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Comptroller of the Currency  
Administrator of National Banks

LARGE BANK

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## **PUBLIC DISCLOSURE**

October 4, 1999

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

Franklin Bank, N.A.  
Charter Number 22107

24725 West Twelve Mile Road  
Southfield, Michigan 48034

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Southfield, Michigan 48034

**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.

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## GLOSSARY OF TERMS AND COMMON ABBREVIATIONS

The following terms and abbreviations are used throughout this performance evaluation. The definitions are intended to provide the reader with a general understanding of the terms, not a strict legal definition.

**Assessment Area** - The geographic area which an institution selects as the community that its regulator will assess the institution's record of CRA performance. Generally, an urban assessment area will not extend beyond the boundaries of an MSA. A rural assessment area may contain one or more neighboring counties.

**Block Numbering Area** - A statistical subdivision of a county in which census tracts have not been established. Block numbering areas have been established by the U.S. Census Bureau in conjunction with state agencies.

**Census Tract** - A statistical subdivision of a county established by the U.S. Census Bureau in conjunction with state agencies.

**Community Development Loan (CDL)** - A loan with a primary purpose of community development. With one exception, CDLs specifically exclude loans reported on the HMDA or CRA disclosure statement. Multi-family housing loans are the only type that can be reported both as a HMDA and as a CDL.

**Community Development (CD)** - Affordable housing for low- or moderate- income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs, or have gross annual revenue of \$1 million or less; or activities that revitalize or stabilize low- or moderate-income geographies.

**Community Development Service** - A service, related to the provision of financial services, with a primary purpose of community development.

**Community Reinvestment Act (CRA)** - The statute that requires the OCC to evaluate a bank's record of meeting the credit needs of its local community, consistent with the safe and sound operation of the bank, and to take this record into account when evaluating certain corporate applications filed by the bank.

**CRA Disclosure** - Report based on annual information filed by an institution reflecting small business, small farm, and community development loan activity.

**Geography** - A census tract or block numbering area as defined by the U.S. Census Bureau.

**Home Mortgage Disclosure Act (HMDA)** - A statute that requires mortgage lenders that do business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applicants, the amount of the loan requested, and the disposition of the application; (e.g., approved, denied, withdrawn).

**Median Family Income (MFI)** - The median family income determined by the U.S. Census Bureau every ten years and used to determine the income level category of geographies. Also, the median income determined by the Department of Housing and Urban Development (HUD) annually that is used to determine the income level category of individuals. For any given area, the median is the point at which half of the families have income about it and half below it.

Low-Income: less than 50 percent of the median family income

Moderate-Income: at least 50 percent, but less than 80 percent of the median family income

Middle-Income: at least 80 percent, but less than 120 percent of the median family income

Upper-Income: above 120 percent of the median family income

**Metropolitan Statistical Area (MSA)** - An area containing a city with a population of at least 50,000 or an urban area with a population of 50,000 within a metropolitan area of at least 100,000.

**Qualified Investment** - A lawful investment with a primary purpose of community development.

**Small Business Loan** - Loans with original amounts of \$1 million or less that are secured by nonfarm nonresidential properties, or commercial industrial loans to U.S. addresses.

**Small Farm Loan** - Loans with original amounts of \$500,000 or less that are secured by farmland, that finance agricultural production and other farm-related loans.

**Tier 1 Capital** - The total of common shareholders' equity, perpetual preferred shareholders' equity with non-cumulative dividends, retained earnings and minority interests in the equity accounts of consolidated subsidiaries.

## GENERAL INFORMATION

The CRA requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the 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. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the CRA performance of **Franklin Bank, N.A.**, located in **Southfield, Michigan**. The **Office of the Comptroller of the Currency (OCC)**, the bank's supervisory agency, prepared this evaluation. The evaluation considers information as of **October 4, 1999**. The OCC evaluates performance in assessment area(s), as they are delineated by the institution, rather than individual branches. This assessment area evaluation may include visits to some, but not necessarily all of the institution's branches. The OCC rates the CRA performance of a bank consistent with the provisions set forth in Appendix A to 12 CFR, Part 25.

This evaluation considered the bank's lending, investment, and service activities. Lending activity was assessed primarily in 1997 and 1998. Investment and service activities were considered since the last CRA evaluation dated May 31, 1997. The bank's prior CRA evaluation resulted in a "Satisfactory" rating.

**CRA RATING:** This bank is rated "**Satisfactory**". The major factors that support this rating include:

- The geographic distribution of loans within the assessment area has been adequate.
- The bank has an adequate distribution of loans to borrowers of different income levels and businesses of different sizes in its assessment area.
- The bank made a good level of community development loans given its asset size, capacity and the opportunities that exist in the assessment area.
- The bank exhibits adequate responsiveness to the investment needs of the community given its size, its strategic focus, the competition and the opportunity for community development in its assessment area.
- The bank's delivery systems are reasonably accessible to geographies and individuals of different income levels in its assessment area.

The following table indicated the performance level of Franklin Bank with respect to the lending, investment and service tests.

Performance Levels	Franklin Bank, N.A. Performance Tests		
	Lending Test*	Investment Test	Service Test
Outstanding			
High satisfactory			
Low satisfactory	X	X	X
Needs to improve			
Substantial noncompliance			

\* Note: The lending test is weighted more heavily than the investment and service tests when arriving at an overall rating.

## DESCRIPTION OF INSTITUTION

Franklin Bank, N.A., is a \$503 million independent intrastate banking institution headquartered in Southfield, Michigan, a northern suburb of Detroit. Through its four offices and through its alternative delivery systems, the bank offers a variety of lending and deposit products focused primarily on serving the needs of small to medium size non-retail businesses, business owners and affluent individual customers throughout its assessment area. Management has followed this business strategy since Franklin converted from a savings and loan to a commercial bank in September 1991. During 1998, the bank reduced its concentration in the indirect leasing business and exited this line of business. The bank has redirected its focus to growing its commercial real estate portfolio and its small business line of credit product. Residential mortgages are provided in the bank's assessment area through Franklin Home Lending Group (FHLG), a wholly owned mortgage subsidiary, whose primary purpose is to originate single family construction loans. Franklin Home Lending Group activity was considered during this evaluation. All loans are closed in the bank's name and serviced by the bank. Reportable residential home purchase loans originated by FHLG are reported on the bank's HMDA statement. Franklin and FHLG have not actively offered permanent residential real estate loans since May 1996. Only 15 residential mortgage loans were originated during 1997 and 1998.

