



Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

November 14, 1997

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Horizon Bank, N.A.
Charter #2747
515 Franklin Street
Michigan City, Indiana**

**Office of the Comptroller of the Currency
Chicago-South Field Office
7600 County Line Road, Unit 3
Burr Ridge, Illinois 60521-6962**

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

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with the 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 Community Reinvestment Act (CRA) performance of **Horizon Bank, N.A., Michigan City, Indiana** prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **November 14, 1997**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.

INSTITUTION'S CRA RATING: This institution is rated “**Satisfactory Record of Meeting Community Credit Needs.**”

Overall, Horizon Bank N.A.'s lending, investment and service activities demonstrate:

- adequate geographic distribution of loans inside the assessment area,
- good distribution of loans among borrowers of different income levels and businesses and farms of different sizes,
- adequate level of community development loans,
- reasonable use of flexible lending criteria and use of innovative lending practices,
- adequate level of investment in its assessment area, and
- accessible delivery systems within the entire assessment area.

The following chart indicates the performance level of **Horizon Bank, N.A.** with respect to the lending, investment and service tests.

Performance Levels	Horizon Bank, N.A. Performance Tests		
	Lending Test*	Investment Test	Service Test
Outstanding			
High Satisfactory	X		X
Low Satisfactory		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.

Performance Rating Period

This evaluation considered the bank's performance since its last CRA examination dated September 30, 1994. The bank's CRA performance using the prior regulation guidelines and criteria was rated “Outstanding Record of meeting the community credit needs.”

Description of Institution

Horizon Bank, N.A. (Horizon Bank) is owned by Horizon Bancorp and operates in northwest Indiana. In addition to Horizon Bank, the holding company operates three subsidiaries engaged in consumer finance, trust services and insurance.

Horizon Bank has ten offices located throughout LaPorte and Porter Counties. The main office and five branches are located in LaPorte County and four branches in Porter County. One office in LaPorte County does not offer any deposit services, but these services are available at an office across the street. The bank supplements its branch network with 22 Automated Teller Machines (ATMs). Three ATMs are cash dispensing machines only. Additionally, the bank provides access to consumer loan services through six Automated Loan Machines (ALMs). Banking by phone is also available.

There are no impediments which would hamper Horizon Bank's ability to help meet the credit needs of its community. As of June 30, 1997, Horizon Bank had average total assets of \$371,786,000 and net income of \$1,766,000. Net loans represented 72% of average total assets. The loan portfolio is comprised of 65% real estate loans; 19% installment loans; 12% commercial and industrial loans; 3% credit card loans; and 1% various other loans.

Description of Assessment Area

Horizon Bank has identified two adjacent counties, LaPorte and Porter, as its assessment area based upon the area it serves and the location of its offices.

LaPorte County

Most of the bank's lending activity and number of geographies are in LaPorte County. The County consists of the cities of Michigan and LaPorte and the townships of Coolspring, Trail Creek, Long Beach, Pottawattomie Park, Michigan, Michiana Shores, Springfield, Center, New Durham, Galena, Kankakee, Hudson, Wills, Lincoln, Pleasant, Johnson, Scipio, Westville, Kingsford Heights, Union, Washington, Noble, Clinton, Wanatah, Hanna, Cass, Dewey and La Crosse. During 1997, the bank originated 81% of their HMDA loans, 88% of their small business loans, 88% of their small farm loans and 74% of their consumer loans in this county. LaPorte County is not part of a Metropolitan Statistical Area (MSA). The 1997 median family income for nonmetropolitan portions of Indiana is \$39,000 with a median housing value of \$55,282. LaPorte County has five moderate-income census tracts (17%), 16 middle-income tracts (55%), and eight upper-income census tracts (28%). LaPorte County has 27,915 families with 16% low-income, 17% moderate-income, 23% middle-income and 44% upper income.

Porter County

The bank's lending activity and number of geographies is much smaller in Porter County. The county consists of the cities of Portage and Valparaiso and the townships of Liberty, Chesterton, Jackson, Pine, Beverly Shores, Westchester, Porter, Burns Harbor, Dune Acres, Ogden Dunes, Portage, South Haven, Center, Morgan, Union, Lakes of the Four Seasons, Hebron, Boone, Pleasant, and Kouts. During 1997, the bank originated 19% of their HMDA loans, 12% of their small business loans, 12% of their small farm loans and 26% of their consumer loans in this County. Porter County is part of the Gary, Indiana MSA. The 1997 median family income is \$46,400 and a median housing value of \$71,590. Porter County has one moderate-income census tract (6%), nine middle-income census tract (53%), six upper-income census tracts (35%), and one uninhabited census tract (6%). Porter County has 34,794 families with 13% low-income, 16% moderate-income, 25% middle-income and 46% upper-income.

