

PUBLIC DISCLOSURE

November 23, 1998

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

West Michigan National Bank & Trust
Charter #17748

501 Main Street
Frankfort, Michigan 49635-1009

Comptroller of the Currency
Detroit Field Office
Omni Officentre, Suite 411
26877 Northwestern Highway
Southfield, Michigan 48034

NOTE: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the CRA performance of West Michigan National Bank & Trust (WMNBT) prepared by The Office of the Comptroller of the Currency (OCC), the institution's supervisory agency, as of November 23, 1998. 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 as having a “satisfactory record of meeting community credit needs.”

- West Michigan National Bank & Trust has demonstrated a satisfactory level of loan activity within its assessment area in the last two years. A sample of all types of loans made by the bank showed that 78 percent were made in the bank’s assessment area.
- West Michigan National Bank & Trust has addressed the needs of small businesses in its market area. The bank has concentrated its commercial lending efforts on businesses with sales less than \$1 million. All the business loans sampled included businesses with sales less than \$1 million.
- West Michigan National Bank & Trust has demonstrated a willingness to lend to borrowers of all income levels. Approximately 46 percent of the residential mortgage and installment loans sampled that included current income information were made to low or moderate income borrowers. This is consistent with the distribution of income within the population.

DESCRIPTION OF INSTITUTION

West Michigan National Bank & Trust is a full service community bank located on the northwestern side of Michigan's lower peninsula, on Lake Michigan. West Michigan National Bank & Trust offers loan, deposit and trust services. West Michigan National Bank & Trust has one office in Frankfort, Michigan, and one branch in Manistee, Michigan. It does not have any Automatic Teller Machines (ATM) but offers ATM cards which enables customers to access financial services through other networks.

As of September 30, 1998, total assets of the bank were \$27.5 million. The bank's loan portfolio represented 47 percent of total assets. The portfolio consisted of first and second residential mortgage loans (54 percent), commercial loans (40 percent), and other loans to consumers (6 percent). The bank does not offer personal lines of credit, such as home equity lines, overdraft lines, or credit cards.

There are no legal impediments which would adversely affect the bank's ability to serve the community. The November 17, 1995, CRA examination rated the bank "Satisfactory".

DESCRIPTION OF ASSESSMENT AREA

Northwestern Michigan, where the bank is located, is largely dependent on tourism and the recreational industry. Major employers in the area include the health services industry, retail industries, and agricultural industries. Manistee has some industrial plants, such as Tenneco Packaging, Martin Marietta, Morton International, and Oakgrove International (fiberglass caskets). Unemployment as of October 1998 was 3.3 percent for Benzie County and 5.3 percent for Manistee County, which is slightly above the state's unemployment rate of 3 percent. Because of the seasonality the tourist industry, the unemployment rate for the county is generally lower in the summer. The labor force has grown modestly in Benzie and Manistee counties. It has increased from 17,175 as of January 1995 to 17,925 as of October 1998.

The main competition for WMNBT in Frankfort are several local, independent banks including 1) State Savings Bank, 2) Honor State Bank, in Honor, Michigan, and 3) Central State Bank, in Beulah, Michigan. There is also a local credit union.

The main competition for WMNBT in Manistee are branches of National City Bank and Huntington Bank, which are large regional banks. Also in this market area are three credit unions. A branch of a local, independent bank named West Shore Bank is planning to open in June of 1999. There is also a branch of Northwestern Saving Bank & Trust, a small regional bank. West Michigan National Bank & Trust is the smallest bank in both the Manistee and Frankfort areas.

We determined that the bank's assessment area was not consistent with CRA requirements because it split some block numbered areas. For our CRA analysis, we adjusted the assessment

area boundaries to include full block numbered areas. All of our analysis was based on the adjusted assessment area, which includes nine full block numbered areas in Benzie and Manistee counties. Neither Benzie or Manistee counties are part of a Metropolitan Statistical Area. The majority of loans were made within the nine block numbered areas.

Table 1 describes the demographic information for nine block numbered areas. One of the nine block numbered areas is a moderate income block and the remaining eight are middle income blocks. There are no low income block numbered areas in the counties of Benzie and Manistee.

