



# LARGE BANK

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

Public Disclosure

October 27, 2003

Community Reinvestment Act  
**Performance Evaluation**

**First Merchants Bank, National Association**  
**Charter Number: 2234**

**200 East Jackson Street**  
**Muncie, IN 47305**

**Office of the Comptroller of the Currency**

**ADC-Central Illinois & Central Indiana**  
**8777 Purdue Road, Suite 105**  
**Indianapolis, IN 46268**

**NOTE:** This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. This evaluation is not, and should not 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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## Overall CRA Rating

**Institution's CRA Rating:** This institution is rated **Satisfactory**.

The following table indicates the performance level of **First Merchants Bank, National Association (FMB)** with respect to the Lending, Investment, and Service Tests:

Performance Levels	First Merchants Bank, N.A. Performance Tests		
	Lending Test*	Investment Test	Service Test
Outstanding			
High Satisfactory	X	X	X
Low Satisfactory			
Needs to Improve			
Substantial Noncompliance			

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

The major factors that support this rating include:

- FMB's lending reflects an adequate distribution among borrowers of different income levels and businesses of different sizes.
- The distribution of FMB's loans among different income level geographies is adequate.
- Lending levels as shown by the volume of all loans generated reflect good responsiveness to the credit needs of its AA.
- Community development lending had a positive effect on the lending test rating.
- Investments reflect good responsiveness in relation to a limited level of opportunities in the AA. FMB has exhibited responsiveness to needs within the State of Indiana after addressing the needs in its local AA.
- Accessibility of FMB's offices to geographies and to borrowers of different income levels is reasonable and the responsiveness of the bank's community development services to the needs of its AA is excellent.

## Definitions and Common Abbreviations

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

**Affiliate:** Any company that controls, is controlled by, or is under common control with another company. A company is under common control with another company if the same company directly or indirectly controls both companies. A bank subsidiary is controlled by the bank and is, therefore, an affiliate.

**Aggregate Lending:** The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the MA/assessment area.

**Block Numbering Area (BNA):** A statistical subdivision of a county for grouping and numbering blocks in non-metropolitan counties where local census statistical area committees have not established census tracts. A BNA does not cross county lines.

**Census Tract (CT):** A small subdivision of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan areas. Census tracts usually have between 2,500 and 8,000 persons, and their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

**Community Development:** Affordable housing (including multifamily rental 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 (13 CFR 121.301) or have gross annual revenues of \$1 million or less; or, activities that revitalize or stabilize low- or moderate-income geographies.

**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.

**Consumer Loan(s):** A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

**Family:** Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family, which is further classified into 'male householder' (a family with a male household and no wife present) or 'female householder' (a family with a female householder and no husband present).

**Full Review:** Performance under the Lending, Investment, and Service Tests is analyzed considering performance context, quantitative factors (e.g., geographic distribution, borrower distribution, and total number and dollar amount of investments), and qualitative factors (e.g., innovativeness, complexity, and responsiveness).

**Geography:** A census tract or a block numbering area delineated by the United States Bureau of the Census in the most recent decennial census.

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

**Home Mortgage Loans:** Such loans include home purchase and home improvement loans, as defined in the HMDA regulation. This definition also includes loans for multifamily (five or more families) dwellings, loans for the purchase of manufactured homes, and refinancing of home improvement and home purchase loans.

**Household:** Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

**Limited Review:** Performance under the Lending, Investment, and Service Tests is analyzed using only quantitative factors (e.g., geographic distribution, borrower distribution, total number and dollar amount of investments, and branch distribution).

**Low-Income:** Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent, in the case of a geography.

**Market Share:** The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the MA/assessment area.

**Median Family Income (MFI):** The median 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 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 above it and half below it.

**Metropolitan Area (MA):** Any primary metropolitan area (PMA), metropolitan area (MA), or consolidated metropolitan area (CMA), as defined by the Office of Management and Budget, with a population of 250,000 or more, and any other area designated as such by the appropriate federal financial supervisory agency.

**Middle-Income:** Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 percent and less than 120 percent, in the case of a geography

**Moderate-Income:** Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 percent and less than 80 percent, in the case of a geography.

**Multifamily:** Refers to a residential structure that contains five or more units.

**Other Products:** Includes any unreported optional category of loans for which the institution collects and maintains data for consideration during a CRA examination. Examples of such activity include consumer loans and other loan data an institution may provide concerning its lending performance.

**Owner-Occupied Units:** Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

**Qualified Investment:** A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

**Rated Area:** A rated area is a state or multi-state metropolitan area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multi-state metropolitan area, the institution will receive a rating for the multi-state metropolitan area.

**Small Loan(s) to Business(es):** A loan included in "loans to small businesses" as defined in the Consolidated Report of Condition and Income (Call Report) and the Thrift Financial Reporting (TFR) instructions. These loans have original amounts of \$1 million or less and typically are either secured by nonfarm or nonresidential real estate or are classified as commercial and industrial loans. However, thrift institutions may also exercise the option to report loans secured by nonfarm residential real estate as "small business loans", if the loans are reported on the TFR as nonmortgage, commercial loans.

**Small Loan(s) to Farm(s):** A loan included in “loans to small farms”, as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, or are classified as loans to finance agricultural production and other loans to farmers.

**Tier One 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.

**Upper-Income:** Individual income that is more than 120 percent of the area median income, or a median family income that is more than 120 percent, in the case of a geography.

## Description of Institution

First Merchants Bank, National Association (FMB) is an intrastate institution headquartered in Muncie, Indiana. FMB has two (2) assessment areas, both of which are located in the state of Indiana. FMB serves the Muncie, Indiana MSA and Hamilton County, which is part of the Indianapolis MSA. The bank operates 16 offices and 19 automatic teller machines (ATMs). Each branch has an (ATM) on the premises except one.

FMB is wholly owned by First Merchants Corporation (FMC), which is headquartered in Muncie, Indiana. In addition to FMB, FMC owns nine other community banks as well as an insurance company, a title insurance company, and trust company. As of December 31, 2002, FMC had total assets of approximately \$2.7 billion; however, FMC acquired CNBC Bancorp, Columbus, Ohio in second quarter of 2003. This acquisition increased total assets by approximately \$300 million. Since yearend 2002, FMC also consolidated the fiduciary activities of its various banks into Merchants Trust Company that had total assets of \$1.1 billion as of January 31, 2003.

FMB had \$777 million in total assets, \$572 million (74 percent of total assets) in total loans and \$60 million in Tier 1 capital on June 30, 2003. The loan portfolio is 59 percent real estate secured. Thirty-three (33) percent of the portfolio is 1-4 family residential loans, 19 percent is commercial real estate, 5 percent is construction loans, 2 percent is multifamily loans, and less than 1 percent is secured by farmland. Another 27 percent are commercial loans, 12 percent are loans to individuals, 1 percent is agricultural loans, and approximately 1 percent is other loans.

FMB's strategic goal is to be the "financial service provider of choice" for its market area. The bank provides a broad range of retail consumer and commercial banking products and services in the form of loans, deposits, and safety deposit services in a community bank atmosphere. The bank also partners with its corporate affiliates to make other financial services such as trust, cash management, and insurance services available to its customers. The bank's goal is to employ technology to deliver these services where appropriate, but to continue to rely primarily on the use of the branch banking system to provide products and services. The focus of the bank's loan function is to maintain a strong credit culture while reviewing opportunities to reach new markets and maintaining a commitment to community involvement.

There are no legal, financial, or other constraints that could impair the bank's ability to meet the credit needs of the community. The last CRA examination was June 12, 2000, at which time the bank received a Satisfactory rating.



## **Scope of the Evaluation**

### **Evaluation Period/Products Evaluated**

The evaluation period for the Lending Test, excluding Community Development (CD) Loans, is January 1, 2000 through December 31, 2002. The evaluation period for the Investment Test, the Service Test, and CD loans is June 13, 2000 through October 27, 2003.

Products included in FMB's Lending Test analysis are home mortgage loans, small loans to businesses, and CD loans. Small loans to farms and multi-family loans are not significant products of FMB, so an analysis of these products would not be meaningful.