Loans represent the largest component of the bank's total asset base at 59 percent. Total gross loans at June 30, 1999, were \$284.8 million. The bank's loan portfolio is heavily weighted toward commercial and business customers. Commercial real estate loans comprised 40 percent of the bank's

total loans, commercial loans comprised 28 percent, residential real estate and home equity loans comprised 13 percent, lease financing comprised 14 percent and consumer loans comprised 5 percent.

Total deposits at December 31, 1998, were \$441.5 million. The bank's loan-to-deposit ratio as of December 31, 1998, was 73 percent. The loan-to-deposit ratio has decreased from the 1998 and 1997 average loan-to-deposit ratios of 80.6 percent and 93.1 percent, respectively. This is primarily a result of the strategic reduction in the lease financing and residential real estate portfolios. Franklin Bank, N.A., reported net income of \$2.6 million and a return on average assets of .52 percent for the year ended December 31, 1998, compared to \$2 million and a return on assets of .43 percent at year-end 1997.

Overall, the bank is capable of addressing the small and medium size business credit needs based on its financial condition, size and product offerings. There are no major constraints or legal impediments that impact the bank's ability to fulfill the spirit of CRA.

## **DESCRIPTION OF THE ASSESSMENT AREA**

Franklin Bank has a single assessment area within the Detroit, Michigan, MSA 2160. In general, it includes the southeast quarter of Oakland County, the southwestern quarter of Macomb County and the northern portion of Wayne County. Including the entire MSA in the bank's assessment area would constitute an area that would be too large for the bank to reasonably serve from its four locations. The assessment area is reasonable, includes the area around its branches where a majority of its loans are made, does not reflect illegal discrimination and does not contain any conspicuous gaps.

The majority of the 510 census tracts in the bank's assessment area are middle- and upper-income. Sixty-one (12 percent) are classified as low-income, 87 (17 percent) are moderate-income, 191 (37 percent) are middle-income, 169 (33 percent) are upper-income and 2 (.39 percent) are unclassified.

The assessment area has a population of 1.95 million people with a median family income of \$40,727 based on the 1990 census. The 1998 HUD adjusted median family income is \$57,200. Twenty percent of the families are classified as low-income, 16 percent are moderate-income, 21 percent are middle-income and 43 percent are upper-income. Twenty-five percent of the households receive social security, 17 percent receive public assistance and 11 percent are living below the poverty level.

Based on the 1990 census, there are 755,549 housing units in the bank's assessment area. Sixty-seven percent are owner-occupied, 27 percent are rental occupied and 5 percent are vacant units. Six percent of the owner-occupied housing units are located in low-income census tracts and 14 percent, 40 percent and 40 percent are located in moderate-, middle- and upper-income census tracts respectively.

The local economy is stable. This is directly related to the healthy status of the automotive industry, which is a major employer in the area. Unemployment levels are low. The unemployment rate in August 1999 was 2.7 percent for the Detroit MSA and 2 percent for Oakland County, where the bank's main office and two branches are located. Local unemployment rates are currently below the state average. The August 1999 seasonally adjusted unemployment rate in Michigan was 3.2 percent. There are 74,274 businesses operating in the bank's assessment area according to Dun & Bradstreet business data. Of these, 53,493 or 72 percent have sales less than \$1 million and 48,071 (65 percent) have sales less than \$500,000. General Motors, Ford, Daimler-Chrysler, along with many automotive suppliers, are major employers in the area. Other significant industries include services, retail trade, medical, education and utilities.

The Detroit metropolitan financial market is highly competitive. Franklin Bank competes with a large number of other financial and non-financial institutions, including several new entities entering the market. Some of the larger state and regional center bank competitors are Comerica Bank, Bank One, National City Bank, Old Kent Bank, Standard Federal Bank and Michigan National Bank. Out of area banks, such as Wells Fargo and Wachovia, also offer a business line of credit in Franklin Bank's market. A number of small and medium size institutions, such as Oakland Commerce, Citizens Bank, Fidelity Bank and Metrobank, also compete directly with Franklin Bank. Non-bank lending institutions, such as Costco and American Express, which offer financing products such as corporate credit cards and equipment financing lines, also are direct competitors to Franklin Bank.

Based on June 30, 1998, information reported by the Federal Deposit Insurance Corporation (FDIC), Franklin Bank has about 1 percent of the deposit base in the three counties included in its assessment area. Franklin's largest share of deposits is in Oakland County at 1.93 percent. In Wayne County, the bank has a deposit share of only .22 percent. June 30, 1998, FDIC branch deposit data indicates that there are 40 FDIC-insured depository financial institutions with 931 offices that operate in the tri-county area of Wayne, Oakland and Macomb Counties, Michigan. Data provided by Franklin Bank indicates that there are approximately 459 financial institution branches located within Franklin Bank's assessment area boundaries.

Local civic and community leaders in the area were contacted during this evaluation period. The contacts indicated that small business development, small business start up information and assistance, small business loans, housing rehabilitation loans, neighborhood revitalization grants, affordable home purchase and home improvement loans, as well as homeownership counseling and technical assistance are the primary needs in the assessment areas. With respect to community development, the contacts confirmed that there are sufficient opportunities for local banks to participate in such activities.

## **CONCLUSION WITH RESPECT TO PERFORMANCE TESTS**



Franklin Bank has addressed the credit needs of its assessment area to an adequate degree. Overall lending performance, centered on business financing, is adequate. The bank's involvement in community development activities with respect to the investment and service tests is adequate given the bank's size, competition and existing opportunities in the assessment area.

## **LENDING TEST**

Franklin has adequately addressed the lending needs of the community through making loans to businesses. We considered the bank's originated and purchased loans within its assessment area, including home mortgage loans and small loans to businesses. At the bank's request, we also considered consumer loans. The bank's mortgage activity is too low to have much of an impact on the rating. Therefore, our emphasis was primarily on the bank's business lending activity to evaluate the bank's lending performance.

