promote bank products and services.

Management has established a CRA Committee. The committee meets regularly to discuss and evaluate the bank's CRA program, including community credit needs and efforts to meet those needs.

## **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.

- **FNBW effectively informs the entire community of bank products and services.**

The bank informs the community of its products and services through advertising and the community involvement of its Board, management and employees. Bank products and services are advertised in the local newspaper and on radio, television and billboards. The bank also uses circulars, point of sale advertising and employee promotions, such as buttons, posters and flyers to promote products and services. Advertisements promote residential mortgage loans, deposit products, discount brokerage services and trust services. A marketing committee comprised of management and department heads develops the marketing plan and schedule. The committee reports to the Board of Directors.

FNBW's loan officers directly market mortgage loan programs to realtors. The bank uses direct realtor contact to market all of its mortgage products, including the First Time Home Buyers program and loans guaranteed/insured by the Mortgage Guarantee Insurance Corporation (MGIC), the Federal Housing Authority (FHA) and the Farmers Home Administration (FmHA). To improve its mortgage lending effort, the bank hired a full-time mortgage originator in 1995. Management directed her to concentrate her efforts on increasing the volume of MGIC, FmHA and First Time Home Buyer loans. The mortgage originator also provides applicant housing educational services. Officers inform businesses that the bank makes loans guaranteed by the Small Business Administration (SBA).

The bank sponsors and participates in agricultural, business and retail credit-related seminars. In 1995 and 1996, FNBW sponsored several seminars concerning financial management of small businesses and farms. One purpose of the seminars was to inform participants of loan programs available to meet their needs.

In 1996, Fort Wayne National Corporation conducted a market research study to assess the community's perception of FNBW in the specific areas of business banking and trust services. The Board reviewed the results and recommendations from the study and they have been incorporated into the bank's marketing plan.

**Assessment Factor I** - The institution's origination of residential mortgage loans, housing rehabilitation loans, home improvement loans and small business loans.

- **FNBW's lending reflects an outstanding response to community credit needs.**

The bank's loan programs and portfolio are reflective of its efforts to meet identified community credit needs. As of December 31, 1996, its loan to deposit ratio of 69.9% was comparable to similarly-sized banks in Indiana. Through community involvement and contacts, FNBW has identified the needs presented under Assessment Factor A. As discussed below, FNBW helps meet these needs by developing and offering a variety of programs and products and by assuming leadership positions in many community organizations.

### **Residential Real Estate Lending**

The following table summarizes the volume of FNBW's residential real estate lending during 1995 and 1996:

Loan Products	1995 Volume (#s)	1995 Volume (\$ in 000s)	1996 Volume (#s)	1996 Volume (\$ in 000s)
1-4 Family Mortgages: Purchase, Refinance, Home Improvements	335	\$17,863	333	\$23,071
Home Improvement Loans - Consumer Loan Department	179	\$5,861	256	\$3,553
Total	514	\$23,724	589	\$26,624

FNBW is a leader in residential real estate lending within its community. During the past two years, FNBW has originated the second highest volume of residential real estate loans of all banks in Kosciusko County, including affiliates of regional banks and local financial institutions. Two of the institutions are larger than FNBW as measured in total assets. During 1995 and 1996, the bank originated 11.26% and 10.08% of the residential real estate loans originated in the county, respectively.

To achieve the high volume of residential real estate lending, FNBW offers conventional and non-conventional loan products and assumes leadership roles in community organizations. Some examples of these efforts include:



- \* FNBW offers loans guaranteed by the Farmer's Home Administration (FmHA). Borrowers can obtain 100% financing for home purchases through these loans. The bank also offers long-term fixed-rate residential mortgage loans through the Federal Housing Administration (FHA). The bank began offering FmHA residential mortgage loans in 1995, when it made one loan in 1995 for \$56,000. Volume expanded in 1996 to 14 FmHA loans totaling \$808,697. In the past two years, the bank has made two FHA loans totaling \$116,150
- \* The bank offers residential mortgage assistance through the Mortgage Guarantee Insurance Corporation (MGIC). Through this program, applicants can receive up to 95% financing of the value of their house. The bank made 12 MGIC-backed loans totaling \$809,670 in 1995 and 16 loans totaling \$1,135,453 in 1996.
- \* FNBW offers Affordable Gold Housing loans through an affiliate bank. This program provides 95% home purchase financing. The applicant is allowed to receive 3% of the purchase price as a gift to apply towards down payment. FNBW funded two Affordable Gold Housing loans in 1996 totaling \$82,550.
- \* The bank was a leader in developing the First Time Home Buyers program for Kosciusko County in conjunction with the Warsaw Housing Authority. It provides for \$1.4 million in housing-related funding. This program provides 95% financing for applicants who have an annual income of less than \$25,000. To date, the bank has made two loans totaling \$46,000 through this program.
- \* The bank is an active participant in the Home Rehabilitation program developed by the Warsaw City Planning Commission. The purpose of this program is to fund home improvement loans for area low- and moderate-income borrowers. FNBW has funded the first loan through this program totaling \$33,200.