For the Investment Test, current balances of qualified investments made in prior periods and qualified investments made in the current period were evaluated.

For the Service Test, the geographic distribution of branches, the bank's record of opening and closing branches, and retail and CD services were evaluated.

Market share data for home mortgage loans and small loans to businesses and farms were based on 2001 aggregate data, which was the most current data available at the time the bank's CRA performance was evaluated.

### **Data Integrity**

The Community Reinvestment Act requires that banks, other than small banks, collect and maintain certain data regarding originations and purchases of small loans to businesses and farms. The Home Mortgage Disclosure Act (HMDA) requires banks with branches in Metropolitan Statistical Areas (MSAs) to collect information on its home mortgage loans.

As part of our evaluation, we performed a data integrity review of the bank's 2000, 2001, and 2002 HMDA and CRA data. We compared information from the bank's loan application registers to the information contained in the loan files. During our review, we noted significant errors in key fields of HMDA and small business data. FMB management performed a file search for all small business and HMDA loans reported during 2000, 2001, and 2002 to correct the errors noted. Our subsequent follow-up review noted no significant errors in these key fields. Subsequent to our data integrity review, FMB failed to maintain the CRA data from 2000 in a usable electronic format. Therefore, this performance evaluation is based on accurate HMDA data from 2000, 2001, and 2002 and CRA data from 2001 and 2002.

In addition, we reviewed CD loans, investments, and services, submitted by the bank, to determine that they met the regulatory definitions. Our review indicated that some of the items submitted by FMB for consideration did not meet the definition or purpose of CD. Therefore, this evaluation was based on only those CD loans, investments and services that met the regulatory definitions.

### **Selection of Areas for Full-Scope Review**

FMB has only two AAs with the Muncie Indiana MSA accounting for over 90% of the bank's loans and deposits and over 70% of the bank's branches. Therefore, we performed full-scope procedures in the Muncie Indiana MSA and a limited-scope review of the Hamilton County Indiana AA.

Refer to Appendix A for additional information regarding the area receiving a full-scope review.

### **Ratings**

The bank's overall rating is based primarily on the Muncie Indiana MSA which received a full-scope review.

Home mortgage and small business lending were given equal weight due to the approximately same volume of loans made (NOTE: Remember, the tables include only two years of small business data vs. three years of home mortgage data). Home refinance lending was weighted more heavily than home purchase loans with home improvement receiving the least weight of the home mortgage products. Small loans to farms and multi-family loans are not significant products of FMB and therefore were not considered in the evaluation.

### **Other**

We performed two community contacts during this evaluation. We spoke to two individuals representing housing organizations in the Muncie MSA. The contacts indicated the major credit needs in this area include affordable housing loans.

## **Fair Lending Review**

We found no evidence of illegal discrimination or other illegal credit practices.

## Conclusions with Respect to Performance Tests

### LENDING TEST

#### Conclusions for Areas Receiving Full-Scope Reviews

The bank's performance under the lending test is rated High Satisfactory. Based on a full-scope review, the bank's performance in the Muncie Indiana MSA is good.

#### Lending Activity

Lending levels, as shown by the volume of all loans generated, reflect good responsiveness to the credit needs of the AA. Refer to Table 1 Lending Volume in appendix C for the facts and data used to evaluate the bank's lending activity.

During the evaluation period, FMB extended 2,580 home mortgage, small business and small farm loans totaling approximately \$230 million in the full-scope AA. Approximately 57 percent of FMB's originated/purchased loans in the AA are home mortgage loans, 39 percent are small loans to businesses, and the remaining 4 percent are small loans to farms. Of the total home mortgage loans, home refinance loans accounted for 47 percent, home purchase loans accounted for 33 percent, and home improvement loans accounted for 20 percent.

FMB's lending activity in the AA is good. Information on deposit market share compiled by the FDIC for the year 2002 shows that the bank ranks 1<sup>st</sup> out of seven institutions with a deposit market share of 41.49 percent in the Muncie Indiana MSA. The bank's deposit market share and rank compare favorably with its market share and rank from the various loan products. The bank is a strong performer and dominates the market in small business lending.

Based on 2001 HMDA aggregate data, FMB ranks 3<sup>rd</sup> for all HMDA reportable loans, 2<sup>nd</sup> for home purchase, 1<sup>st</sup> for home improvement, and 4<sup>th</sup> for home refinance loan products. FMB has a 9.50 percent market share (230 lenders) in the Muncie Indiana MSA for all HMDA reportable loans. FMB has a 9.91 percent market share with 137 lenders originating/purchasing home purchase loans in the AA. FMB's market share is 23.18 percent with 42 lenders originating/purchasing home improvement loans in the AA. FMB has a 7.48 percent market share with 191 lenders originating/purchasing home refinance loans in the bank's AA.

Based on 2001 CRA aggregate data, FMB ranks 1<sup>st</sup> of 15 lenders originating/purchasing small loans to businesses in the AA, with a 42.86 percent market share.

## **Distribution of Loans by Income Level of the Geography**

FMB's lending reflects an adequate dispersion among geographies of different income levels.

### ***Home Mortgage Loans***

The overall geographic distribution of home mortgage loans is adequate in the full-scope AA. We placed more emphasis on home refinance loans because the volume of these loans exceeds the volume of home purchase and home improvement loans. A geographical analysis of multifamily loans would not be meaningful because of the low volume and therefore were not considered in the evaluation. Refer to Tables 2, 3, 4 and 5 in Appendix C for the facts and data used to evaluate the geographic distribution of the bank's home mortgage loan originations and purchases.

Home purchase loan geographic distribution is adequate. The percentage of the bank's home purchase loans made in the low-income geographies (1.02 percent) is below the percentage of owner-occupied housing units (2.47 percent) in these geographies. The percentage of the bank's home purchase loans made in the moderate-income geographies (10.61 percent) is also below the percentage of owner-occupied housing units (22.17 percent) in these geographies. The bank's market share for loans made in the low-income geographies (9.68 percent) is near to its overall market share (9.91 percent) for home purchase loans. The bank's market share for loans made in the moderate-income geographies (5.14 percent) is significantly below its overall market share for home purchase loans.

Home improvement loan geographic distribution is good. The percentage of the bank's home improvement loans made in the low-income geography (1.37 percent) is below the percentage of owner-occupied housing units (2.47 percent) in these geographies. The percentage of the bank's home improvement loans made in the moderate-income geographies (22.53 percent) exceeds the percentage of owner-occupied housing units (22.17 percent) in those geographies. The bank's market share for loans made in the low-income geographies (15.38 percent) is below its overall market share (23.18 percent) for home improvement loans. The bank's market share for loans made in the moderate-income geographies (26.00) exceeds its overall market share for home improvement loans.

Home refinance loan geographic distribution is adequate. The percentage of the bank's refinance loans made in the low-income geographies (1.30 percent) is below the percentage of owner-occupied housing units (2.47 percent) in those geographies. The percentage of the bank's refinance loans made in the moderate-income geographies (10.23 percent) is below the percentage of owner-occupied housing units (22.17 percent) in those geographies. The bank's market share for refinance loans made in the low-income geographies (4.0 percent) and moderate-income geographies (5.95 percent) are below its overall market share (7.48 percent) for refinance loans.

### ***Small Loans to Businesses***

The bank's geographic distribution of small loans to businesses in the full-scope AA is adequate. Refer to Table 6 in appendix C for the facts and data used to evaluate the geographic distribution of the bank's origination/purchase of small loans to businesses.

The percentage of small loans to businesses made in the low-income geographies (3.65 percent) is below the percentage of businesses in these geographies (6.01 percent). The percentage of small business loans made in moderate-income geographies (17.08 percent) is below the level of small businesses in these geographies (19.72 percent). The bank's market share in low-income geographies (19.81 percent) just exceeds its overall market share (19.48 percent). The bank's market share for loans made in the moderate-income geographies (17.49 percent) is below its overall market share for small business loans.

