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Comptroller of the Currency  
Administrator of National Banks

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Central District  
One Financial Place, Suite 2700  
440 South LaSalle Street  
Chicago, Illinois 60605

PUBLIC DISCLOSURE

**COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

September 30, 1996

Michigan National Bank  
Charter Number 16660  
27777 Inkster Road  
Farmington Hills, MI 48334

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

## GENERAL INFORMATION

This document is an evaluation of the Community Reinvestment Act (CRA) performance of **Michigan National Bank** prepared by the Office of the Comptroller of the Currency (OCC), the institution's supervisory agency.

The evaluation represents the OCC's current assessment and rating of the institution's CRA performance based on an examination conducted as of **September 30, 1996**. It does not reflect any CRA-related activities that may have been initiated or discontinued by the institution after the completion of the examination.

The purpose of the Community Reinvestment Act of 1977 (12 U.S.C. 2901), as amended, is to encourage each financial institution to help meet the credit needs of the communities in which it operates. The Act requires that in connection with its examination of a financial institution, each federal financial supervisory agency shall (1) assess the institution's record of helping to meet the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operations of the institution, and (2) take that record of performance into account when deciding whether to approve an application of the institution for a deposit facility.

The Financial Institutions Reform, Recovery and Enforcement Act of 1989, Pub. L. No. 101-73, amended the CRA to require the Agencies to make public certain portions of their CRA performance assessments of financial institutions.

### Basis for the Rating

The assessment of the institution's record takes into account its financial capacity and size, legal impediments and local economic conditions and demographics, including the competitive environment in which it operates. Assessing the CRA performance is a process that does not rely on absolute standards. Institutions are not required to adopt specific activities, nor to offer specific types or amounts of credit. Each institution has considerable flexibility in determining how it can best help to meet the credit needs of its entire community. In that light, evaluations are based on a review of 12 assessment factors, which are grouped together under 5 performance categories, as detailed in the following section of this evaluation.

## ASSIGNMENT OF RATING

### Identification of Ratings

In connection with the assessment of each insured depository institution's CRA performance, a rating is assigned from the following groups:

Outstanding record of meeting community credit needs.

An institution in this group has an outstanding record of, and is a leader in, ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Satisfactory record of meeting community credit needs.

An institution in this group has a satisfactory record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Needs to improve record of meeting community credit needs.

An institution in this group needs to improve its overall record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Substantial noncompliance in meeting community credit needs.

An institution in this group has a substantially deficient record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

## DISCUSSION OF INSTITUTION'S PERFORMANCE

Institution's Rating:

Based on the findings presented below, this institution is rated:

**"Satisfactory Record of Meeting Community Credit Needs."**

The basis of this rating was made with primary consideration given to the bank's lending activities, involvement in community development activities, and compliance with anti-discrimination laws.

### **Bank and Community Profile:**

Michigan National Bank (MNB) is a \$9.1 billion full service financial institution headquartered in Farmington Hills, Michigan and is a wholly-owned subsidiary of Michigan National Corporation (MNC), also headquartered in Farmington Hills. MNC was acquired by National Australia Bank Limited (NAB) in 1995, and is the principal U.S. banking subsidiary of NAB. Other parts of the world in which NAB operate include Asia, Australia, Europe, India, Japan, New Zealand, and the United Kingdom. With assets over \$130 billion, NAB is one of the world's largest banking and financial service organizations.

MNB provides a full range of retail and commercial banking products, as well as trust and brokerage services. The bank has focused particular attention toward addressing the small business and home improvement credit needs of the community during the past two years. The bank's loan portfolio as of September 30, 1996 is summarized in Table 1.