Table 1 Demographic Information for WMNBT's Assessment Area		
Block Area Characteristics	Count	%
Low (below 50% median)	0	0%
Moderate (50-80% of median)	1	11%
Middle (80-120% of median)	8	89%
Upper (over 120% of median)	0	0%
NA	0	0%
Totals	10	100%
Business Data (# of businesses in block areas)	Count	%
Low (below 50% median)	0	0%
Moderate (50-80% of median)	154	13%
Middle (80-120% of median)	1,064	87%
Upper (over 120% of median)	0	0%
NA	0	0%
Totals	1,218	100%
Population Data (# of families)	Count	%
Low (below 50% of median)	1,424	22.3%
Moderate (50-80% of median)	1,291	20.2%
Middle (80-120% of median)	1,439	22.5%
Upper (over 120% of median)	2,238	35.0%
Totals	6,392	100.0%
Housing Information	Count	%
Owner Occupied Units	7,055	51%
Rental Units	2,030	14%
Vacant Units ^{1/}	4,841	35%
Totals	13,926	100%

Data source: 1990 U.S. Census data

^{1/} The percentage of vacant units are high due to inclusion of cottages and summer homes, which are not occupied throughout the year.

Three community contacts were made during the examination. The community contacts included one local businessman from Frankfort who is also a city council member, the Chamber of Commerce in Manistee, and a realtor in Manistee. Based on community contacts, the primary credit needs in the delineated community are for home loan financing for construction, purchase, or improvements, and small business lending. West Michigan National Bank & Trust offers these types of loans, with emphasis on small business lending and real estate secured lending.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

This evaluation covers activity from November 1995 to November 1998. Overall, WMNBT addresses the community credit needs as compared to its size, resources, and capabilities.

Loan to Deposit Ratio

- **The bank’s loan to deposit ratio is reasonable and demonstrates its willingness to lend.**

The bank’s average loan to deposit ratio for the past eight quarters was 69 percent. This ratio is similar to other banks of their size throughout the nation. In 1997 and 1998, the bank originated 116 loans secured by residential mortgages totaling about \$7.4 million. The bank originated 133 installment loans, including home improvement loans totaling \$1.1 million. The bank also originated 167 commercial loans in 1997 and 1998 totaling \$9.5 million, which were all small business loans less than \$1 million.

Lending in Assessment Area

- **The majority of WMNBT’s lending is within its assessment area. West Michigan National Bank & Trust has addressed lending needs throughout the community.**

Table 2 shows the bank has originated the majority of its loans within its assessment area. A sample of 145 loans originated in 1997 and 1998 as described below, showed that 78 percent of these loans were made to borrowers located within the bank’s assessment area.

Table 2 Lending Inside and Outside of Assessment Area					
Loan Product	# Loans in Sample	Loans in Assessment area		Loans outside Assessment area	
		#	%	#	%
1-4 Family Real Estate Mortgages	33	25	76%	8	24%
Installment Loans	28	25	89%	3	11%
Commercial	84	63	75%	21	25%
Total	145	113	78%	32	22%

Data Source: Bank loan files

Geographic Distribution of Loans

- **West Michigan National Bank & Trust's distribution of loans is adequate.**

Overall, loan activity is concentrated in and around the cities of Frankfort and Manistee, where its offices are located. The 1-4 family mortgage loans in the sample that were made in the assessment area were disbursed throughout eight of the nine blocks. The remaining block that contained no sampled loans was a middle income block. The loans sampled that were not in the assessment area were mainly made in other areas throughout the two counties of Benzie and Manistee.

A sample of installment loans that were made within the assessment area showed the loans were disbursed throughout seven of the nine block numbered areas. The two blocks, in which none of the sampled loans were located, were middle income blocks. The majority of the loans sampled that were not made in the assessment area were made throughout the two counties of Benzie and Manistee.

The sample of commercial loans originated in 1997 and 1998 disclosed the loans made within the assessment area were distributed throughout six of the nine block numbered areas. Of the remaining three blocks, in which none of the sampled loans were located, two were middle income blocks and the third was a moderate income block (see moderate income block discussion below). The loans made outside of the assessment area were made in other areas in Benzie and Manistee counties.