### **Lending Gap Analysis**

No unexplained conspicuous gaps were identified. Maps and reports detailing FMB's lending activity over the evaluation period for home mortgage loans and small loans to businesses were reviewed to identify gaps in the geographic distribution of those loans.

### ***Inside/Outside Ratio***

A substantial majority of home mortgage loans and small loans to businesses originated or purchased by FMB over the evaluation period were within its AAs. Eighty-two percent of the bank's home mortgage loans and 90 percent of its small loans to businesses are within its AA. This performance was positively factored into the overall analysis of the geographic distribution of lending by income level of geographies.

### **Distribution of Loans by Income Level of the Borrower**

- FMB's lending reflects an adequate distribution among borrowers of different income levels and businesses of different sizes.

## ***Home Mortgage Loans***

The overall borrower distribution of home mortgage loans is good in the bank's AA. In evaluating the borrower distribution of home mortgage loans, we considered the large number of households that live below the poverty level (16.88 percent of households) and the barriers that this may have on home ownership. Refer to Tables 8, 9, and 10 in appendix C for the facts and data used to evaluate the borrower distribution of the bank's home mortgage loan originations and purchases.

The borrower distribution for home purchase loans is good. Home purchase loans made to low-income borrowers (5.22 percent) are below the percentage of low-income families (21.13 percent) in the AA. Opportunities to make loans to low-income borrowers are limited by the high percentage of people living below the poverty level as mentioned above. Home purchase loans (20.67 percent) made to moderate-income borrowers significantly exceed the percentage of moderate-income families (17.14 percent) in the AA. Market share for loans made to low-income borrowers (4.90 percent) is below the overall market share (10.67). However, market share for loans made to moderate-income borrowers (9.17 percent) is near to the overall market share (10.67) for home purchase loans in the AA.

The borrower distribution for home improvement loans is excellent. Home improvement loans made to low-income borrowers (16.32 percent) are below the percentage of low-income families (21.13 percent) in the AA. Again, opportunities to make loans to low-income borrowers are limited by the high percentage of people living below the poverty level (16.88 percent). The percentage of home improvement loans made to moderate-income borrowers (26.39 percent) significantly exceeds the percentage of moderate-income families (17.14 percent) in the AA. Market share for home improvement loans made to low-income borrowers (29.49 percent) significantly exceeds the overall market share (24.17 percent) in the AA for home improvement loans. Market share for home improvement loans made to moderate-income borrowers (26.45 percent) also exceeds the overall market share in the AA for home improvement loans.

The borrower distribution for home mortgage refinance loans is adequate. Refinance loans (7.76 percent) made to low-income borrowers is below the percentage of low-income families (21.13 percent) in the AA. Again, opportunities to make loans to low-income borrowers are limited by the high percentage of people living below the poverty level (16.88 percent). Refinance loans made to moderate-income borrowers (15.00 percent) is below the percentage (17.14 percent) of moderate-income families in the AA. Market share for refinance loans made to low-income borrowers (5.52 percent) and moderate-income borrowers (6.22 percent) are below the overall market share (8.51 percent) in the AA for refinance loans.

### ***Small Loans to Businesses***

The borrower distribution of small loans to businesses is adequate. Refer to Table 11 in appendix C for the facts and data used to evaluate the borrower distribution of the bank's origination/purchase of small loans to businesses.

Small loans to businesses with revenues of \$1 million or less (61.30 percent) is significantly below the percentage of small businesses (76.50 percent) in the AA. Although the bank's level of lending is quite a bit below the proportion of small businesses in the area, no revenue information was available for 15.79 percent of the small business loans extended by the bank. The bank's market share of small loans to businesses with revenues of \$1 million or less (27.45 percent) noticeably exceeds its overall small business market share (19.48 percent).

The bank's inability to provide electronic data for its 2000 small business lending had a neutral effect on our conclusions (refer to Data Integrity comments in the Scope of the Evaluation section for additional details).

### **Community Development Lending**

Community development lending had a positive effect on the Lending Test conclusions. The bank's volume of CD lending is responsive to the limited opportunities in the AA. Refer to Table 1 Lending Volume in appendix C for the facts and data used to evaluate the bank's level of community development lending.

During the evaluation period, FMB extended seven community development loans totaling approximately \$27,627,984. The following paragraphs describe the CD loans FMB extended during this evaluation period:

FMB loaned \$20 million to a manufacturing company. The company's major plant is located in a moderate-income census tract, which is adjacent to a low-income tract. The company employs many of the low- and moderate-income residents of the area. Over the past couple of years, this distressed area has suffered from loss of jobs due to the closing of a couple of other manufacturing companies. The purpose of the funds is to aid in maintaining control of the ownership of the business and keep it from being sold; thus stabilizing the area by retaining jobs.

Over \$1.4 million was provided by FMB to aid in the development of the industrial park known as the Park One Redevelopment Area. This loan represents money for the revitalization and stabilization of the area designated for redevelopment in accordance with Indiana State Law (additional details are included under the Investment Test).

FMB also aided in the provision of community services targeted to low- and moderate-income individuals through a loan to the public bus transit system. The bus service is located in a moderate-income geography and serves predominately low- and

moderate-income individuals. This \$2.1 million provided working capital to cover expenses prior to the company receiving tax draws that were significantly delayed. The bus transit system would not have been able to continue to operate without these funds.

FMB provided funding for the renovation of the Southway Center shopping mall in a moderate-income census tract. The most recent activity is a refinance of the \$4.1 million debt of the various individuals involved in the project. FMB made four separate loans to the principals and/or their related company to restructure the debt remaining from the acquisition and renovation project. This shopping center aided in the stabilization of this moderate-income area.

The bank has also made numerous loans with community development characteristics, such as mortgage loans providing affordable housing to low- and moderate-income individuals and loans to small businesses which promoted economic development that have already been considered in the home mortgage or small business categories of the lending test.

### **Product Innovation and Flexibility**

Product flexibility had a neutral effect on the Lending Test conclusions. FMB offers a limited number of flexible products and the volume of loans originated under these programs is low. None of the products are considered innovative. The bank has not consistently tracked activity for these products, so our conclusion is based on bank data from October 1, 2002 through October 27, 2003. Below are a description of each loan program and the volume (number and dollars) of activity for each program.

First Time Home Buyer Program - 34 loans, \$2,876,120

This program is available to first-time homebuyers and offers a three percent down payment, which is lower than the five percent required for other loan products. Borrowers are required to purchase private mortgage insurance if the amount of the loan is greater than 80 percent of the value of the property. Other mortgage loan products require borrowers to have enough funds to cover closing costs and maintain a cash reserve with the bank, in addition to the down payment. The First Time Home Buyer Program allows up to \$1,000 in closing costs to be paid by the seller. FMB also provides a no service-charge checking account for the life of the loan to borrowers under this program. Approximately 53 percent of the loans made through this program during the evaluation period were extended to low- and moderate-income borrowers.

Good Neighbor Home Loan – 25 loans, \$1,108,470

This program targets low- and moderate-income borrowers in the Muncie MSA. Funds can be used for home purchase, refinance, or home improvements. This product offers less stringent underwriting criteria, such as higher debt-to-income ratios than the bank allows on other products, and allows loan-to-value ratios of up to 90 percent without requiring private mortgage insurance.



## **Conclusions for Areas Receiving Limited-Scope Reviews**

Based on a limited-scope review, the bank's performance under the lending test in the Hamilton County Indiana AA is weaker than the bank's overall High Satisfactory performance under the lending test. However, the performance is considered adequate and did not negatively impact the overall conclusion for the lending test. The weaker performance is centered in the comparatively lower volume of loans due to the high level of competition in the financial services market in the county. Based on FDIC branch information as of June 30, 2002, there are several large regional banks and a number of independent local financial institutions that operate seventy-one offices in Hamilton County. Of these financial institutions, FMB's share of the deposits in this market is only 2.5 percent. Refer to Tables 1 through 13 in appendix C for the facts and data that support these conclusions.