<b>Table 1: MNB Loan Portfolio as of September 30, 1996</b>		
Commercial, Industrial, & Business Loans	\$2,402,793,000	37.1%
Commercial Real Estate	1,973,152,000	30.4%
Consumer Loans	1,069,034,000	16.5%
Residential Mortgages & Home Equity	847,112,000	13.1%
Farm Related Loans	24,340,000	0.4%
Other Loans	162,671,000	2.5%
<b>Total Loans Outstanding 9/30/96</b>	<b>6,479,102,000</b>	<b>100.0%</b>

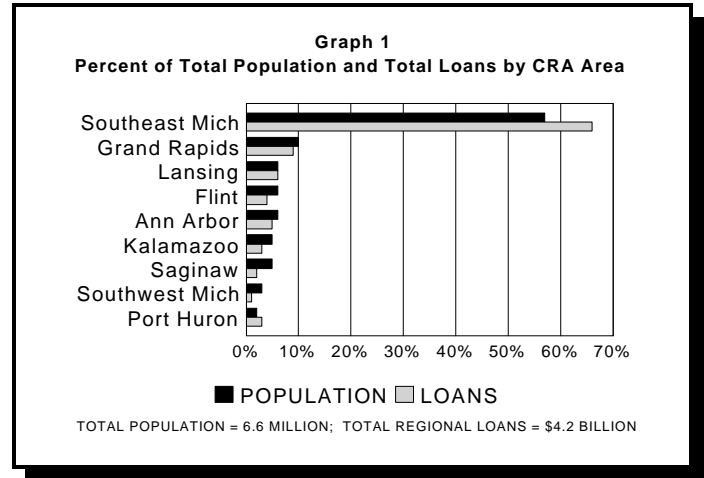
*Source: MNB 9/30/96 Report of Condition*

The Michigan financial market is highly competitive. MNB competes with a large number of other financial and non-financial institutions. Some of the larger financial institutions operating within MNB's communities are NBD Bank, Comerica Bank, First of America Bank, Old Kent Bank, and Standard Federal Bank. Numerous smaller financial institutions

also compete directly with MNB. Southern Michigan's economy has been good during the past two years.

MNB operates in portions of 23 counties throughout the southern half of Michigan's lower peninsula, and established nine CRA areas to serve this large geographic territory.

As depicted in Graph 1, a substantial portion of the population in the bank's delineated community is located in the Southeast Michigan Area. The portion of MNB's loan portfolio attributable to each area is fairly consistent with the manner in which the populace is based.



Sources: U.S. Census Data according to PCI Services, Inc.; MNB Management Reports

The information in Tables 2-a through 2-i provides demographic and employment data, including the types of census tracts and Block Numbering Areas (BNAs), for each CRA area. Demographic data reflects only MNB's delineated communities.

**Ann Arbor / Brighton / Jackson Area**

This area is comprised of portions of Washtenaw, Livingston and Jackson counties. Major cities include Ann Arbor, Brighton, Jackson, and Ypsilanti. Portions of the Ann Arbor MSA (#0440) and the Jackson MSA (#3520) are included.

Institutions of higher education include the University of Michigan, Eastern Michigan University and Washtenaw Community College. Several medical institutions and many companies related to automobile manufacturing or high technology are present.

MNB operates 6 branches and 7 off-site ATMs within this area. MNB entered the Jackson market in September 1996.

<b>TOTAL POPULATION</b> (1990 census data)	491,497	
<b>POPULATED CENSUS TRACT OR BNA CHARACTERISTICS</b> (Based on HUD Median Family Income)	<b>Count</b>	<b>%</b>
Low (below 50% of median)	13	11%
Mod. (50 - 80% of median)	23	19%
Middle (80-120% of median)	56	46%
Upper (over 120% of median)	29	24%

<b>HOUSING INFORMATION</b>		<b>Count</b>	<b>%</b>
Owner Occupied Units		113,876	60%
Rental Occupied Units		63,780	34%
Vacant Housing Units		11,214	6%
<b>MSA UNEMPLOYMENT</b>			
	Ann Arbor		2.6%
<b>RATE SEPTEMBER 1996</b>	Jackson		4.8%

*Sources: U.S. Census data  
according to PCI Services, Inc.;  
Michigan  
Employment Security Commission*

***Flint Area***

The Flint Area is comprised of a substantial portion of Genesee County and a small portion of northern Oakland County. The primary city in this area is Flint. Most of the Flint MSA (#2640) is included within this area.