### ***Major Conclusions:***

- The bank has an adequate percentage of loans within its assessment area.
- The geographic distribution of loans within its assessment area has been adequate.
- The bank has an adequate distribution of loans to borrowers of different income levels and businesses of different sizes in its assessment area.
- The level of community development lending is good based on the bank's size and the opportunities that exist in the bank's assessment area.
- The bank uses limited flexible lending products and programs to serve the credit needs of small businesses within its assessment area.

### **Lending Activity**

Table 1 details the number and dollar amount of reportable loans that the bank originated or purchased. Franklin reported 1,099 small business loans, 136 home mortgage loans, and nine community development loans in its assessment area during 1997 and 1998. During the same period, the bank also originated 258 and purchased 1,038 consumer loans in its assessment area.

As shown in Table 1, the bank made 1,099 small business loans in 1997 and 1998 for \$87,684,000. This level of lending is considered to be good for a bank of Franklin's size. As shown in Table 5 and based on the 1997 Small Business aggregate data published by the FFIEC, Franklin ranked 13<sup>th</sup> out of 123 lenders, with a 1.63 percent market share in its assessment area. It should be noted that the top two lenders, Mountainwest Financial Corporation and American Express, are credit card lenders that together captured 32 percent of the market. Business credit cards count as small business loans under the CRA definition of small business loans.

Of Franklin Bank's 136 HMDA reportable loans, 11 percent were home purchase, 26 percent were refinances, 58 percent were home improvement and 5 percent were multi-family loans. The bank ranked 229<sup>th</sup> out of 509 lenders, with a .03 percent market share in its assessment area in 1997, which is the most recent year for which HMDA market share data is available. The low market share of lending is consistent with the bank's low market share of deposits. Based on June 30, 1998, FDIC deposit information, Franklin Bank has 1 percent of the deposit market share within the counties comprising the bank's assessment area. As mentioned previously, Franklin Bank focuses on small business lending and is not active in the mortgage business.

There is no market share data available for consumer loans. Therefore, an analysis of the bank's ranking could not be performed.

### **Geographic Distribution of Loans**

The geographic distribution of loans has been adequate. An adequate percentage of loans have been made within the bank's assessment area. From January 1, 1997, to December 31, 1998, the bank originated or purchased 69 percent of its HMDA, 39 percent of its consumer and 65 percent of its small business loans within its assessment area. By dollar volume, 65 percent of the HMDA, 56 percent of the consumer and 68 percent of the small business loans were located in the bank's assessment area. Over 72 percent of the consumer loans are purchased from dealers, the majority of which are located outside the bank's defined assessment area.

The dispersion of loans within the assessment area is adequate. We performed a detailed analysis of business lending by census tract. Our analysis considered Franklin's overall business lending rate per the number of businesses located in the assessment area, as well as the number of businesses located in each tract. Tracts with few businesses were specifically excluded, as lending opportunity is considered low. We found that over a two-year period, Franklin made loans in 71 percent of the census tracts where there is opportunity to make business loans. While there was no activity in 29 percent of tracts with opportunity to make business loans, we observed no unexplained conspicuous gaps in lending patterns. Based on these observations, we concluded that Franklin lending dispersion has been adequate and reflects that the bank has adequately addressed the credit needs of the business market. When taking into consideration business, consumer and HMDA loans combined, Franklin made loans in 93 percent of the 510 census tracts in its assessment area, including 85 percent of the low-income census tracts and 89 percent of the moderate-income census tracts.

Franklin Bank has addressed the credit needs of businesses in all income segments of the assessment area. Eight percent of Franklin Bank's business loans were made in low-income geographies, which is considered excellent compared to the 5 percent distribution of businesses in low-income areas. Eight percent of loans were made in moderate-income areas, which is adequate when compared to the 12 percent distribution of businesses located in moderate-income geographies. Table 5 shows the distribution of small business lending within each income segment compared to the percentage of

businesses which operate in those areas.

Franklin Bank's distribution of home mortgage activity compares favorably to the owner-occupied characteristics of the assessment area. However, as loan volumes are low, we did not place much weight on performance in this area when drawing our conclusions regarding geographic distribution. Tables 2 through 4 depict the bank's home mortgage lending by loan type in detail. Approximately 6 percent of owner occupied units are located in low-income geographies, 14 percent in moderate-income geographies, 40 percent in middle-income geographies and 40 percent in upper-income geographies. The percentages of home improvement and refinance lending in the low- and moderate-income segments of the market have been excellent as they exceed the percent of owner-occupied units in those income categories. The bank is not active in home purchase lending. As shown in Table 2, the bank made only 15 home purchase loans. The majority of those loans (64 percent) were in upper-income census tracts and 32 percent were in middle-income census tracts. No home purchase loans were made in low-income areas and 4 percent were made in moderate-income areas. This is reflective of the bank's stated business strategy to serve the affluent individual customers throughout its assessment area.

As shown on Table 14, the bank's consumer loans do not closely reflect the population distribution in low- and moderate-income geographies. Only 4 percent of the consumer loans made in the bank's assessment area were made in low-income geographies and 15 percent were made in moderate-income geographies, compared to 11 percent and 17 percent of the population distribution in low- and moderate-income geographies respectively.

### **Borrower's Profile**

Based on Franklin Bank's lending levels in 1997 and 1998, the bank has an adequate distribution of loans to businesses of different sizes and borrowers of different income levels in its assessment area.

Table 10 depicts the distribution of small loans to businesses in the assessment area. We evaluated the loans based on gross annual revenues and by loan amount. As shown, a majority of Franklin's business loans are for small dollar amounts. Eighty-two percent of business loans have origination amounts less than \$100,000 and 63 percent were made to businesses with revenues less than \$1 million. This is somewhat low compared to assessment area characteristics, which reflect that 72 percent of area businesses have revenues of \$1 million or less. However, Franklin Bank's performance is higher than experienced by the market as a whole where in 1997 only 44 percent of business loans were reported to have been made to businesses with gross revenues of \$1 million or less.