## **INVESTMENT TEST**

### **Conclusions for Areas Receiving Full-Scope Reviews**

The bank's performance under the investment test is rated High Satisfactory. Based on a full-scope review, the bank's performance in the Muncie Indiana MSA is good. Refer to Table 14 in appendix C for the facts and data used to evaluate the bank's level of qualified investments.

#### **Current Period Investments**

Current period qualified investments made by FMB total approximately \$1,776,855 to various organizations to revitalize and stabilize low- and moderate-income areas within the Muncie MSA and to provide social services and housing primarily for low- and moderate-income individuals. This level of investment is good considering that opportunities for qualified investments are somewhat limited in this AA (see comments in Appendix B: Market Profile for details). Examples of the more prominent investments and contributions made by FMB are indicated below.

- FMB purchased \$1,175,000 Delaware County Redevelopment District Tax Increment Revenue Bonds. The proceeds of these bond issues were for the Park One Redevelopment Area and the redevelopment of Morrison Road. This area is targeted for redevelopment in accordance with provisions of the state code of Indiana. The project provides for the revitalization and stabilization of this area through improved infrastructure and job creation and retention. Although the project is located in an upper-income CT in the Muncie MSA, it is adjacent to two low-income CTs. The project helps the small businesses in this area by financing improvements which otherwise would have required additional taxes from the businesses. Several businesses have located in adjacent areas due to the improved access provided by this development. These retail businesses provide permanent jobs for low- and moderate-income individuals. Also, the initial tenant in the Park One Redevelopment Area is Save-A-Lot. Save-A-Lot built a large distribution center in the area that employs approximately 117 people and serves stores in five states. The majority of the jobs provided are for low- and moderate-income individuals.
- FMB also made various donations to 17 community development organizations for \$141,855. The majority (\$137,280) was a targeted donation to the United Way for programs that benefit low- and moderate-income families in Delaware County.

#### **STATEWIDE/REGIONAL INVESTMENTS:**

- FMB purchased \$460,000 Town of Pendleton Redevelopment District Tax Increment Revenue Bonds of 2000 and 1999. The bond proceeds were used for the acquisition, development and redevelopment of the area, which is targeted for redevelopment in accordance with provisions of the state code of Indiana. The project provides for the revitalization and

stabilization of this area. Although this investment is outside the bank's AAs, we included this project since the bank has adequately met the investment needs within its AA.

#### **Prior Period Investments**

Based on the bank's last CRA performance evaluation, the bank's prior-period qualified investments were comprised of approximately \$2.6 million in low-income housing tax credits and \$750 million in redevelopment municipal bonds. The low-income housing tax credits have been sold. However, there is an additional redevelopment bond that was not identified as a qualified investment at our prior CRA evaluation. The remaining outstanding balance of these prior period investments is \$907,000 and has a continuing positive impact on the community.

- FMB purchased \$750,000 Delaware County Redevelopment District Tax Increment Revenue Bonds – Series 2000. The proceeds of this bond issue were for the Park One Redevelopment Area discussed above. The purpose of this revenue bond was to finance infrastructure improvements necessary to develop the Morrison Road/West McGalliard retail area. The book value of these bonds as of October 27, 2003 is \$667,000.

#### **STATEWIDE/REGIONAL INVESTMENTS:**

- FMB purchased \$240,000 Lafayette Redevelopment Authority bonds. The Lafayette bonds were used for the Creasy/Brady Lane redevelopment project. This area is targeted for redevelopment in accordance with provisions of the state code of Indiana. The project provides for the revitalization and stabilization of this area. Although this investment is outside the bank's AAs, we included this project since the bank has adequately met the investment needs within its AA. The book value of these bonds as of October 27, 2003 is \$240,000.

#### **Conclusions for Area Receiving Limited-Scope Reviews**

Based on a limited-scope review, the bank's performance under the investment test in the Hamilton County Indiana AA is weaker than the bank's overall High Satisfactory performance under the investment test. Due to the limited opportunity for qualified investments and high level of competition in this AA, this performance is considered adequate and did not negatively impact the overall investment test conclusion. FNB did not make any qualified investments in this AA.

## **SERVICE TEST**

### **Conclusions for Areas Receiving Full-Scope Reviews**

The bank's performance under the Service Test is rated High Satisfactory. Based on a full-scope review, the bank's performance in the Muncie Indiana MSA is good. The bank's excellent Community Development Services had a positive effect on the overall Service Test rating.

### **Retail Banking Services**

Refer to Table 15 in appendix C for the facts and data used to evaluate the distribution of the bank's branch delivery system and branch openings and closings.

First Merchants' delivery systems are reasonably accessible to geographies and individuals of different income levels in its AA. In addition to the main office, FMB operates ten full-service branch facilities in this assessment area. Although there are no branches in low-income census tracts and only one branch location (9%) in a moderate-income census tract, four of the bank locations provide reasonable access to residents of the low-income tracts. These branches are located only one-half to one block away in adjacent census tracts. Based on the makeup of the low-income tracts (as outlined in the Market Profile in Appendix B) and the proximity of branches to low- and moderate-income tracts, the distribution of the bank's locations is reasonable when compared to the distribution of the population in the AA. Ten percent of the population in the AA lives in low- and 21 percent in moderate-income census tracts.

FMB closed one branch in this AA during this evaluation period. This branch was located in a middle-income census tract. The bank did not open any branches in this assessment area during this evaluation period.

All offices provide full banking services. The bank offers numerous deposit and loan products. These include guaranteed mortgage and business loans as well as affordable housing programs, low-cost checking, free government check cashing for customers, and ATM and debit cards.

Branch hours offer reasonable access and convenience. Each location, with the exception of one (in an upper-income census tract), has drive-up facilities. Generally, lobby hours are from 9 a.m. to 5 p.m. Monday through Thursday and 9 a.m. to 6 p.m. on Fridays. Drive-up hours are typically from 8 a.m. to 5 p.m. Monday through Thursday and 8 a.m. to 6 p.m. on Fridays. Saturday hours are from 9 a.m. to 12 noon.

FMB offers fourteen ATMs in this AA. Each branch has at least one ATM on premise, except the Eaton branch. Three offices (i.e. Main Office, Tillotson Banking Center, and Village Banking Center) have two ATMs on premises. FMB also has one

freestanding ATM in this AA. This ATM is located off-premises in the Eaton Pantry convenience store, which is approximately one mile from the Eaton branch location. There are no ATMs in low-income census tracts, one in a moderate-income census tract, nine in middle-income census tracts, and four in upper-income census tracts. As is the case for the branches (mentioned above), four ATMs provide reasonable access to residents of the low-income tracts, since they are located only one-half to one block away. All ATM's, with the exception of two (i.e. Eaton and Southway), offer full service. Additionally, each ATM offers a Spanish Language option and each ATM allows for the withdrawal of Indiana State issued Electronic Benefit Payments (EBT). Non-customers may withdraw funds from their respective bank's accounts using their ATM or debit cards for a minimal fee.

In addition to its ATM network, FMB offers other alternative delivery systems to expand the availability of retail bank services within the AA. The bank offers 24-hour telebanking to its customers, which allows them to check balances, transfer funds, and make loan payments via the telephone. The bank also offers on-line banking, a computer based banking service that can be accessed via terminals in public libraries, as well as individual homes and businesses. FMB did not have any information to show how low- and moderate-income individuals or geographies benefited from these telephone or computer services. Therefore, we did not place significant weight on these alternative systems when drawing our CRA performance conclusions.

## **Community Development Services**

FMB's performance in providing Community Development (CD) services in the Muncie Indiana MSA is excellent. The bank is a leader in providing CD services. Management invests numerous hours in community development programs targeted to low- and moderate-income individuals, positively impacting the Service Test rating. Several bank representatives serve on committees and/or boards of numerous organizations that serve low- and moderate-income individuals. Various employees volunteer to provide services such as credit counseling, first-time homebuyer seminars, financial planning, technical expertise to nonprofit or government organizations, and financial education and management skills. The following paragraphs describe some of the CD services FMB provided during this evaluation period:

The Southside Redevelopment Committee focuses on the redevelopment of the Muncie south and east sides, primarily low- and moderate-income areas. The organization is involved with business development and expansion, community clean-up efforts, development grants, low-income loans, and other funding programs that help families remodel and revitalize their homes and businesses. A FMB employee formed a business owners committee which makes contacts with prospective businesses to relocate, is involved with helping small businesses in this area acquire funding, and assists with redevelopment of business property and start-up capital.