**Commercial and Agricultural Lending:**

The following table outlines the dollar amount and number of commercial and agricultural loans made within the past two years:

Loan Type	1995 Volume (#s)	1995 Volume (\$ in 000s)	1996 Volume (#s)	1996 Volume (\$ in 000s)
Commercial	412	\$39,974	316	\$37,696
Agricultural	164	\$12,451	162	\$15,057
Total	576	\$52,425	478	\$52,753

FNBW offers conventional and non-conventional loan products and assumes leadership roles in community organizations to help meet business and agricultural credit needs in Kosciusko County. Some examples of the bank's efforts include:

- \* FNBW is listed as one of the top small business lenders in the country, as reported in the April 1995 and 1996 issues of Entrepreneur magazine. Institutions were ranked on five criteria and given an overall evaluation in a study performed by the Office of Advocacy in the Small Business Administration. The five criteria include the number of loans for less than \$250,000, percentage of bank loans represented by small business loans, the total dollar value of small business loans and the percentage of total assets represented by loans. Almost all of FNBW's commercial loans are to small businesses with fewer than 100 employees and/or less than \$1 million in annual sales. According to the bank's analysis, the average commercial loan originated in 1996 was \$119,289.
- \* In addition to its own products, FNBW offers loans guaranteed by the Small Business Administration (SBA). The bank has made a limited number of SBA-guaranteed loans because it can generally meet commercial credit needs through its own products. The bank has two loan officers with the technical expertise to provide SBA financing.
- \* The bank is a charter member of the Warsaw Community Development Corporation (WCDC). This organization helps meet business needs by providing low-cost financing for store front and second floor apartment building rehabilitation in the downtown business district of Warsaw.
- \* The bank is a leader in agricultural lending. In a comparison of agricultural lending between similarly-sized banks, FNBW is in the 90th percentile of banks, based upon its volume of agricultural loans as a percentage of total assets. The nature of its lending is reflective of its community: primarily loans to small farms operated by individuals. According to the bank's analysis, the majority of its agricultural loans are to individual farmers. The average-sized agricultural loan originated in 1996 was \$15,000. One of FNBW's loan officers was recognized for his leadership in agricultural lending in 1995 by the Indiana Bankers Association.

### **Educational Programs:**

As discussed under Assessment Factor B, FNBW sponsors educational seminars to help ascertain community needs and to inform the community of bank products and services. During the past two years, the bank has sponsored seminars addressing small business and farm management. It has also sponsored seminars addressing the outlook for small businesses and farms in the future and how to address future challenges. Additionally, the mortgage loan originator provides housing educational services to applicants and prospective applicants and loan officers provide home ownership and credit counseling.

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

- **FNBW offers several government loan programs to help meet community credit needs.**

FNBW offers the following government-sponsored loan programs to help meet community real estate credit needs: FmHA, FHA, the Home Rehabilitation program developed by the Warsaw City Planning Commission and the First Time Home Buyers program for Kosciusko County sponsored by the Warsaw Housing Authority. The bank has made loans under each of these programs (see Assessment Factor I) and is a leader in the local governmental programs. The bank offers different SBA guaranteed loan programs, including the low documentation loan, to help meet community business credit needs.

Although the bank offers a variety of government-sponsored loan programs, its volume of lending under these programs is limited. Based upon management’s analysis of its government-sponsored lending, this is because the bank is able to accommodate the majority of its applicants through its own loan programs.

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

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

- **FNBW effectively extends credit to all areas of its delineated community.**

Analysis of the distribution of the bank’s loan portfolio indicates a excellent penetration of lending within all areas of Kosciusko County. The loan distribution is consistent with the distribution of the bank’s deposits. The Board and management review the location of the bank’s loans on maps and the breakdown of loans and deposits by zip code to assess the geographic distribution of FNBW’s loans and deposits annually. Both methods of analysis reflect dispersion of loans in all areas within the delineated community.