Combined Assessment Area

The combined assessment area is comprised of six moderate-income census tracts (13%), 25 middle-income census tracts (54%), 14 upper-income census tracts (31%) and one uninhabited census tract designated non-applicable for income classification purposes. The assessment area is legal and does not arbitrarily exclude low or moderate income geographies. The combined assessment area has 62,709 families with 14% low-income, 17% moderate-income, 24% middle-income and 45% upper income. The family demographics of the counties are similar to that of the combined area.

The primary industries in the combined assessment area are manufacturing and retail trade. The area contains 2,723 business establishments with 2,583 (95%) of these business establishments having less than 50 employees. The assessment area consists of predominantly small businesses. Additionally, tourism has become an important industry through the Indiana Dunes National Lakeshore, a river boat gambling casino, and shopping centers. Less than 1% of the households in each County are engaged in farming.

There are numerous financial institution's in the bank's assessment area, including credit unions, brokerage companies, home mortgage and insurance companies. Competition in the assessment area is aggressive. A bank sponsored analysis indicates the bank is ranked in the top three for overall lending activity in both Counties. In addition, the bank was recognized by the State of Indiana as the community bank (total assets less than \$1 billion) that has originated the most Capital Access Program (CAP) loans in the state.

A CRA-related community contact indicated that the significant credit need is to provide support to individuals passing through the various home buyer education classes. The contact revealed the bank had been an active member in creating a Community Development Corporation (CDC) which offers home buyer education classes. In addition, the bank along with seven other financial institutions, participates in funding the CDC's rehabilitation and development projects directed toward low- and moderate-income individuals.

Conclusions with Respect to Performance Tests

LENDING TEST

Horizon Bank's lending activity demonstrates a good responsiveness to credit needs and a high percentage of loans within its assessment area.

Performance Criteria:

Lending Activity - Between December 31, 1995 and June 30, 1997, Horizon Bank's loan-to-deposit ratio averaged 90%. The loan-to-deposit ratio steadily increased during that period and was 95% as of June 30, 1997. This compares favorably with similar banks on a regional basis. The average loan-to-deposit ratio for Indiana banks with total assets between \$250 million and \$600 million was 80% during the same period and 83% as of June 30, 1997.

Overall, Horizon Bank demonstrates good responsiveness to serving the credit needs in its assessment area based on the number and amount of loans inside its assessment area. Table 1 shows the number and amount of Horizon Bank's home mortgage, small business and small farm loans originated between January 1, 1996 and September 5, 1997. Home mortgage activity is based on originations and purchases. The table demonstrates that a high percentage of Horizon Bank's loans are made inside its assessment area.

	Home Mortgage	Small Business	Small Farm	Total
Number				
# of Loans Inside the AA	1,219	344	26	1,589
Total # of Loans	1,348	396	30	1,774
% of Loans Inside/Total # of Loans	90%	87%	87%	90%
Dollars (in \$000's)				
\$ of Loans Inside the AA	62,935	13,728	690	77,353
Total \$ of Loans	69,986	24,534	781	95,301
% of Loans Inside/Total \$ of Loans	90%	56%	88%	81%

Source: Horizon Bank prepared 1996 and 1997 Home Mortgage Disclosure Act Loan Application Register. 1996 and 1997 Small Business/Small Farm Data Collection Register.

Geographic Distribution - The geographic distribution of loans reflects a good penetration in Horizon Bank's assessment area. This is based on the location of Horizon Bank's home mortgage, small business and small farm loans.

Home Mortgage Loans:

The geographic distribution of Home Mortgage Disclosure Act (HMDA) loans reflects a reasonable distribution in the assessment area. The level of loan activity in the moderate-income tracts in relation to the number of moderate-income tracts for the entire assessment area is reasonable. Between January 1, 1996 and September 5, 1997, 9% of the number and 6% of the dollar amount of HMDA loans were originated in moderate-income areas. During 1997, Horizon Bank originated 81.22% of their HMDA reportable loans in LaPorte County and 18.78% in Porter County. The following table (Table 2) illustrates the number and dollar amount of HMDA loans that were originated in each of the tracts in Horizon Bank's assessment area. As discussed above, there are no low-income tracts in the bank's assessment area.