Girl Scouts of Wapenhani Council provides several programs to assist low- and moderate-income children and girls considered "high risk". A FMB employee provides budget assistance and program planning for this organization.

The School Improvement Committee at Southside High School primarily serves families in the low- and moderate-income levels. The committee provides assistance in improving the test scores for state testing and increasing parental involvement in the education process. A FMB employee is a committee member and helps in development of a business plan and strategies for implementation for the school.

The bank has encouraged and supported the formation of the United Way at Work Committee. Various employees of the bank participate and are responsible for connecting employees in need with agencies that address their specific needs. The employees who take advantage of this opportunity are primarily low- and moderate-income individuals.

Alpha Center is a United Way agency that provides adult day-care services to senior citizens in the low- and moderate-income range. A sliding scale is applied to fees charged based on client income. Clients who are federally funded by the Older Americans Act are provided services at no charge. Three FMB employees provide financial review, budget preparation and general management advice to this organization.

The Muncie Homeownership & Development Center provides credit counseling, down payment assistance through various grant programs, and home ownership counseling to low- and moderate-income individuals. Employees of FMB's mortgage department provide counseling services and participate in these programs on a rotational basis with other financial institutions in the AA.

An FMB employee is a Director of the Muncie/Delaware County Chapter of Habitat for Humanity, Inc. Habitat for Humanity provides housing and financing for low- and moderate-income residents. Qualification is based on the person's ability to pay and upon labor contribution during construction. As a board member, the employee is involved in policy making and various activities related to selection of qualified families for home ownership and associated loans.

A FMB employee serves on the Business Education Partnership Committee of the Muncie Chamber of Commerce. This Committee's goal is to research, recommend, promote, and develop programs aimed at low- and moderate-income students to stay in school through graduation. This bank employee is one of two Human Resource professionals on the Committee. They provide an employer's perspective in setting goals and providing students with practical information about the skills necessary to be employable.

The Muncie Industrial Revolving Loan Fund provides loans to businesses that create new jobs for the Muncie Community. A FMB employee provides guidance and advice to board members in credit granting decisions.

The Muncie/Delaware County Micro-Loan Fund is an association of area banks that grants loans to area businesses that would not qualify for conventional bank loans. The loan is usually at a lower interest rate and made in conjunction with a commercial loan that is granted by the Micro-Loan Fund. The most typical loans granted are for down payments used for the underlying loan

from the sponsor bank. A FMB employee is Treasurer of this organization and uses his financial background as a commercial lender in making decisions whether or not to extend credit to potential borrowers.

The Youth Opportunity Center (YOC) is a private, non-profit corporation that is responsible for administering the juvenile justice, residential, and rehabilitation programs for Delaware County. Their goal is to assist families in breaking the cycle of dependency on the child welfare and juvenile justice systems. The vast majority of youth served by the YOC are from low- and moderate-income families. A FMB employee serves as Chairman of the Board of Directors and as such is responsible for reviewing and preparing budgets, deciding personnel issues, and making decisions on funding as well as leading strategic planning for the Center.

Rebuilding Together Delaware County is a United Way Agency whose mission is to help low-income, elderly or infirmed homeowners maintain their residences. These individuals cannot afford private contractors. A FMB employee serves as a Director of the Agency and contributes his financial expertise in decisions related to funding.

A FMB employee serves as a Director of Motivate our Minds (MOMS), a non-profit organization that provides tutoring and cultural activities for low- and moderate-income and at-risk children. His contributions to the MOMS Board largely impacted community awareness, fund raising, and promotion of the programs among area business leaders.

The Muncie Boys and Girls Club provides services to area children. The Muncie Club is located in the middle of the predominant low- and moderate-income area of Muncie and serves primarily low- and moderate-income children. A FMB employee served as Director of this organization and her responsibilities included general management, financing, personnel, and planning functions. She also served as Chairperson of the Development Committee that raised funds for the operation of the facilities and Club programs.

A FMB employee is a board member of the Meals on Wheels of Hamilton County organization and serves as a noontime driver. This non-profit organization provides meals to homebound low- and moderate-income persons. She is also a member of the 2003 Budget Committee, 2003 Campaign Contribution Committee, and 2003 Audit Committee.

FMB identifies and refers qualified persons to Rural Opportunities, Inc. This non-profit organization provides down payment assistance and homeownership counseling for low- and moderate-income rural homebuyers.

FMB provides the training kits to the Southside High School to teach academically challenged students about establishing and maintaining checking accounts. The high school serves primarily low- and moderate-income neighborhoods of Muncie.

## **Conclusions for Areas Receiving Limited-Scope Reviews**

Based on a limited-scope review, the bank's performance under the Service Test in the Hamilton County Indiana AA is weaker than the bank's overall High Satisfactory performance under the Service Test. This weaker performance is centered in the lower volume of services provided. Due to the high level of competition and limited opportunity for community development in this area, this performance is considered adequate and did not affect the overall Service Test rating. Refer to Table 15 in appendix C for the facts and data that support these conclusions.



## Appendix A: Scope of Examination

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The following table identifies the time period covered in this evaluation, affiliate activities that were reviewed, and loan products considered. The table also reflects the metropolitan and non-metropolitan areas that received comprehensive examination review (designated by the term “full-scope”) and those that received a less comprehensive review (designated by the term “limited-scope”).

<b>Time Period Reviewed</b>	Lending Test (excludes CD Loans): 01/01/2000 to 12/31/2002 Investment and Service Tests and CD Loans: 06/13/2000 to 10/27/2003	
<b>Financial Institution</b>	<b>Products Reviewed</b>	
First Merchants Bank, N.A. (FMB) Muncie, Indiana	Home mortgage, small business, small farm, and community development	
<b>Affiliate(s)</b>	<b>Affiliate Relationship</b>	<b>Products Reviewed</b>
None		
<b>List of Assessment Areas and Type of Examination</b>		
<b>Assessment Area</b>	<b>Type of Exam</b>	<b>Other Information</b>
Muncie Indiana MSA #5280	“Full-Scope”	
Hamilton County Indiana (Part of Indianapolis MSA #3480)	“Limited-Scope”	

# Appendix B: Market Profiles for Full-Scope Areas

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### Market Profiles for Areas Receiving Full-Scope Reviews

Muncie Indiana MSA .....	B-2
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## Muncie Indiana MSA

Demographic Information for Full-Scope Area: Muncie Indiana MSA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	31	12.90	29.03	38.71	19.35	0.00
Population by Geography	119,659	10.14	21.46	41.26	27.14	0.00
Owner-Occupied Housing by Geography	30,191	2.47	22.17	45.03	30.34	0.00
Businesses by Geography	5,324	6.01	19.72	45.76	28.51	0.00
Farms by Geography	314	0.32	3.82	71.34	24.52	0.00
Family Distribution by Income Level	30,286	21.13	17.14	22.37	39.36	0.00
Distribution of Low- and Moderate-Income Families throughout AA Geographies	11,590	10.31	33.43	41.97	14.30	0.00
Median Family Income HUD Adjusted Median Family Income for 2002 Households Below the Poverty Level	= \$31,724 = \$48,900 =16.88%	Median Housing Value Unemployment Rate		= \$41,326 =3.59%		

(\*) The NA category consists of geographies that have not been assigned an income classification.

Source: 1990 U.S. Census, and 2002XX HUD updated MFI.