Tables 7 through 9 illustrate the borrower distribution of the bank's home purchase, home improvement and refinance mortgage loans. The bank's 15 home purchase loans reflect very poor penetration among low- and moderate-income borrowers. Eighty percent of the bank's home purchase loans were made to middle- and upper-income borrowers. There were no home purchase loans made to low-income borrowers and 13 percent were made to moderate-income borrowers. There was no borrower income

information available for 7 percent of the home purchase loans made. The bank purchased all of its home improvement loans and 64 percent of its refinance loans. Individual borrower income information is not required to be collected for home mortgage loans purchased by the bank. Therefore, a meaningful analysis of home improvement and refinance loans based on distribution of loans to borrowers of different income levels is not meaningful.

The bank did not make any agriculture loans; therefore, there is no market share analysis to be presented in Table 11.

Table 14 shows the distribution by borrower income of the consumer loans made in the bank's assessment area. The loan distribution compares favorably to the percent of low- and moderate-income households. Thirty-four percent of consumer loans were made to low-income borrowers and 23 percent were made to moderate-income borrowers compared to 23 percent low-income households and 14 percent moderate-income households, respectively.

### **Community Development Lending**

Franklin Bank has made a good level of community development loans. The bank made nine community development loans in 1997 and 1998 for a total of \$3.7 million. This represents 6.8 percent of Tier 1 capital and 2.3 percent of the total amount of HMDA, small business and consumer loans originated and purchased by the bank for the same period. These loans were not reported as HMDA or small business loans.

- One loan for \$3.3 million was to renovate, improve and develop a strip mall shopping center in the bank's assessment area, which is located adjacent to two moderate-income census tracts. This strip mall is a primary shopping area for the adjacent moderate-income areas and its renovation will help stabilize this declining area.
- Five loans totaling \$108,000 were made to non-profit organizations that use the funds to rehabilitate housing for low- and moderate-income families.
- Three loans totaling \$290,000 were made to organizations that provide community development services to the low- and moderate-income population in the bank's assessment area.

### **Product Flexibility**

Franklin Bank uses limited flexible lending products and programs to serve the credit needs of small businesses in the assessment areas. The bank does not have specific flexible lending programs to benefit low- and moderate-income individuals or geographies. The following loan products were designed to meet the credit needs of small businesses:

- “Express Cash” is a line of credit targeted to small businesses, tied to a business checking account and accessible anytime by writing a check. This product is flexible in that the level of required documentation from the customer is reduced, allowing for a rapid response time. As of December 31, 1998, 578 loans totaling \$28.2 million were outstanding. Eighty-eight loans totaling \$4.5 million were added the first six months of 1999. The majority of “Express Cash” loans (78 percent) are located inside the bank’s assessment area.
- Franklin Bank’s lease loan product provided loans to businesses to acquire equipment, such as computers and copiers. Reduced levels of documentation were required. This product provided an alternative financing option for small businesses. As of December 31, 1998, there were 658 leases totaling \$14.5 million outstanding, with half of them located in the bank’s assessment area. Although this program was discontinued in the second quarter of 1998 it was in effect during this CRA evaluation period.

## **INVESTMENT TEST**

### ***Major Conclusions:***

- Franklin has an adequate level of qualified investments.
- The bank exhibits adequate responsiveness to the investment needs of the community given its size, its strategic focus, the competition and the opportunity for community development in its assessment area.
- The bank occasionally uses innovative and/or complex investments to support community development initiatives.

### **Current Investments**

Franklin Bank made an adequate level of qualified investments and grants to local organizations to support community development initiatives. As shown on Table 12, Franklin Bank made nearly \$2.5 million in qualified investments and grants during the evaluation period. It also provided in-kind donations of computer equipment to an organization that reconditioned and distributed the equipment to non-profit organizations in low- and moderate- income neighborhoods.

In 1998, the bank purchased mortgage-backed securities in the amount of \$718,865. All of the mortgages were made to low-income borrowers in the bank’s assessment area. In 1999, the bank purchased a mortgage-backed security in the amount of \$1,723,426. All of the underlying mortgages were made to low- or moderate- income borrowers in the bank’s assessment area.

During this evaluation period, the bank made grants to eight organizations that provide community development services within the assessment area. There are over 40 community or consumer

organizations that operate in the Detroit MSA. Franklin Bank provided grants or donations totaling \$24,933 to organizations during the evaluation period, including a \$15,000 grant to the Detroit Neighborhood Housing Services, Inc. (DNHS). This was the third installment of a three-year, \$47,000 commitment. The DNHS provides rehabilitation and home improvement loans to restore low- to moderate-income housing and revitalize three declining Detroit neighborhoods. Grants went to organizations serving low- and moderate-income areas and low- and moderate-income individuals to fund programs such as affordable housing, economic development of distressed areas, neighborhood stabilization and job training programs for low-income individuals.

## **SERVICE TEST**

### ***Major Conclusions:***

- Franklin's delivery systems are reasonably accessible to geographies and individuals of different income levels in its assessment area.
- The bank has not opened or closed any branches since the last evaluation.
- Services, including business hours, are convenient and are responsive to the needs of small businesses in the assessment area.
- The bank provides an adequate level of community development services given its size and business focus.

### **Banking Services**

Franklin makes its banking services reasonably accessible to essentially all portions of the assessment area. Accessibility is achieved through its office locations and alternative delivery systems.

Table 13 details the distribution of the branches and automatic teller machines (ATMs). The bank operates banking offices in four locations, with ATMs at each location. Two offices are in Southfield, one is in Birmingham in Oakland County, and one is in Grosse Pointe Woods in Wayne County. Two offices are in middle income areas and two are located in upper-income areas. No offices are located in or directly adjacent to low- or moderate-income neighborhoods. No offices were opened or closed during the evaluation period.

Franklin's banking office hours are tailored to the convenience and needs of its business customers. Franklin has extended lobby hours at the Business Center branch and the Birmingham branch from 8:00 a.m. to 8:00 p.m., Monday through Friday. The Southfield and Grosse Pointe branch lobby hours are extended until 7:00 p.m. on Friday and half a day on Saturday. The Southfield branch also has Saturday drive-through hours.