Originated and Purchased HMDA Loans	Number of Loans in the AA	Percent of Total	Dollar (in 000's) of Loans in the AA	Percent of Total
Moderate-Income Tracts	112	9%	3,792	6%
Middle-Income Tracts	678	56%	31,428	50%
Upper-Income Tracts	429	35%	27,715	44%
Total	1,219		62,935	

Source: 1996 and 1997 HMDA LAR.

Small Business and Small Farm Loans:

With respect to small business and small farm lending in its assessment area, Horizon Bank is originating a reasonable number of loans in moderate-income areas. Table 3 shows the geographic distribution of small business loans within the bank's assessment area. In small business lending, 14% of the number and 23% of the amount is in moderate-income areas. The distribution of loans is consistent with the area demographics. Eighty-nine percent (89%) of small business loans originated and purchased in the combined assessment area were made within LaPorte County.

Originated and Purchased Loans	LaPorte County		Porter County		Total Loans in the AA		Percent of Total Loans	
	# Loans in AA	\$ Loans in AA	# Loans in AA	\$ Loans in AA	# Loans in AA	\$ Loans in AA	# Loans in AA	\$ Loans in AA
Moderate-Income Tracts	49	3163	0	0	49	3,163	14%	23%
Middle-Income Tracts	149	6544	23	627	172	7,171	50%	52%
Upper-Income Tracts	104	2926	19	468	123	3,394	36%	25%
Total	302	656	42	1095	344	13,728		

Source: 1996 and 1997 Small Business/Small Farm Data Collection Register

Table 4 shows the geographic distribution of small farms loans within the bank's combined assessment area. In small farm lending, 8% of the number and 4% of the dollar amount of loans within the assessment area are in moderate-income areas. The distribution of loans is consistent with the area demographics. The majority of small farm loans (88.46%) originated and purchased in the combined assessment area were made within LaPorte County.

Originated and Purchased Loans	LaPorte County		Porter County		Total Loans in the AA		Percent of Total Loans	
	# Loans in AA	\$ Loans in AA	# Loans in AA	\$ Loans in AA	# Loans in AA	Small Farm	# Loans in AA	\$ Loans in AA
Moderate-Income Tracts	2	30	0	0	2	30	8%	4%
Middle-Income Tracts	12	239	3	34	15	273	58%	40%
Upper-Income Tracts	9	387	0	0	9	387	34%	56%
Total	23	656	3	34	26	690		

Source: 1996 and 1997 Small Business/Small Farm Data Collection Register

Borrower Characteristics - The distribution of Horizon Bank's home mortgage, small business and small farm loans based on borrower characteristics is good. We based this conclusion on the availability of product lines offered by Horizon Bank and good penetration among retail customers of various income levels and businesses and farms of different sizes.

Home Mortgage Loans:

The level of home mortgage loans in Horizon Bank’s assessment area to persons with low- and moderate-incomes is reasonable considering the percentage of low- and moderate-income families living in the assessment area (31% per US Census Data). Table 5 shows 26% of the number of HMDA loans and 14% of the dollar amount of the HMDA loans were made to low- and moderate-income individuals in the bank’s assessment area.

Loans Originated and Purchased during 1996 and 1997	Number (#) of Loans in the AA	Percent of Total	Dollar (\$) of Loans in the AA	Percent of Total
Low-Income Borrower	117	10%	2,756	4%
Moderate-Income Borrower	199	16%	6,415	10%
Middle-Income Borrower	280	23%	11,671	19%
Upper-Income Borrower	614	50%	41,155	66%
N/A*	9	1%	938	1%
Total	1,219		62,935	

Source: 1996 and 1997 HMDA LAR.

* N/A = Income of borrower was not available.

The bank’s volume of lending to low- and moderate-income individuals is consistent with the demographics of its assessment area. Based upon HMDA data, 26% of the bank’s loans, by number, were made to the 31% of the families within the assessment area classified as low- and moderate-income. The lower dollar amount of loans is reasonable because loans to low- and moderate-income borrowers are generally in smaller amounts, relative to middle- and upper-income borrowers.

Small Business and Small Farm Loans:

The distribution of Horizon Bank’s small business and small farm lending is good based upon borrower characteristics. The combined assessment area contains 2,723 business establishments with 2,583 (95%) of these business establishments having less than 50 employees. The assessment area consists of predominantly small businesses. Table 6 shows that a substantial majority of small business loans and all of the small farm loans are made to businesses and farms with revenues of less than \$1 million.