FNB has two (2) assessment areas, both of which are located in the state of Indiana. FNB services the Muncie, Indiana MSA and Hamilton County, which is part of the Indianapolis MSA. FNB conducts the vast majority of its operations in the Muncie MSA with 93% of its deposits, 94% of the loans, and 69% of the branches in this area. The city of Muncie, where the bank is located, is in Delaware County. Muncie, the largest city in Delaware County, comprises approximately 57% of the region. Muncie is located sixty miles northeast of Indianapolis and is bounded by Grant and Blackford Counties on the north, Jay and Randolph Counties on the east, Henry County on the south, and Madison County on the west. Major industries include health care and social services, retail trade, manufacturing, and government. Muncie is also the home of Ball State University.

FNB operates sixteen (16) full service offices and nineteen ATMs within its AAs. There are eleven (11) branches and fourteen (14) ATMs in the Muncie MSA. There are two ATMs at the Main Office, Tillotson Avenue Branch, and Village Banking Center on University Avenue. FNB also has one (1) freestanding ATM. FNB's business strategy has been to maintain their existing customer base in its assessment areas and to provide services to those customers based on their needs and expectations. FNB currently leads the market in both loan and deposit products.

The Muncie MSA consists of 31 census tracts, of which four (13%) are low-income, nine (29%) are moderate-income, 12 (39%) are middle-income, and six (19%) are upper-income.

The population of this MSA is 119,659 people. Based on the 2002 HUD adjusted Median Family Income for the MSA of \$48,900, there are 21% low-income, 17% moderate-income, 22% middle-income, and 39% upper-income families in this MSA. A low-income family has a maximum income of only \$24,450. In addition, almost 17% of the households in the assessment area are living below the poverty level.

Of the 48,793 housing units in the assessment area, 61% or 30,191 of the homes are owner-occupied. Approximately two and one-half percent (2.47%) of the owner-occupied units are located in the low-income tracts. Twenty-two percent (22%) of the owner-occupied units are in the moderate-income census tracts, 45% are located in middle-income tracts, and the remaining 30% are in upper-income census tracts. Three of the four low-income tracts have a very low level of owner-occupied homes. A cemetery makes up the majority of one of these tracts, and Ball State University covers a substantial portion of two of the other low-income tracts. Thirty percent (30%) or 14,986 of the housing units are rental occupied while the remaining 3,616 units (7%) are vacant. The median housing price for the Muncie MSA is \$41,326 and the average age of homes is approximately 46 years old.

Demographic data from Dun & Bradstreet indicate there are 5,324 businesses in the MSA. Seventy-seven percent (77%) or 4,073 of these businesses have gross revenues of less than \$1 million, 7% have revenues of over \$1 million, with the revenues of the remaining 16% of the businesses unknown. Six percent (6%) of the businesses are located in the low-income tracts, 20% are located in the moderate-income tracts, 46% are in the middle-income tracts, and 28% are in the upper-income tracts of the assessment area.

Major employers in the MSA include Ball State University, Ball Memorial Hospital, Borg Warner Automotive, and New Venture Gear. Unemployment in the Muncie area is higher than the state average. As of December 31, 2002, Delaware County's unemployment rate was 5.1% compared to 4.8% for the state of Indiana.

There is a high level of competition in the financial services market of the Muncie MSA. Based on FDIC branch information as of June 30, 2002, there are five commercial banks and two savings institution with forty-three (43) offices in Delaware County. This includes two large regional banks and a number of independent local financial institutions. The major competitors in the assessment area include Old National Bank, Mutual Federal Savings Bank, Bank One Indiana National Association, and Star Financial Bank. Of these financial institutions, FMB has an approximately forty-one percent (41%) share of the deposits in this market.

We performed two community contacts in this AA during this examination. Both were with representatives of housing agencies. The contacts indicated that the major credit need of the AA is affordable housing loans.

Opportunities for CD lending, investments, and services are somewhat limited in this AA. This conclusion is based on discussions with community representatives, the OCC's District Community Affairs Officer, and bank management. Although there are four low-income tracts, two of these tracts are almost entirely the Ball State University and another tract is over 60 percent occupied by a cemetery. The number of organized community development organizations in this area is relatively low.

## Appendix C: Tables of Performance Data

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### Content of Standardized Tables

References to the “bank” 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 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 MA/assessment area. Tables without data are not included in this PE.

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 MA/assessment area. Community development loans to statewide or regional entities or made outside the bank’s assessment area may receive positive CRA consideration. Refer to Interagency Q&As \_\_.12(i) - 5 and - 6 for guidance on when a bank may receive positive CRA consideration for such loans. When such loans exist, insert a line item with the appropriate caption, such as “Statewide/Regional” or “Out of Assessment Area,” in the MA/Assessment Area column and record the corresponding numbers and amounts in the “Community Development Loans” column.
- Table 1. Other Products** - Presents the number and dollar amount of any unreported category of loans originated and purchased by the bank over the evaluation period by MA/assessment area. Examples include consumer loans or other data that a bank may provide, at its option, concerning its lending performance. This is a two-page table that lists specific categories.
- 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 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 Home Mortgage Refinance Loans** - See Table 2.
- Table 5. Geographic Distribution of Multifamily Loans** - Compares the percentage distribution of the number of multifamily loans originated and purchased by the bank in low-, moderate-, middle-, and upper-income geographies to the percentage distribution of multifamily housing units throughout those geographies. The table

also presents market share information based on the most recent aggregate market data available.

- Table 6. 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 share information based on the most recent aggregate market data available. Because small business data are not available for geographic areas smaller than counties, it may be necessary to use geographic areas larger than the bank's assessment area.
- Table 7. 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 share information based on the most recent aggregate market data available. Because small farm data are not available for geographic areas smaller than counties, it may be necessary to use geographic areas larger than the bank's assessment area.
- Table 8. 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 MA/assessment area. The table also presents market share information based on the most recent aggregate market data available.
- Table 9. Borrower Distribution of Home Improvement Loans** - See Table 8.
- Table 10. Borrower Distribution of Refinance Loans** - See Table 8.
- Table 11. 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. 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 12. Borrower Distribution of Small Loans to Farms** - Compares the percentage distribution of the number of small loans (less than or equal to \$500,000) 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. 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 13. 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 households 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 MA/assessment area.

**Table 14. Qualified Investments** - Presents the number and dollar amount of qualified investments made by the bank in each MA/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 be legally binding and tracked and recorded by the bank's financial reporting system.

A bank may receive positive consideration for qualified investments in statewide/regional entities or made outside of the bank's assessment area. See Interagency Q&As \_\_.12(i) - 5 and - 6 for guidance on when a bank may receive positive CRA consideration for such investments. When such investments exist, insert a line item with the appropriate caption, such as "Statewide/Regional" or "Out of Assessment Area," in the MA/Assessment Area column and record the corresponding numbers and amounts in the "Qualified Investments" column.

**Table 15. 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 MA/AA. The table also presents data on branch openings and closings in each MA/AA.

**Institution ID: 1000002234 FIRST MERCHANTS BANK**  
**Table 1. Lending Volume**

LENDING VOLUME		Geography: STATE OF INDIANA				Evaluation Period: JANUARY 1, 2000 TO DECEMBER 31, 2002						
MA/Assessment Area (2002):	% of Rated Area Loans (#) in MA/AA*	Home Mortgage		Small Loans to Businesses		Small Loans to Farms		Community Development Loans**		Total Reported Loans		% of Rated Area Deposits in MA/AA***
		#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	
<b>Full Review:</b>												
Muncie Indiana MSA	93.56	1,477	118,548	1,013	104,638	90	6,656	7	27,627	2,587	257,469	92.77
<b>Limited Review:</b>												
Hamilton County Indiana	6.44	88	15,605	89	14,643	1	91	0	0	178	30,339	7.23

**Table2. Geographic Distribution of Home Purchase Loans**

Geographic Distribution: HOME PURCHASE		Geography: STATE OF INDIANA				Evaluation Period: JANUARY 1, 2000 TO DECEMBER 31, 2002									
MA/Assessment Area:	Total Home Purchase Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Market Share (%) by Geography*****				
	#	% of Total****	% Owner Occ Units*****	% BANK Loans	% Owner Occ Units*****	% BANK Loans	% Owner Occ Units*****	% BANK Loans	% Owner Occ Units*****	% BANK Loans	Overall	Low	Mod	Mid	Upp
<b>Full Review:</b>															
Muncie Indiana MSA	490	94.59	2.47	1.02	22.17	10.61	45.03	38.98	30.34	49.39	9.91	9.68	5.14	9.31	12.13
<b>Limited Review:</b>															
Hamilton County Indiana	28	5.41	0.00	0.00	3.06	3.57	17.13	17.86	79.81	78.57	0.13	0.00	0.00	0.18	0.12

\* Loan Data as of December 31, 2002. Rated area refers to either the state or multi-state MA rating area.