The area is substantially tied to the automotive industry, and particularly to General Motors. The University of Michigan - Flint, and GMI are two institutions of higher education. The unemployment rate has been above the state average during the past two years.

MNB operates 9 branches and 3 off-site ATMs throughout the Flint Area.

<b>Table 2-b <i>Flint Area</i></b>		
<b>TOTAL POPULATION</b> (1990 census data)	421,050	
<b>POPULATED CENSUS TRACT OR BNA CHARACTERISTICS</b> (Based on HUD Median Family Income)	<b>Count</b>	<b>%</b>
Low (below 50% of median)	17	17%
Mod. (50 - 80% of median)	19	19%
Middle (80-120% of median)	42	42%
Upper (over 120% of median)	22	22%
<b>HOUSING INFORMATION</b>	<b>Count</b>	<b>%</b>
Owner Occupied Units	110,626	66%
Rental Occupied Units	47,091	28%
Vacant Housing Units	9,213	6%
<b>MSA UNEMPLOYMENT RATE SEPTEMBER 1996</b>	6.1%	

*Sources: U.S. Census data according to PCI Services, Inc.; Michigan Employment Security Commission*

***Grand Rapids / Holland Area***

The Grand Rapids / Holland Area is comprised of portions of Allegan, Kent, and Ottawa counties. The primary cities in this area are Grand Rapids and Holland. A portion of the Grand Rapids-Muskegon-Holland MSA (#3000) is included within this area.

Major employers in the area include Steelcase, Amway, and Meijer. The economy is well diversified and is not overly reliant on any one industry type.

MNB operates 20 branches and 4 off-site ATMs throughout this area.

<b>Table 2-c <i>Grand Rapids / Holland Area</i></b>		
<b>TOTAL POPULATION</b> (1990 census data)	634,528	
<b>POPULATED CENSUS TRACT OR BNA CHARACTERISTICS</b> (Based on HUD Median Family Income)	<b>Count</b>	<b>%</b>
Low (below 50% of median)	10	8%
Mod. (50 - 80% of median)	16	12%
Middle (80-120% of median)	75	56%
Upper (over 120% of median)	32	24%
<b>HOUSING INFORMATION</b>	<b>Count</b>	<b>%</b>
Owner Occupied Units	161,553	68%
Rental Occupied Units	63,653	27%
Vacant Housing Units	13,183	5%
<b>MSA UNEMPLOYMENT RATE SEPTEMBER 1996</b>	3.7%	

*Sources: U.S. Census data according to PCI Services,*

Inc.;

*Michigan  
Employment Security Commission*

MNB operates 19 branches and 7 off-site ATMs throughout the Lansing Area.

***Kalamazoo / Battle Creek Area***

This area is comprised of portions of Calhoun and Kalamazoo counties. Major cities include Battle Creek, Kalamazoo, and Marshall. A portion of the Kalamazoo-Battle Creek MSA (#3720) is included in this area.

Major employers include Pharmaci-Upjohn Corp., Kellogg Company, Western Michigan University, and the U.S. Government. Prominent industry types include agriculture, light manufacturing, and government.

MNB operates 7 branches and 9 off-site ATMs throughout this area.

<b>Table 2-d Kalamazoo / Battle Creek Area</b>		
<b>TOTAL POPULATION</b> (1990 census data)	321,380	
<b>POPULATED CENSUS TRACT OR BNA CHARACTERISTICS</b> (Based on HUD Median Family Income)	<b>Count</b>	<b>%</b>
Low (below 50% of median)	10	12%
Mod. (50 - 80% of median)	14	17%
Middle (80-120% of median)	32	39%
Upper (over 120% of median)	26	32%
<b>HOUSING INFORMATION</b>	<b>Count</b>	<b>%</b>
Owner Occupied Units	80,660	62%
Rental Occupied Units	41,363	32%
Vacant Housing Units	8,230	6%
<b>MSA UNEMPLOYMENT RATE SEPTEMBER 1996</b>	4.1%	

*Sources: U.S. Census data according to PCI Services, Inc.; Michigan Employment Security Commission*

***Lansing Area***

The Lansing Area is comprised of portions of Clinton, Eaton and Ingham counties. Major cities in this area include Lansing (the State Capitol), as well as East Lansing, Grand Ledge, and Charlotte. A portion of the Lansing-East Lansing MSA (#4040) is included within this area.