Type of Loan	Number	% of Total	\$ Amount (\$000's)	% of Total
Small Business	335	97%	11,624	85%
Small Farm	26	100%	690	100%

Source: 1996 and 1997 Small Business/Small Farm Data Collection Register

Table 7 summarizes Horizon Bank’s small business and small farm lending by varying loans amounts. Based on our analysis of loan sizes using the Small Business and Small Farm Data

Collection Register, Horizon Bank's distribution of business loans and farm loans to borrowers of different sizes is reasonable based on the demographics of the assessment area.

Amount	Small Business				Small Farm			
	Count	%	Amount (\$000's)	%	Count	%	Amount (\$000's)	%
Less than \$100 thousand	324	94%	7,719	56%	24	92%	386	56%
\$100 thousand - \$250 thousand	14	4%	2,533	19%	2	8%	304	44%
Over \$250 thousand	6	2%	3,476	25%	0	0%	0	0%
Total	344	100%	13,728	100%	26	100%	690	100%

Source: 1996 and 1997 Small Business/Small Farm Data Collection Register

Community Development Lending - Horizon Bank originated community development loans to a Community Development Corporation (CDC) which they were an active member in establishing. The bank has originated two qualified community development loans to this CDC totaling \$72,500 (\$10,000 operating line of credit and participation in a \$500,000 loan). Horizon is one of eight local financial institutions participating in the \$500,000 loan on an equal basis. The loans provide the CDC with operating funds to develop and rehabilitate low- and moderate-income housing and provide home buyer education. Community development loans are those that do not meet the definition of home mortgage, small business or small farm loans, but do meet the definition of community development contained in the CRA regulation (12 CFR 25.12(h)).

Innovative or Flexible Lending Practices - Horizon Bank has developed several innovative loan programs with flexible lending practices to address the credit needs of low- and moderate-income borrowers. In response to identified community credit needs, the bank offers the "Fresh Start - Establishment of Credit Worthiness" program. This program provides small dollar loans at low rates to allow individuals to establish or reestablish a good credit history. The "Fresh Start - Home Refurbishment" loan program provides funds for low- and moderate-income individuals to make improvements to their homes. The bank has allocated \$100,000 to each of these loan programs. Since January 1, 1996, the bank originated \$4,000 in "Credit Worthiness" loans and \$11,000 in "Home Refurbishment" loans, respectively.

Horizon Bank also offers loan programs with flexible terms to small businesses and farms. The bank offers loans through the Small Business Administration (SBA) and the Indiana Capital Access Program (CAP). Since January 1, 1996, Horizon bank has originated three SBA-guaranteed loans totaling \$933,000. CAP loans are made to small businesses that do not qualify for conventional loans; portions of the loan payments are paid into a reserve to provide the lender with additional security as an inducement to make the loan. Since January 1, 1996, Horizon Bank has originated 109 CAP loans totaling \$3,058,000.

In addition to the SBA and CAP programs, the bank offers refurbishment loans to day care providers through the "Care Provider Fund Program." This program was created in response to an identified community need for additional day care providers. Through the program, the bank provides loans to day care providers for refurbishing their facilities. The borrowers must be

licensed day care providers and primarily serve low- and moderate-income individuals and neighborhoods. Horizon Bank has allocated \$100,000 in loan funds under the program for “in home” day care providers and \$150,000 in loan funds for “center” day care providers. Since its implementation in September 1996, the bank has originated \$10,000 in loans through the program.

INVESTMENT TEST

Horizon Bank’s level of investment in its assessment area is adequate. The bank has three qualified investments which are not complex in nature. Qualified investments in northwestern Indiana are limited due to various state programs. The bank, along with seven other financial institutions, has helped create the Greater Michigan City CDC in order to participate in investments within their community. Their contribution to the CDC has been unique and innovative in nature. The bank’s investments have been in response to requests for assistance from community organizations.

Horizon Bank’s qualified investments consist of donations of a house and cash to the Greater Michigan City CDC. The house will be used in the home buyer education program to educate participants on the normal responsibility of home ownership and maintenance responsibilities. The house will eventually be rehabilitated by the CDC and sold to a low- or moderate-income family for the cost of the rehabilitation. The cash contributions to the CDC are to support its home buyer education program for low- and moderate-income first time home buyers. Community contacts have identified a significant credit need in the area is to support individuals participating in home buyer education programs. In addition, the bank has donated cash to a local elementary school. The school is located in a moderate-income area in Michigan City with a student body consisting primarily of low- and moderate-income students.