Bank products and services are offered at all offices, except that safe deposit boxes are not available at the Business Center Branch. Loan officers from all lending areas are not located at each branch office.

Branch employees make telephone referrals to lending staff, with loan officers making follow-up appointments at the customer's business or other customer preferred location. The Business Center Branch was established at the same location as the bank's administrative offices to cater exclusively to business customers.

### **Alternative Delivery Systems**

Franklin provides alternative systems for delivering retail and business banking services. These systems, many of which are at no cost to the customer, are provided to all customers, including low- and moderate-income areas and individuals. In keeping with the bank's business strategy, most of these alternative delivery systems are targeted to meet the needs of Franklin's business customers. Data is not available to demonstrate the extent that these services are used by the low- and moderate-income segments of the community. Therefore, we could not place significant weight on these services when drawing our CRA performance conclusions. Nevertheless, such services demonstrate Franklin's commitment to implementing alternative ways to deliver products in the market.

Telephone Banking Center: The bank offers a staffed telephone banking center available Monday through Saturday during the day. Customers can open and close accounts, transfer funds, change addresses, stop payment and inquire about their accounts. The service is offered to customers free of charge. On average, the bank receives 19,500 calls per month through this service.

Courier Service: A no-cost courier service is available to business deposit customers for non-cash transactions. A minimum balance must be maintained and the business must be located in an area approximating the bank's assessment area. Approximately 12,300 deposits a month are made using the courier service.

Lock Box: A no-cost lock box service is available to all business customers. This allows customer account receivable payments to go directly to the bank. Approximately 5,500 deposits per month are made using the lock box service.

Computer Banking: A banking software system that links business customers directly to their accounts by using their personal computer. Customers can check balances, review deposits and checks that have cleared and initiate ACH, wire transfers and stop payments. There are no transaction fees connected with this service. There are 820 business customers that use this service.

Electronic Tax Payment Service: This service is offered at no charge to business customers. This enables the customer to make advance tax payments using their telephone or personal computer.

Electronic Data Interchange: The bank has ten customers that take advantage of receiving

payments electronically. In the Detroit Metropolitan Area, electronic payment is the standard method for automotive companies to pay their suppliers.

ATMs: Automatic teller machines are located at each of Franklin Bank's four locations. Franklin Bank does not charge fees to their customers who use non-proprietary ATMs.

## **Community Development Services**

The bank provides an adequate level of community development services given its size and business focus. Employees of Franklin provide technical assistance and financial expertise to organizations that provide community development services in the assessment area.

- A loan officer is on the loan committee of the DNHS, which makes home improvement and rehabilitation loans to area residents in low- and moderate-income areas to restore low- to moderate-income housing stock. The bank also made a grant to DNHS that was considered under the investment test.
- A bank officer serves as treasurer and provides technical assistance in financial matters to the Eastside Industrial Council. This organization is working through small businesses to improve distressed areas on Detroit's east side by promoting economic growth and development and increasing employment opportunities for the unemployed or underemployed whose incomes are below federal poverty guidelines. The bank also made a grant to this organization that was considered under the investment test.
- A bank officer provides technical assistance in financial matters to Faith with Works in Christ Ministry, a non-profit organization that provides low- and moderate-income families with affordable housing through rehabilitation of existing homes in the Detroit metropolitan area. The bank also made a grant to this organization that was considered under the investment test.
- A bank officer is on the board of directors of Credit Counseling Centers of Michigan, which provides credit counseling to consumers, including low- and moderate-income individuals.
- The bank sponsored an Small Business Association (SBA) Financing Fair in conjunction with Lewis College of Business, where small business owners met with commercial lenders and business consultants to discuss small business financing options and how to structure a successful SBA loan proposal. The bank participated in a similar fair with Oakland County Business Economic Development Corporation.
- The bank participates in the annual ACORN sponsored bank fair, targeted to low- and moderate-income individuals, where counseling and financial planning is discussed. The ACORN is a national organization and one of their local objectives is to increase home ownership through reclaiming abandoned homes in the city of Detroit. The bank made a grant for the fair, which was considered



under the investment test.

- The bank used its technical expertise in developing an internet site for Grandmont/Rosedale Development Corporation, a community development corporation that is working to stabilize this Detroit neighborhood by acquiring and renovating vacant houses to provide affordable housing in this low- to moderate-income area. The bank made a grant to this organization which was considered under the investment test.

## **FAIR LENDING REVIEW**

An examination was conducted to assess the bank's compliance with fair lending requirements. As part of this examination, a sample of applications for unsecured consumer loans was reviewed. We compared files of ten female applicants who were denied credit to files of 38 male applicants who were granted credit. We also reviewed a sample of approved female applicants.

No violations of the substantive provisions of the anti-discrimination laws and regulations nor discriminatory practices were identified during our review.

## APPENDIX A: SCOPE OF EXAMINATION

<b>Time Period Reviewed</b>	Lending Test: January 1, 1997 to December 31, 1998 Investment Test: May 10, 1997 to June 30, 1999 Service Test: May 10, 1997 to June 30, 1999		
<b>Financial Institution</b>	<b>Assessment Area</b>	<b>Type of Exam</b>	<b>Products Reviewed</b>
Franklin Bank N.A., Southfield	MSA 2160, 510 census tracts in portions of Wayne, Oakland and Macomb Counties.	On-site	1997 & 1998 HMDA Loans* 1997 & 1998 CRA Loans* 1997 & 1998 Consumer Loans* (* )Originated and/or Purchased in the assessment area
<b>Affiliate(s)</b>	<b>Affiliate Relationship</b>		<b>Products Reviewed</b>
Franklin Home Lending Group	Wholly owned subsidiary	NA	None - Mortgages are closed in the bank's name and are included in the bank's HMDA.