Major employers, in addition to state government, include General Motors, Michigan State University, and Sparrow Hospital. The region has a solid and diversified economic base.

<b>Table 2-e Lansing Area</b>		
<b>TOTAL POPULATION</b> (1990 census data)	380,292	
<b>POPULATED CENSUS TRACT OR BNA CHARACTERISTICS</b> (Based on HUD Median Family Income)	<b>Count</b>	<b>%</b>
Low (below 50% of median)	10	10%
Mod. (50 - 80% of median)	18	17%
Middle (80-120% of median)	49	48%
Upper (over 120% of median)	26	25%
<b>HOUSING INFORMATION</b>	<b>Count</b>	<b>%</b>
Owner Occupied Units	87,088	59%
Rental Occupied Units	51,866	35%
Vacant Housing Units	7,423	5%



<b>MSA UNEMPLOYMENT RATE SEPTEMBER 1996</b>	<b>Port Huron Area</b> 3.3%
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*Sources: U.S. Census data  
according to PCI Services, Inc.;  
Michigan  
Employment Security Commission*

The Port Huron Area is comprised of portions of St. Clair and Sanilac counties. Port Huron is the primary city. A portion of the Detroit MSA (#2160) is included in this area.

Major employers include Port Huron Hospital and the Port Huron Area School District. Primary industries include hospital services and automotive-related manufacturing.

MNB operates 11 branches and 1 off-site ATM in the Port Huron Area.

#### ***Saginaw / Bay City / Midland Area***

This area is comprised of portions of Bay, Midland, and Saginaw counties, and lies within the Saginaw-Bay City-Midland MSA (#6960). The primary cities are Bay City, Midland, and Saginaw.

Major employers in the area include General Motors, Dow Chemical, and Dow Corning. Primary industries include automotive, agriculture, chemical manufacturing, and tourism.

MNB operates 10 branches and 6 off-site ATMs throughout this area.

<b>Table 2-f</b> <b><i>Port Huron Area</i></b>	
<b>TOTAL POPULATION</b> (1990 census data)	159,445

<b>POPULATED CENSUS TRACT OR BNA CHARACTERISTICS</b> (Based on HUD Median Family Income)	comprised of portions of Macomb, Oakland, and Wayne counties. A substantial portion of the Detroit Metropolitan County and the Detroit MSA (#2160) are included. This is MNB's primary market area.
Low (below 50% of median)	Count 9      % 7%
Mod. (50 - 80% of median)	Count 27      % 23%
Middle (80-120% of median)	Count 27      % 67%
Upper (over 120% of median)	Count 3      % 3%
<b>HOUSING INFORMATION</b>	The local economy is driven primarily by the automobile industry. The largest employers include Chrysler, Ford, and General Motors, as well as a host of small to mid-size companies tied directly or indirectly to the auto industry. Other prominent industry types include education, health care, and government.
Owner Occupied Units	Count 44,206      % 67%
Rental Occupied Units	Count 14,246      % 22%
Vacant Housing Units	Count 7,568      % 11%
<b>MSA UNEMPLOYMENT RATE SEPTEMBER 1996</b>	4.0% MNB operates 109 branches and 51 off-site ATMs throughout the area.

Sources: U.S. Census data according to PCI Services, Inc.; Michigan Employment Security Commission

### Southwest Michigan Area

The Southwest Michigan Area is comprised of portions of Berrien, Cass and St. Joseph counties, and includes a portion of the Benton Harbor MSA (#0870). The primary cities include Benton Harbor, Niles, and St. Joseph.