\*\* The evaluation period for Community Development Loans is From June 13, 2000 to October 27, 2003.

\*\*\* Deposit Data as of June 30, 2002. Rated Area refers to either the state, multi-state MA, or institution, as appropriate.

\*\*\*\* Based on 2001 Peer Mortgage Data: US & PR.

\*\*\*\*\* Home purchase loans originated and purchased in the MA/AA as a percentage of all home purchase loans originated and purchased in the rated area.

\*\*\*\*\* Percentage of Owner Occupied Units is the number of owner occupied housing units in a particular geography divided by the number of owner occupied housing units in the area based on 1990 Census information.



**Table 3. Geographic Distribution of Home Improvement Loans**

Geographic Distribution: HOME IMPROVEMENT		Geography: STATE OF INDIANA					Evaluation Period: JANUARY 1, 2000 TO DECEMBER 31, 2002									
MA/Assessment Area:	Total Home Improvement Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Market Share (%) by Geography*					
	#	% of Total**	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	Overall	Low	Mod	Mid	Upp	
<b>Full Review:</b>																
Muncie Indiana MSA	293	97.34	2.47	1.37	22.17	22.53	45.03	45.39	30.34	30.72	23.18	15.38	26.00	21.34	24.73	
<b>Limited Review:</b>																
Hamilton County Indiana	8	2.66	0.00	0.00	3.06	0.00	17.13	37.50	79.81	62.50	0.41	0.00	0.00	0.70	0.36	

**Table 4. Geographic Distribution of Home Mortgage Refinance Loans**

Geographic Distribution: HOME MORTGAGE REFINANCE		Geography: STATE OF INDIANA					Evaluation Period: JANUARY 1, 2000 TO DECEMBER 31, 2002									
MA/Assessment Area:	Total Home Mortgage Refinance Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Market Share (%) by Geography*					
	#	% of Total**	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	Overall	Low	Mod	Mid	Upp	
<b>Full Review:</b>																
Muncie Indiana MSA	694	93.03	2.47	1.30	22.17	10.23	45.03	48.99	30.34	39.48	7.48	4.00	5.95	7.34	8.61	
<b>Limited Review:</b>																
Hamilton County Indiana	52	6.97	0.00	0.00	3.06	1.92	17.13	17.31	79.81	80.77	0.16	0.00	0.86	0.08	0.16	

\* Based on 2001 Peer Mortgage Data: US & PR.

\*\* Home improvement or home mortgage refinance loans (as applicable) originated and purchased in the MA/AA as a percentage of all home improvement or home mortgage refinance loans (as applicable) originated and purchased in the rated area.

\*\*\* Percentage of Owner Occupied Units is the number of owner occupied housing units in a particular geography divided by number of owner occupied housing units in the area based on 1990 Census information.

**Table 5. Geographic Distribution of Multifamily Loans**

Geographic Distribution: MULTIFAMILY		Geography: STATE OF INDIANA					Evaluation Period: JANUARY 1, 2000 TO DECEMBER 31, 2002					Market Share (%) by Geography*				
MA/Assessment Area:	Total Multifamily Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Overall	Low	Mod	Mid	Upp	
	#	% of Total**	% of MF Units***	% BANK Loans	% MF Units***	% BANK Loans	% MF Units***	% BANK Loans	% MF Units***	% BANK Loans						
<b>Full Review:</b>																
Muncie Indiana MSA	0	0.00	21.84	0.00	15.40	0.00	35.37	0.00	27.38	0.00	0.00	0.00	0.00	0.00	0.00	
<b>Limited Review:</b>																
Hamilton County Indiana	0	0.00	0.00	0.00	0.54	0.00	17.40	0.00	82.06	0.00	0.00	0.00	0.00	0.00	0.00	

**Table 6. Geographic Distribution of Small Loans to Businesses**

Geographic Distribution: SMALL LOANS TO BUSINESSES		Geography: STATE OF INDIANA					Evaluation Period: JANUARY 1, 2000 TO DECEMBER 31, 2002					Market Share (%) by Geography*				
MA/Assessment Area:	Total Small Business Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Overall	Low	Mod	Mid	Upp	
	#	% of Total**	% of Businesses**	% BANK Loans	% of Businesses****	% BANK Loans	% of Businesses****	% BANK Loans	% of Businesses****	% BANK Loans						
<b>Full Review:</b>																
Muncie Indiana MSA	1,013	91.92	6.01	3.65	19.72	17.08	45.76	46.40	28.51	32.87	19.48	19.81	17.49	19.63	22.06	
<b>Limited Review:</b>																
Hamilton County Indiana	89	8.08	0.00	0.00	3.87	12.36	10.39	6.74	85.74	80.90	1.04	0.00	4.29	0.51	1.02	

\* Based on 2001 Peer Mortgage or Small Business (as applicable) Data: US & PR.

\*\* Multifamily loans or small loans to businesses (as applicable) originated and purchased in the MA/AA as a percentage of all multifamily loans or small loans to businesses (as applicable) originated and purchased in the rated area.

\*\*\* Percentage of multifamily units is the number of multifamily housing units in a particular geography divided by number of multifamily housing units in the area based on 1990 Census information.

\*\*\*\* Source Data - Dun and Bradstreet (2002).

**Table 7. Geographic Distribution of Small Loans to Farms**

Geographic Distribution: SMALL LOANS TO FARMS		Geography: STATE OF INDIANA					Evaluation Period: JANUARY 1, 2000 TO DECEMBER 31, 2002									
MA/Assessment Area:	Total Small Farm Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Market Share (%) by Geography <sup>*</sup>					
	#	% of Total <sup>**</sup>	% of Farms <sup>***</sup>	% BANK Loans	% of Farms <sup>***</sup>	% BANK Loans	% of Farms <sup>***</sup>	% BANK Loans	% of Farms <sup>***</sup>	% BANK Loans	Overall	Low	Mod	Mid	Upp	
<b>Full Review:</b>																
Muncie Indiana MSA	90	98.90	0.32	2.22	3.82	6.67	71.34	72.22	24.52	18.89	42.86	100.00	54.55	43.37	35.14	
<b>Limited Review:</b>																
Hamilton County Indiana	1	1.10	0.00	0.00	0.63	100.00	35.43	0.00	63.94	0.00	1.45	0.00	10.00	0.00	0.00	

**Table 8. Borrower Distribution of Home Purchase Loans**

Borrower Distribution: HOME PURCHASE		Geography: STATE OF INDIANA					Evaluation Period: JANUARY 1, 2000 TO DECEMBER 31, 2002									
MA/Assessment Area:	Total Home Purchase Loans		Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers		Market Share <sup>*</sup>					
	#	% of Total <sup>**</sup>	% Families <sup>****</sup>	% BANK Loans <sup>*****</sup>	% Families <sup>****</sup>	% BANK Loans <sup>*****</sup>	% Families <sup>****</sup>	% BANK Loans <sup>*****</sup>	% Families <sup>****</sup>	% BANK Loans <sup>*****</sup>	Overall	Low	Mod	Mid	Upp	
<b>Full Review:</b>																
Muncie Indiana MSA	490	94.59	21.13	5.22	17.14	20.67	22.37	24.84	39.36	49.27	10.67	4.90	9.17	7.64	15.57	
<b>Limited Review:</b>																
Hamilton County Indiana	28	5.41	8.21	3.57	12.52	21.43	19.78	14.29	59.49	60.71	0.15	0.00	0.17	0.11	0.17	

<sup>\*</sup> Based on 2001 Peer Small Business or Mortgage (as applicable) Data: US&PR.