In order to determine the accuracy of loan data presented by the bank, we verified a sample of HMDA and small business loans reported in 1997, 1998 and the first half of 1999. At the bank's request, we also verified consumer loan information for the same period. The HMDA reportable transactions were reviewed to ensure the type, purpose, occupancy, action taken, application date, action date, race, gender, applicant income, loan size and location were accurately included on the Loan Application Register. Overall, the data was considered reliable. A similar review was performed on small business loan files to ensure the loan amount, revenue category, action date, action taken, loan type, community development code and location were reported accurately. The small business loan information reported on the CRA Data Listing Report was substantially correct and reliable. Consumer loans were reviewed for accuracy of the loan type, action taken, applicant income, action date, loan amount and location. The consumer loan information in the micro data file was substantially correct and reliable.

## APPENDIX B: STANDARDIZED TABLES

### Content of Standardized Tables

References to the **Abank** include activities of any affiliates that the bank provided for consideration (refer to Appendix A: Scope of the Examination). For purposes of reviewing the Lending Test tables, the following are applicable: Purchased loans are treated as originations/purchases; market rank is based on the number of loans originated and purchased by the bank as compared to all other lenders in the MSA/assessment area; and market share is the number of loans originated and purchased by the bank as a percentage of the aggregate number of reportable loans originated and purchased by all lenders in the MSA/assessment area. The following is a listing and brief description of the tables:

- Table 1. Lending Volume** - Presents the number and dollar amount of reportable loans originated and purchased by the bank over the evaluation period by MSA/assessment area.
- Table 2. Geographic Distribution of Home Purchase Loans** - Compares the percentage distribution of the number of loans originated and purchased by the bank in low-, moderate-, middle- and upper-income geographies to the percentage distribution of owner-occupied housing units throughout those geographies. The table also presents market rank and market share information based on the most recent aggregate market data available.
- Table 3. Geographic Distribution of Home Improvement Loans** - See Table 2.
- Table 4. Geographic Distribution of Refinance Loans** - See Table 2.
- Table 5. Geographic Distribution of Small Loans to Businesses** - The percentage distribution of the number of small loans (less than or equal to \$1 million) to businesses originated and purchased by the bank in low-, moderate-, middle- and upper-income geographies compared to the percentage distribution of businesses (regardless of revenue size) throughout those geographies. The table also presents market rank and market share information based on the most recent aggregate market data available.
- Table 6. Geographic Distribution of Small Loans to Farms** - The percentage distribution of the number of small loans (less than or equal to \$500,000) to farms originated and purchased by the bank in low-,

moderate-, middle- and upper-income geographies compared to the percentage distribution of farms (regardless of revenue size) throughout those geographies. The table also presents market rank and market share information based on the most recent aggregate market data available.

**Table 7. Borrower Distribution of Home Purchase Loans** - Compares the percentage distribution of the number of loans originated and purchased by the bank to low-, moderate-, middle- and upper-income borrowers to the percentage distribution of families by income level in each MSA/assessment area. The table also presents market rank and market share information based on the most recent aggregate market data available.

**Table 8. Borrower Distribution of Home Improvement Loans** - See Table 7.

**Table 9. Borrower Distribution of Refinance Loans** - See Table 7.

**Table 10. Borrower Distribution of Small Loans to Businesses** - Compares the percentage distribution of the number of small loans (less than or equal to \$1 million) originated and purchased by the bank to businesses with revenues of \$1 million or less to the percentage distribution of businesses with revenues of \$1 million or less. The table also compares the banks percentage distribution with the percentage of loans originated and purchased by all other small business reporters in the bank's AA to businesses with revenues of \$1 million or less and is based on the most recent aggregate market data available. In addition, the table presents the percentage distribution of the number of loans originated and purchased by the bank by loan size, regardless of the revenue size of the business. Market share information is presented based on the most recent aggregate market data available.

**Table 11. Borrower Distribution of Small Loans to Farms** - Compares the percentage distribution of the number of small loans (less than or equal to \$500 thousand) originated and purchased by the bank to farms with revenues of \$1 million or less to the percentage distribution of farms with revenues of \$1 million or less. The table also compares the banks percentage distribution with the percentage of loans originated and purchased by all other small farm reporters in the bank's AA to farms with revenues of \$1 million or less and is based on the most recent aggregate market data available. In addition, the table presents the percentage distribution of the number of loans originated and purchased

by the bank by loan size, regardless of the revenue size of the farm.

Market share information is presented based on the most recent aggregate market data available.

**Table 12. Qualified Investments** - Presents the number and dollar amount of qualified investments made by the bank in each MSA/AA. The table separately presents investments made during prior evaluation periods that are still outstanding and investments made during the current evaluation period. Prior period investments are reflected at their book value as of the end of the evaluation period. Current period investments are reflected at their original investment amount even if that amount is greater than the current book value of the investment. The table also presents the number and dollar amount of unfunded qualified investment commitments. In order to be included, an unfunded commitment must have been reported on schedule RC-L of the Call Reports as an off-balance sheet item.

**Table 13. Distribution of Branch Delivery System and Branch Openings/Closings** - Compares the percentage distribution of the number of the bank's branches in low-, moderate-, middle- and upper-income geographies to the percentage of the population within each geography in each MSA/AA. The table also presents data on branch openings and closings in each MSA/AA.

**Table 14. Geographic and Borrower Distribution of Consumer Loans (Optional)** - For geographic distribution, the table compares the percentage distribution of the number of loans originated and purchased by the bank in low-, moderate-, middle- and upper-income geographies to the percentage distribution of the population within each geography. For borrower distribution, the table compares the percentage distribution of the number of loans originated and purchased by the bank to low-, moderate-, middle- and upper-income borrowers to the percentage of households by income level in each MSA/assessment area.