<b>Table 2-g Saginaw / Bay City / Midland Area</b>		
<b>TOTAL POPULATION</b> (1990 census data)	Major employers in the area include Whirlpool, Lakeland Medical Center, and Bosch. Primary industries include manufacturing, agricultural, and health care. Benton Harbor in particular has experienced significant economic stress with unemployment levels above state average.	
<b>POPULATED CENSUS TRACT OR BNA CHARACTERISTICS</b> (Based on HUD Median Family Income)	Count	%
Low (below 50% of median)	12	14%
Mod. (50 - 80% of median)	17	19%
Middle (80-120% of median)	45	49%
Upper (over 120% of median)	16	18%
<b>HOUSING INFORMATION</b>	Count	%
Owner Occupied Units	91,883	69%
Rental Occupied Units	35,840	27%
Vacant Housing Units	6,001	4%
<b>MSA UNEMPLOYMENT RATE SEPTEMBER 1996</b>	MNB operates 8 branches within the Southwest Michigan Area.	
<b>Table 2-h Southeast Michigan Area</b>		
<b>TOTAL POPULATION</b> (1990 census data)	3,726,387	
<b>POPULATED CENSUS TRACT OR BNA CHARACTERISTICS</b> (Based on HUD Median Family Income)	Count	%
Low (below 50% of median)	197	19%
Mod. (50 - 80% of median)	170	16%
Middle (80-120% of median)	399	39%
Upper (over 120% of median)	264	26%

Sources: U.S. Census data according to PCI Services, Inc.; Michigan Employment Security Commission

### Southeast Michigan Area

The Southeast Michigan Area is

<b>HOUSING INFORMATION</b>	<b>Count</b>	<b>%</b>
Owner Occupied Units	949,917	65%
Rental Occupied Units	441,161	30%
Vacant Housing Units	80,731	5%
<b>MSA UNEMPLOYMENT RATE SEPTEMBER 1996</b>	4.0%	

*Sources: U.S. Census data  
according to PCI Services, Inc.;  
Michigan  
Employment Security Commission*

<b>Table 2-i Southwest Michigan Area</b>		
<b>TOTAL POPULATION</b> (1990 census data)	208,622	
<b>POPULATED CENSUS TRACT OR BNA CHARACTERISTICS</b> (Based on HUD Median Family Income)	<b>Count</b>	<b>%</b>
Low (below 50% of median)	8	12%
Mod. (50 - 80% of median)	6	9%
Middle (80-120% of median)	34	51%
Upper (over 120% of median)	19	28%
<b>HOUSING INFORMATION</b>	<b>Count</b>	<b>%</b>
Owner Occupied Units	55,530	63%
Rental Occupied Units	22,548	26%
Vacant Housing Units	9,729	11%
<b>MSA UNEMPLOYMENT RATE SEPTEMBER 1996</b>	6.0%	

*Sources: U.S. Census data  
according to PCI Services, Inc.;  
Michigan  
Employment Security Commission*

#### Reasonableness of Delineated Community

- **MNB's delineated community is considered reasonable and does not arbitrarily exclude low- and moderate-income areas.**

MNB's delineated community consists of the nine areas described in the Bank and Community Profile section. The delineation includes all major population centers within the

southern half of Michigan's lower peninsula except for Monroe and Muskegon. The delineation was last expanded to include a portion of the city of Jackson in September 1996 upon the establishment of a single branch in that city.

The bank used the "effective lending territory" method to define its delineated community. Low- and moderate-income areas have not been arbitrarily excluded. The delineation's reasonableness is internally substantiated annually through market data analysis. The marketing department of the bank maintains a "household" data base of all MNB customers by zip code. January 1996 data reflected that approximately 80% of customers are located within the delineated communities. The reasonableness of the bank's delineation is further reflected by the fact that 86% of the number of loans and 83% of loan dollars were made to customers within the delineation during the first seven months of 1996. This is based on management reports which were found to be reliable.

## I. ASCERTAINMENT OF COMMUNITY CREDIT NEEDS

Assessment Factor A - Activities conducted by the institution to ascertain the credit needs of its community, including the extent of the institution's efforts to communicate with members of its community regarding the credit services being provided by the institution.