One of the nine block numbered areas was a moderate income block. Lending in this moderate income block area was low based on the samples taken. The moderate block area included 20 percent of the families from the total nine block area and the bank made 4 percent of its 1-4 family mortgages and installment loans in this block based on the samples taken. The moderate block area also had 13 percent of the businesses from the total nine block area. The bank did not make any business loans to businesses within this moderate block area based on the sample taken. The low level of originations in this moderate block is due to the distance of the block from the Manistee office, as this was one of the blocks the bank had split in its description of its assessment area. The bank has made other loans in this block numbered area that were not in the sample.

Lending to Borrowers of Different Incomes and Businesses of Different Sizes

- **West Michigan National Bank & Trust has shown a reasonable level of extending credit to borrowers of all income levels.**

Installment Lending

As shown in Table 3, WMNBT originates installment loans to a wide variety of borrowers with varying income levels. Loans made to low and moderate income borrowers represented about 64 percent of the loans originated based on the sample taken. This compares favorably to the demographic data for the nine block numbered areas, which shows about 42 percent of the households have low to moderate incomes. Lending to low income borrowers represented the largest percentage of the bank's installment lending.

1-4 Family Mortgage Lending (consumer purpose loans)

As shown in Table 3, WMNBT lends to a wide variety of borrowers with varying income levels. Loans made to low and moderate income borrowers represented about 21 percent of the loans originated based on the sample taken. This is low as compared to the demographic data for the nine block numbered areas, which shows about 42 percent of the households have low to moderate incomes. The bank only makes one- to three-year balloon mortgages due to the desire to keep interest rate risk low. The other financial institutions in the community fill the market demand for 30-year residential mortgage loans, as well as various mortgage brokers with offices in these communities. Lending to upper income borrowers represented the largest percentage of WMNBT's residential mortgage lending.

Overall

Table 3 shows that loans made to low and moderate income borrowers, including both installment and 1-4 family mortgages, represented 46 percent of the loans originated based on the sample taken. This compares favorably to the demographic data for the nine block numbered areas, which shows about 42 percent of the households have low to moderate incomes.

Table 3 Loans Made in the Assessment Area									
# Loans in Sample that were made within the assessment area and included current income information.	Loans to Low Income Borrowers		Loans to Moderate Income Borrowers		Loans to Middle Income Borrowers		Loans to Upper Income Borrowers		
	#	%	#	%	#	%	#	%	
Installment Loan Originations									
25	10	40%	6	24%	3	12%	6	24%	
1-4 Family Real Estate Mortgages Originations									
19	1	5%	3	16%	9	47%	6	32%	
Total Installment and 1-4 Family Real Estate Mortgages									
44	11	25%	9	21%	12	27%	12	27%	
Demographic Data on Nine Block Numbered Areas									

# of Households	Low Income Households		Moderate Income Households		% Middle Income Households		Upper Income Households	
	#	%	#	%	#	%	#	%
6,392	1,424	22%	1,291	20%	1,439	23%	2,238	35%

Data Source for Origination Data: Bank loan files. (Note: 6 additional residential loans were in the assessment area and sampled but did not include current income, defined as 1996 or more recent data. The income distribution of these borrowers is assumed to be similar to the characteristics of the borrowers for which current income data was available based on additional information provided by bank management.)

Data Source for Demographic Data: 1990 U.S. Census Data

Small Business Lending

West Michigan National Bank & Trust is also active in small business lending. West Michigan National Bank & Trust originated 167 commercial loans totaling \$9.5 million in 1997 and 1998, all of which were under \$1 million. Of the 167 loans, 64 or \$4.1 million were originated in 1998.

The bank has made loans to a greater proportion of businesses with sales less than \$1 million than the percentage of these businesses in the nine block assessment area. Ninety-five percent of the businesses in the nine block numbered areas have sales under \$1 million. The sample of commercial loans reviewed disclosed that 100 percent of the sampled loans were to businesses that had sales less than \$1 million.

Fair Lending

- We did not identify any violations of the anti-discrimination laws and regulations during our examination. We reviewed the bank's underwriting guidelines and a sampling of 30 approved consumer auto loans and six denied, single female applicants for comparative file analysis based on gender. There was no evidence that the loans were denied for prohibited reasons. In addition, the bank received no complaints regarding its fair lending activities.