<sup>\*\*</sup> Small loans to farms or home purchase loans (as applicable) originated and purchased in the MA/AA as a percentage of all small loans to farms or home purchase loans (as applicable) originated and purchased in the rated area.

<sup>\*\*\*</sup> Source Data - Dun and Bradstreet (2002).

<sup>\*\*\*\*</sup> Percentage of Families is based on the 1990 Census information.

<sup>\*\*\*\*\*</sup> As a percentage of loans with borrower income information available. No information was available for 2.12% of loans originated and purchased by BANK.

**Table 9. Borrower Distribution of Home Improvement Loans**

Borrower Distribution: HOME IMPROVEMENT		Geography: STATE OF INDIANA					Evaluation Period: JANUARY 1, 2000 TO DECEMBER 31, 2002									
MA/Assessment Area:	Total Home Improvement Loans		Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers		Market Share*					
	#	% of Total**	% Families***	% BANK Loans****	% Families***	% BANK Loans****	% Families***	% BANK Loans****	% Families***	% BANK Loans****	Overall	Low	Mod	Mid	Upp	
<b>Full Review:</b>																
Muncie Indiana MSA	293	97.34	21.13	16.32	17.14	26.39	22.37	20.83	39.36	36.46	24.17	29.49	26.45	17.16	25.56	
<b>Limited Review:</b>																
Hamilton County Indiana	8	2.66	8.21	0.00	12.52	0.00	19.78	50.00	59.49	50.00	0.43	0.00	0.00	1.08	0.31	

**Table 10. Borrower Distribution of Home Mortgage Refinance Loans**

Borrower Distribution: HOME MORTGAGE REFINANCE		Geography: STATE OF INDIANA					Evaluation Period: JANUARY 1, 2000 TO DECEMBER 31, 2002									
MA/Assessment Area:	Total Home Mortgage Refinance Loans		Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers		Market Share*					
	#	% of Total**	% Families***	% BANK Loans****	% Families***	% BANK Loans****	% Families***	% BANK Loans****	% Families***	% BANK Loans****	Overall	Low	Mod	Mid	Upp	
<b>Full Review:</b>																
Muncie Indiana MSA	694	93.03	21.13	6.76	17.14	15.00	22.37	22.35	39.36	55.88	8.51	5.52	6.22	7.47	11.02	
<b>Limited Review:</b>																
Hamilton County Indiana	52	6.97	8.21	9.80	12.52	7.84	19.78	23.53	59.49	58.82	0.19	1.02	0.25	0.08	0.17	

\* Based on 2001 Peer Mortgage Data: US & PR.

\*\* As a percentage of loans with borrower income information available. No information was available for 1.66% of home improvement and 2.01% of home mortgage refinance loans originated and purchased by BANK.

\*\*\* Percentage of Families is based on the 1990 Census information.

\*\*\*\* Home improvement or home mortgage refinance (as applicable) loans originated and purchased in the MA/AA as a percentage of all home improvement or home mortgage refinance (as applicable) loans originated and purchased in the rated area.

**Table11. Borrower Distribution of Small Loans to Businesses**

Borrower Distribution: SMALL LOANS TO BUSINESSES		Geography: STATE OF INDIANA			Evaluation Period: JANUARY 1, 2000 TO DECEMBER 31, 2002				
MA/Assessment Area:	Total Small Loans to Businesses		Businesses With Revenues of \$1 million or less		Loans by Original Amount Regardless of Business Size			Market Share <sup>†</sup>	
	#	% of Total <sup>**</sup>	% of Businesses <sup>***</sup>	% BANK Loans <sup>****</sup>	\$100,000 or less	> \$100,000 to \$250,000	> \$250,000 to \$1,000,000	All	Rev\$ 1 Million or Less
<b>Full Review:</b>									
Muncie Indiana MSA	1,013	91.92	76.50	61.30	77.59	11.75	10.66	19.48	27.45
<b>Limited Review:</b>									
Hamilton County Indiana	89	8.08	70.06	53.93	64.04	12.36	23.60	1.04	1.59

**Table12. Borrower Distribution of Small Loans to Farms**

Borrower Distribution: SMALL LOANS TO FARMS		Geography: STATE OF INDIANA			Evaluation Period: JANUARY 1, 2000 TO DECEMBER 31, 2002				
MA/Assessment Area:	Total Small Loans to Farms		Farms With Revenues of \$1 million or less		Loans by Original Amount Regardless of Farm Size			Market Share <sup>*</sup>	
	#	% of Total <sup>**</sup>	% of Farms <sup>***</sup>	% BANK Loans	\$100,000 or less	> \$100,000 to \$250,000	> \$250,000 to \$1,000,000	All	Rev\$ 1 Million or Less
<b>Full Review:</b>									
Muncie Indiana MSA	90	98.90	95.86	80.00	82.22	12.22	5.56	42.86	40.54
<b>Limited Review:</b>									
Hamilton County Indiana	1	1.10	93.92	100.00	100.00	0.00	0.00	1.45	2.00

<sup>†</sup> Based on 2001 Peer Small Business Data: US&PR.

<sup>\*\*</sup> Small loans to businesses or farms (as applicable) originated and purchased in the MA/AA as a percentage of all small loans to businesses or farms (as applicable) originated and purchased in the rated area.

<sup>\*\*\*</sup> Businesses or farms (as applicable) with revenues of \$1 million or less as a percentage of all businesses or farms, as applicable (Source D&B - 2002).

<sup>\*\*\*\*</sup> Small loans to businesses or farms (as applicable) with revenues of \$1 million or less as a percentage of all loans reported as small loans to businesses or farms (as applicable). No information was available for 15.79% of small loans to businesses and 4.40% of small loans to farms originated and purchased by the bank.

**Table 14. Qualified Investments**

QUALIFIED INVESTMENTS									
Geography: STATE OF INDIANA									
Evaluation Period: JUNE 13, 2000 TO OCTOBER 27, 2003									
MA/Assessment Area:	Prior Period Investments*		Current Period Investments		Total Investments			Unfunded Commitments**	
	#	\$(000's)	#	\$(000's)	#	\$(000's)	% of Total	#	\$(000's)
<b>Full Review:</b>									
Muncie Indiana MSA	1	667	19	1317	20	1984	68.79	0	0
Regional/Statewide	1	240	1	460	2	900	31.21	0	0
<b>Limited Review:</b>									
Hamilton County Indiana	0	0	0	0	0	0	0.00	0	0

**Table 15. Distribution of Branch Delivery System and Branch Openings/Closings**

DISTRIBUTION OF BRANCH DELIVERY SYSTEM AND BRANCH OPENINGS/CLOSINGS																		
Geography: STATE OF INDIANA																		
Evaluation Period: JUNE 13, 2000 TO OCTOBER 27, 2003																		
MA/Assessment Area:	Deposits	Branches						Branch Openings/Closings				Population						
		% of Rated Area Deposits in AA	# of BANK Branches	% of Rated Area Branches in AA	Location of Branches by Income of Geographies (%)				# of Branch Openings	# of Branch Closings	Net change in Location of Branches (+ or -)				% of Population within Each Geography			
					Low	Mod	Mid	Upp			Low	Mod	Mid	Upp	Low	Mod	Mid	Upp
<b>Full Review:</b>																		
Muncie Indiana MSA	92.77	11	69	0.00	9.09	63.64	27.27	0	1	0	0	-1	0	10.14	21.46	41.26	27.14	
<b>Limited Review:</b>																		
Hamilton County Indiana	7.23	5	31	0.00	0.00	20.00	80.00	3	1	0	0	1	1	0.00	3.49	18.15	78.36	

\* 'Prior Period Investments' means investments made in a previous evaluation period that are outstanding as of the examination date.

\*\* 'Unfunded Commitments' means legally binding investment commitments that are tracked and recorded by the institution's financial reporting system.