- **MNB has made a good effort to ascertain the credit needs of its local communities. Outreach efforts have established communication lines with members of the community. The bank has responded to identified needs by offering a wide range of loan products.**

MNB has identified the credit needs of its communities through market research, surveys, and through direct contact with members of the community. Advisory Boards are present in each CRA area to, in part, maintain an ongoing dialogue with the community and help identify credit needs. Advisory Board members are from the local business communities. A network of Community Development Managers are located in MNB's CRA areas. Their primary responsibilities are to provide products and services to the low- and moderate-income households and areas.

MNB has established ongoing, meaningful contacts with a comprehensive array of groups and organizations representing various elements of the community including municipal, religious, neighborhood, economic development, small business and commercial developers. Working relationships have been established with community-based organizations that deal with affordable housing initiatives. MNB officers are actively involved with and frequently serve in leadership capacities for a large number of organizations. MNB has sponsored and participated in many community-oriented seminars where credit needs have been discussed.

Active officer calling programs on small business accounts and prospective customers have

also been used to ascertain community credit needs. Over 2,000 prospective and existing small business customers from throughout the bank's nine CRA areas were contacted during calling "blitz" campaigns in 1995 and 1996.

Ongoing meetings with community coalitions in Detroit, Flint, and Saginaw have provided MNB with insight into community credit needs and concerns. Good working relationships with these coalitions has helped MNB identify opportunities to meet community credit needs. Action plans and lending commitments have been established in conjunction with these coalitions. MNB has been successful in meeting and exceeding lending goals, as discussed in Assessment Factor I.

MNB's contacts and activities have provided management with good insight to the credit needs of the community. Common findings have confirmed the need for small business and micro-loans; home purchase mortgages with little out-of-pocket money and down payment assistance loans; home rehabilitation and low-cost home improvement loans; and government loan programs for home improvement, home purchase, and businesses. MNB offers a variety of products which effectively address these needs.

Assessment Factor C - The extent of participation by the institution's board of directors in formulating the institution's policies and reviewing its performance with respect to the purposes of the Community Reinvestment Act.

- **The Board of Directors and senior management provide appropriate oversight and direction to MNB's CRA activities.**

The Board of Directors and senior management have acknowledged MNB's continued obligation to help meet the credit needs of its local community. The Board reviews and approves MNB's CRA Statement and community delineation annually, and has reviewed and approved branch openings, closings, and relocations.

To monitor CRA activities, the Board established the CRA Policy Committee comprised of two Directors and one Advisory Director. The objective of the Committee is to review and make recommendations regarding MNB's CRA strategies and community action plans, and to ensure MNB serves the credit needs of its communities consistent with safe and sound banking operations. The Committee receives comprehensive reports on the bank's CRA performance and progress in meeting objectives. The Chairman reports to the full Board of Directors after each meeting. Between January 1995 and September 1996 the Committee met four times.

Some members of the Board and senior management are active in the community. For example, members serve in leadership capacities of Detroit Renaissance, Detroit Economic Development Corporation, and Detroit Neighborhood Housing Services.

## II. MARKETING AND TYPES OF CREDIT OFFERED AND EXTENDED

Assessment Factor B - The extent of the institution's marketing and special credit-related programs to make members of the community aware of the credit services offered by the institution.

- **MNB's marketing program strives to effectively reach all segments of the community. The bank's efforts to reach the low- and moderate-income segments of the community have been successful.**

MNB's marketing and advertising programs are designed to inform all segments of the community of the products and services available. Mass media is used to reach the overall marketplace, and is supplemented by direct contact with members of the community. Based on the lending results discussed under Assessment Factors I and E, the bank has been successful in reaching all segments of each of the bank's CRA areas.

MNB uses newspaper, radio, and television advertising to provide broad media coverage of its markets. Advertising for lending products has been done. Two primary loan advertising campaigns done in 1995 and 1996 were for small business loans and home equity loans.

Direct contact with the community has been a primary method used by MNB to inform the public of its products and services. The "blitz" calling programs done in 1995 and 1996 discussed under Assessment Factor A have been an effective means for MNB to market its loan products directly to members of the community on a one-on-one basis. Furthermore, officers and staff members have made numerous calls to local residents, churches, neighborhood groups, businesses, real estate offices, and municipal leaders throughout MNB's CRA areas.