Below is a breakdown of the investments by type:

Cash Donations to CDC:	\$	6,000
House Donated to CDC:		25,000
Cash Donations to elementary school:		<u>38,000</u>
Total	\$	69,000

SERVICE TEST

Horizon Bank’s delivery systems are accessible to all areas of the bank’s assessment area. In addition to its network of branches and Automated Teller Machines (ATMs), the bank offers Automated Loan Machines (ALMs) which are an innovative delivery system for the area. Table 8 shows the bank’s distribution of branches, ATMs and ALMs and compares it to the characteristics of the assessment area:

<p>Table 8 Distribution of Delivery Systems</p>

Census Tract Characteristic:	% of Geographies	# of Branches	% of Branches	# of ATMs	% of ATMs	# of ALMs	% of ALMs
Moderate Income	13%	3	30%	5	23%	2	33%
Middle Income	54%	5	50%	12	55%	3	50%
Upper Income	31%	2	20%	5	23%	1	17%
Not Applicable*	2%	0	0	0	0	0	0
Total		10		22		6	

* One unpopulated census tract is classified as not applicable for income classification purposes.

Table 8 reveals that the distribution of delivery systems in moderate-income areas is good. Overall, 30% of the branches, 23% of the ATMs and 33% of the ALMs, respectively, are in moderate-income areas which represent only 13% of the census tracts in the assessment area. Additionally, two of the ATMs in moderate-income areas are not located with a branch.

Overall branch hours are reasonable and convenient to customers. Fifty percent (50%) of the offices offer Saturday hours. All ATMs are accessible 24 hours a day and ALMs are accessible from 6am to 10pm daily. Horizon Bank also offers bank-by-phone services. The service is called **Phonelink** and is offered to customers free of charge and is available at any time.

Horizon Bank's record of opening and closing branches has not adversely affected the accessibility of its services. Two branches in upper-income areas were closed during the past two years. During that same period the bank opened one branch in a middle-income area and one branch in an upper-income area. The two branches were opened in areas that are accessible to customers of the closed branches.

Community Development Services - Horizon Bank provides a satisfactory level of community development services. The bank's primary services include providing standard financial services, credit counseling and technical assistance in financial services areas.

The bank's services include those targeted at low- and moderate-income individuals and small businesses and farms. Low cost checking is available for senior citizens and small dollar account holders. The bank also offers debit cards to all account holders without requiring a minimum checking account balance.

Horizon Bank also provides community development services through community organizations. Some of these organizations and services are listed below:

- ▶ LaPorte Economic Development Foundation/Commission and the Michigan City Redevelopment Commission - employees provide technical financial expertise and assist in fundraising;
- ▶ Northwest Regional Small Business Entrepreneurial Conference - Horizon Bank is a sponsor of this conference providing financial training for local small businesses; and
- ▶ The Greater Michigan City CDC - Horizon Bank established the CDC and provided fundraising and technical financial assistance.

FAIR LENDING REVIEW

No violations of the substantive provisions of the antidiscrimination laws and regulations were identified during our review. Horizon Bank's fair lending policies, procedures, training and internal assessment efforts have been effective in assisting lenders in these issues.

Metropolitan Statistical Area

Description of Institution's Operations in Gary, Indiana MSA - #2960

The bank's combined assessment area includes Porter County which consists of 16 census tracts located in the Gary, Indiana MSA - #2960. The bank has 4 branches located in Porter County. The bank has had a presence in Porter County since 1995. Horizon Bank has demonstrated a responsiveness to meeting the credit needs throughout the Porter County area. The bank's geographic distribution indicates a penetration in all census tracts within Porter County. During 1997 a minority of the bank's total loans were originated in Porter County (12.21% small business, 11.54% small farm, 25.87 consumer). The distribution of these loans to borrowers of different income levels is similar to the demographics of Porter County. Overall, the business and family demographics, distribution of loans to borrowers of different income levels, and the distribution of census tracts for Porter County is similar to LaPorte County and the combined assessment area.

Conclusions with Respect to Performance Tests in Gary, Indiana MSA - #2960

Horizon Bank's lending, investment, and service performance in the Gary, Indiana MSA - #2960 is consistent with the bank's overall lending, investment, and service performance.