The following table summarizes the distribution of the bank’s loan portfolio, by number of loans and dollar amount, within and outside its delineated community.

	1996	
	# of Loans	\$ of Loans
Loans within Delineated Community	83.41%	81.81%
Loans outside Delineated Community	16.59%	18.19%

The bank’s effectiveness in lending throughout its community is reflected in its share of the residential real estate lending market within Kosciusko County. As previously discussed, FNBW had the second-highest volume of residential real estate loans in the county during the past two years, representing over 10% of the market.

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

- **FNBW's banking offices are readily accessible to all segments of the community. The bank's record of opening and closing offices is reasonable.**

FNBW operates nine offices and five Automated Teller Machines (ATMs) throughout Kosciusko County. This broad coverage of the county makes the bank readily accessible to the entire community. Branch hours and services are tailored to meet the needs of local customers. The bank has seven full service branches offering a full array of lending and deposit services. Trust services, mutual fund sales and discount brokerage activities are available at FNBW's main office. The bank has one drive-through branch in Warsaw and a branch serving the Grace Village Retirement Center allowing residents to conduct depository transactions, pay utility bills and maintain lock boxes. FNBW offers expanded hours of operation to meet customer needs. Most branches have Saturday hours, one branch has early morning hours to meet the needs of its farming customers and a branch has late evening and all-day Saturday hours.

FNBW did not close any offices during 1995 and 1996.

#### **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).

- **FNBW does not have any practices that would tend to discourage credit applications.**

The bank affirmatively solicits applications from its entire community. It has established practices and policies to ensure compliance with antidiscrimination and fair lending regulations. The lending staff has received fair lending training. Management annually reviews all denied minority loan applications to ensure all applicants receive equal treatment. The audit department also conducts a fair lending compliance audit each year.

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

- **FNBW is in compliance with the substantive provisions of antidiscrimination laws and regulations. We did not note any evidence of discrimination or disparate treatment on a prohibited basis.**

During our examination, we compared approved and denied indirect auto loan applications to see if all applicants have an equal opportunity to obtain credit. Denied female applicants were compared to approved male applicants to determine the treatment received by both genders. We found that both groups were treated similarly.

## **V. COMMUNITY DEVELOPMENT**

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

- **FNBW is a leader in community development efforts in Warsaw and Kosciusko County.**

In meetings with two community representatives, FNBW was described as being a leader in community development efforts and both representatives said the nature of the bank's involvement is proactive. Examples of its leadership in community development efforts include:

- \* As discussed under Assessment Factor I, the bank was a leader in the creation of the Warsaw Community Development Corporation (WCDC). This program's community development efforts are concentrated in maintaining an economically-viable business district in downtown Warsaw. The bank has invested \$50,000 in the WCDC and bank officers have served in leadership positions in it.
- \* The bank is a leader in Kosciusko Development, Inc. ( KDI). This is an organization affiliated with the Chamber of Commerce. KDI concentrates on business development and retention in the county. One project undertaken by KDI was obtaining tax increment financing for the expansion of a manufacturing firm. Two bank officers serve on the KDI board.
- \* FNBW provided \$800,000 to construct the City County Athletic Complex in Warsaw.
- \* The bank offers low-cost mortgage loans to churches and non-profit agencies. As of December 31, 1996, the bank had \$1,727,996 in mortgage loans outstanding to churches and non-profit agencies.
- \* The bank has made loans to a handicap independence job training and housing project and the local YMCA.

**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.

- **FNBW's efforts to meet community credit needs are consistent with its size and resources.**

The bank has sufficient resources to meet the credit needs of Warsaw and Kosciusko County. FNBW has demonstrated its willingness to support the development and implementation of programs and products to meet community credit and development needs. There are no legal impediments or other factors limiting the bank's efforts.

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

- **The bank demonstrates its commitment to help meet community credit needs and encourage community development through its involvement in unique activities and programs.**

- \* FNBW is a leader in Habitat for Humanity of Kosciusko County. The bank has made a financial contribution to Habitat and one of its officers serves as a Board member.
- \* In 1996, the bank worked with the City of Warsaw to help a low-income couple needing a new home because their original home had been condemned. A bank officer worked with the couple for several months to improve their negative credit record and to provide home ownership counseling. Eventually the couple was approved for a mortgage loan and purchased a new home.