**Table 1. Lending Volume**

**Charter Number 22107**

LENDING VOLUME State: Michigan Evaluation Period: January 1, 1997 to December 31, 1998												
MSA /Assessment Area	% of Total bank Deposits in Rated Area	Home Mortgage		Small Business		Small Farms		Community Development		Total Reported Loans		% of Total reported Bank Loans in Rated Area
		#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	
Full Scope:												
MSA 2160	100	136	10,350	1,099	87,684	0	0	9	3,698	1,243	101,718	100

**Table 2. Geographic Distribution of Home Purchase Loan Originations**

**Charter Number:**

**22107**

Geographic Distribution: HOME PURCHASE State: Michigan Evaluation Period: January 1, 1997 to December 31, 1998																
MSA /Assessment Area	Low Income Geographies		Moderate Income Geographies		Middle Income Geographies		Upper Income Geographies		Overall Market Rank*	Market Share by Geography*					Total Home Purchase Loans	
	% Owner Occ Units	% BANK Loans	% Owner Occ Units	% BANK Loans	% Owner Occ Units	% BANK Loans	% Owner Occ Units	% BANK Loans		Overall	Low	Mod	Mid	Upper	#	% of Total
Full Scope:																
MSA 2160	6.58	0	14.11	4.0	39.57	32.0	39.74	64.0	248	0.01	0	0	0	0.02	15	100

(\*) Based on 1997 Aggregate HMDA Data only.

**Table 3. Geographic Distribution of Home Improvement Loan Originations**  
**22107**

**Charter Number**

Geographic Distribution: HOME IMPROVEMENT State: Michigan Evaluation Period: January 1, 1997 to December 31, 1998																
MSA /Assessment Area	Low Income Geographies		Moderate Income Geographies		Middle Income Geographies		Upper Income Geographies		Overall Market Rank*	Market Share by Geography*					Total Home Improvement Loans	
	% Owner Occ Units	% BANK Loans	% Owner Occ Units	% BANK Loans	% Owner Occ Units	% BANK Loans	% Owner Occ Units	% BANK Loans		Overall	Low	Mod	Mid	Upper	#	% of Total
Full Scope:																
MSA 2160	6.58	21.52	14.11	37.97	39.57	34.18	39.74	6.33	0	0	0	0	0	0	79	100

(\*) Based on 1997 Aggregate HMDA Data only. The bank reported no home improvement loans in 1997.

**Table 4. Geographic Distribution of Home Mortgage Refinance Loan Originations**  
**22107**

**Charter Number**

Geographic Distribution: HOME MORTGAGE REFINANCE State: Michigan Evaluation Period: January 1, 1997 to December 31, 1998																
MSA /Assessment Area	Low Income Geographies		Moderate Income Geographies		Middle Income Geographies		Upper Income Geographies		Overall Market Rank*	Market Share by Geography*					Total Home Mortgage Refinance Loans	
	% Owner Occ Units	% BANK Loans	% Owner Occ Units	% BANK Loans	% Owner Occ Units	% BANK Loans	% Owner Occ Units	% BANK Loans		Overall	Low	Mod	Mid	Upper	#	% of Total
Full Scope:																
MSA 2160	6.58	17.02	14.11	36.17	39.57	23.40	39.74	23.40	182	0.05	0.19	0.18	0.02	0.01	36	100

(\*) Based on 1997 Aggregate HMDA Data only.



**Table 5. Geographic Distribution of Small Business Loan Originations**  
**22107**

**Charter Number**

Geographic Distribution: SMALL BUSINESS State: Michigan Evaluation Period: January 1, 1997 to December 31, 1998																
MSA /Assessment Area	Low Income Geographies		Moderate Income Geographies		Middle Income Geographies		Upper Income Geographies		Overall Market Rank*	Market Share by Geography*					Total Small Business Loans	
	% of Businesses	% BANK Loans	% of Businesses	% BANK Loans	% of Businesses	% BANK Loans	% of Businesses	% BANK Loans		Overall	Low	Mod	Mid	Upper	#	% of Total
Full Scope:																
MSA 2160	4.76	7.55	11.43	8.28	40.18	40.49	43.41	43.59	13	1.63	2.47	1.57	1.48	1.71	1,099	100

(\* ) Based on 1997 Aggregate Small Business Data only.

**Table 6. Geographic Distribution of Small Farm Loan Originations**

**Charter Number 22107**

Geographic Distribution: SMALL FARM State: Michigan Evaluation Period: January 1, 1997 to December 31, 1998																
MSA /Assessment Area	Low Income Geographies		Moderate Income Geographies		Middle Income Geographies		Upper Income Geographies		Overall Market Rank*	Market Share by Geography*					Total Small Farm Loans	
	% of Farms	% BANK Loans	% of Farms	% BANK Loans	% of Farms	% BANK Loans	% of Farms	% BANK Loans		Overall	Low	Mod	Mid	Upper	#	% of Total
Full Scope:																
MSA 2160	2.94	0	10.96	0	46.70	0	39.39	0	0	0	0	0	0	0	0	0

(\* ) Based on 1997 Aggregate Small Farm Data only.

**Table 7. Borrower Distribution of Home Purchase Loan Originations**  
**22107**

**Charter Number**

Borrower Distribution: HMDA HOME PURCHASE State: Michigan Evaluation Period: January 1, 1997 to December 31, 1998																
MSA /Assessment Area	Low Income Borrowers		Moderate Income Borrowers		Middle Income Borrowers		Upper Income Borrowers		Overall Market Rank**	Market Share by Borrower Income**					Total Home Purchase Loans	
	% of Families	% BANK Loans*	% of Families	% BANK Loans*	% of Families	% BANK Loans*	% of Families	% BANK Loans*		Overall	Low	Mod	Mid	Upper	#	% of Total
Full Scope:																
MSA 2160	20.15	0	15.72	13.33	21.08	20.00	43.04	60.00	248	0.01	0	0	0	0.01	15	100

(\*) As a percentage of loans with borrower income information available. No information was available for 66.7% of loans originated by BANK.

(\*\*) Based on 1997 Aggregate HMDA Data only.

**Table 8. Borrower Distribution of Home Improvement Loan Originations**  
**22107**

**Charter Number**

Borrower Distribution: HOME IMPROVEMENT State: Michigan Evaluation Period: January 1, 1997 to December 31, 1998																
MSA /Assessment Area	Low Income Borrowers		Moderate Income Borrowers		Middle Income Borrowers		Upper Income Borrowers		Overall Market Rank**	Market Share by Borrower Income**					Total Home Improvement Loans	
	% of Families	% BANK Loans*	% of Families	% BANK Loans*	% of Families	% BANK Loans*	% of Families	% BANK Loans*		Overall	Low	Mod	Mid	Upper	#	% of Total
Full Scope:																
MSA 2160	20.15	0	15.72	0	21.08	0	43.04	0	0	0	0	0	0	0	79	100

(\*) As a percentage of loans with borrower income information available. No information was available for 100% of loans purchased by BANK.

(\*\*) Based on 1997 Aggregate HMDA Data only.

**Table 9. Borrower Distribution of Home Mortgage Refinance Loan Originations**  
**22107**

**Charter Number**

Borrower Distribution: HOME MORTGAGE REFINANCE State: Michigan Evaluation Period: January 1, 1997 to December 31, 1998																
MSA /Assessment Area	Low Income Borrowers		Moderate Income Borrowers		Middle Income Borrowers		Upper Income Borrowers		Overall Market Rank**	Market Share by Borrower Income**					Total Home Mortgage Refinance Loans	
	% of Families	% BANK Loans*	% of Families	% BANK Loans*	% of Families	% BANK Loans*	% of Families	% BANK Loans*		Overall	Low	Mod	Mid	Upper	#	% of Total
Full Scope:																
MSA 2160	20.15	0	15.72	0	21.08	5.56	43.04	30.56	182	0.05	0	0	0	0.02	36	100

(\*) As a percentage of loans with borrower income information available. No information was available for 63.89% of loans originated by BANK.

(\*\*) Based on 1997 Aggregate HMDA Data only.

**Table 10. Borrower Distribution of Small Business Loan Originations**  
**22107**

**Charter Number**

Borrower Distribution: SMALL BUSINESS State: Michigan Evaluation Period: January 1, 1997 to December 31, 1998											
MSA /Assessment Area	Business with Revenues of \$1 million or less			Loans by Original Amount regardless of Business Size			Market Share****		Total Small Business Loans		
	% of Businesses*	% BANK Loans**	% Market Loans***	\$100,000 or Less	>\$100.00 to \$250,000	>\$250,000 to \$1,000,000	All	Rev \$1 million or less	#	% of Total	Avg Loan Size
Full Scope:											
MSA 2160	72.02	62.51	44.9	82.17%	11.01%	6.82%	1.63	2.49	1,099	100	78

(\*) As a percentage of businesses with known revenues.

(\*\*) As a percentage of loans with revenue information available. No information was available for 3.28% of loans originated by BANK.

(\*\*\*) The market consists of all other Small Business reporters in BANK's assessment area and is based on 1997 Aggregate Small Business Data only.  
(\*\*\*\*) Based on 1997 Aggregate Small Business Data only.

**Table 11. Borrower Distribution of Small Farm Loan Originations**

**Charter Number 22107**

Borrower Distribution: SMALL FARM State: Michigan Evaluation Period: January 1, 1997 to December 31, 1998											
MSA /Assessment Area	Farm with Revenues of \$1 million or less			Loans by Original Amount regardless of Farm Size			Market Share****		Total Small Farm Loans		
	% of Farms*	% BANK Loans**	% Market Loans***	\$100,000 or Less	>\$100,00 to \$250,000	>\$250,000 to \$1,000,000	All	Rev \$1 million or less	#	% of Total	Avg Loan Size
Full Scope:											
MSA 2160	88.77	0	0	0	0	0	0	0	0	0	0

(\*) As a percentage of Farms with known revenues.

(\*\*) As a percentage of loans with revenue information available. No information was available for 100% of loans originated by BANK.

(\*\*\*) The market consists of all other Small Farm reporters in BANK’s assessment area and is based on 1997 Aggregate Small Farm Data only.

(\*\*\*\*) Based on 1997 Aggregate Small Farm Data only.

**Table 12. Qualified Investments**

**Charter Number 22107**

QUALIFIED INVESTMENTS State: Michigan Evaluation Period: January 1, 1997 to December 31, 1998									
MSA /Assessment Area	Prior Period Investments*			Current Period Investments			Total Investments		
	#	\$ (000’s)	%**	#	\$ (000’s)	%**	#	\$ (000’s)	% of Total \$’s
Full Scope:									
MSA 2160	0	0	0	13	2,468	100	13	2,468	100

(\*) “Prior Period Investments” means investments made in a previous evaluation period that remain outstanding.

(\*\*) Percentage of the dollars invested in that MSA/Assessment Area that are prior period investments or current period investments.

**Table 13. Distribution of Branch and ATM Delivery System**

**Charter Number 22107**

DISTRIBUTION OF BRANCH AND ATM DELIVERY SYSTEM State: Michigan Evaluation Period: January 1, 1997 to December 31, 1998																	
MSA /Assessment Area	Deposits	Branches						ATMs						Population			
	% of Total BANK Deposits	# of BANK Branches	% of Total BANK Branches	Location of Branches by Income of Geographies				# of BANK ATMs	% of Total BANK ATMs	Location of ATMs by Income of Geographies				% of the Population within Each Geography			
				Low	Mod	Mid	Upp			Low	Mod	Mid	Upp	Low	Mod	Mid	Upp
Full Scope:																	
MSA 2160	100	4	100	0	0	50%	50%	4	100	0	0	50%	50%	11.22	17.09	36.78	34.82

**Table 14. Geographic and Borrower Distribution of Consumer Loan Originations (Optional)**

**Charter Number 22107**

Geographic and Borrower Distribution: CONSUMER LOANS State: Michigan Evaluation Period: January 1, 1997 to December 31, 1998																		
MSA /Assessment Area	Geographic Distribution								Borrower Distribution								Total Consumer Loans	
	Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers		#	% of Total
	% of Pop*	% Bank Loans	% of Pop*	% Bank Loans	% of Pop*	% Bank Loans	% of Pop*	% Bank Loans	% of Hshlds	% BANK Loans	% of Hshlds	% BANK Loans	% of Hshlds	% BANK Loans	% of Hshlds	% BANK Loans		
Full Scope:																		
MSA 2160	11.22	3.96	17.09	14.66	36.78	48.30	34.82	33.18	22.97	34.00	14.05	23.00	18.47	20.00	44.51	10.00	1,296	100

(\* ) The percentage of the population in the MSA/Assessment area that resides in these geographies. No borrower income was available for 4% of the loans.