To increase community awareness of special loan programs offered by the bank, including government loan products, the bank has conducted or participated in numerous seminars, loan fairs, and workshops in each of its CRA areas. Many of these workshops and seminars have targeted low- and moderate-income areas and individuals. Discussions have also been held with community members and municipal leaders relating to the special loan programs offered by the bank. During 1995, MNB developed several bi-lingual advertisements to reach the Arabic and Spanish speaking segments of the population.

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

- **MNB has been responsive to the credit needs of its local communities. Lending levels have been reasonable. A substantial majority of loans have been made within the bank's delineated communities.**

The bank has been successful in its efforts to address the credit needs of its local communities. This conclusion is based on the following primary observations:

- o Lending volumes and the bank's loan-to-deposit ratio have been maintained at reasonable levels.
- o Loans have primarily been made within MNB's delineated community.
- o Consistent with its strategic focus, the bank has been an active small business and home improvement lender.
- o Lending in target markets identified as having the most pressing credit needs has been reasonable. MNB has consistently met established lending goals in those areas.

MNB is an active lender offering a wide variety of residential mortgage, consumer, small business, and commercial loan products. The bank's CRA statement accurately describes the types of loans offered. During the past two years, MNB has focused particular attention toward addressing small business and home improvement credit needs. Since the sale of its mortgage company subsidiary in late 1994, MNB has also been re-establishing its mortgage lending program.

A significant majority of MNB's loans have been made to customers within the bank's delineated communities. During the first seven months of 1996, 86% of the number of loans and 83% of loan dollars were made within the bank's delineation. Similar percentage levels occurred within the delineation in 1995, although full 1995 data is not readily available as indirect lending activity outside of Michigan was not tracked until this year. As of June 30, 1996, MNB's ratio of loans net of loss reserves to deposits was 84%. While somewhat lower than the 90% average of other banks of similar size and characteristics throughout the country, it is still reflective of the bank's willingness to extend credit. MNB's analysis of its customer base as of January 1996 demonstrated that a loan-to-deposit ratio of 66% existed for those counties which comprise the bank's delineated community.

Loan volumes during 1994, 1995, and 1996 are considered reasonable and reflect a positive responsiveness to addressing the credit needs of the community. An increasing trend has occurred in the number of loans MNB has made since 1994. However, dollars lent have been lower due primarily to a significant reduction in residential mortgage lending since the sale of the mortgage company. Lending during the first three quarters of 1996 has been at a higher pace than last year. Regardless, MNB's loan portfolio growth rate has been about half that of other U.S. banks of similar size and characteristics. Table 3 reflects loan volumes in 1994, 1995, and year-to-date 1996 through September within the counties making up the bank's CRA areas. Information is based on bank internal reports reflecting both Home Mortgage Disclosure Act (HMDA) reported and non-HMDA reported loans.

<b>Table 3</b>						
<b>Loan Volumes Within CRA Areas</b>						
Loan Type	1994		1995		YTD 9/96	
	Count	\$(000's)	Count	\$(000's)	Count	\$(000's)
Residential Mortgages	2,317	207,382	758	66,000	1,013	102,383
Home Equity & Improvement	5,185	127,751	3,909	110,076	7,928	241,640
Other Consumer Loans	20,843	212,612	29,144	285,909	23,181	285,178
Business Financial Service Loans	1,951	120,008	1,797	160,421	1,291	117,200
Commercial Loans	2,419	2,192,024	1,839	1,111,057	1,264	1,024,077
<b>Total Loans</b>	<b>32,715</b>	<b>2,859,777</b>	<b>37,447</b>	<b>1,733,463</b>	<b>34,677</b>	<b>1,770,478</b>

*Source: MNB Management Reports*

### **Small Business Lending**

MNB is an active small business lender. This conclusion is based on lending activity, loan portfolio characteristics, and the bank's participation in U.S. Small Business Association (SBA) programs. Small business loans are generally defined as commercial loans for \$1 million or less.

Over 60% of MNB's loan dollars are to commercial and business customers, as reflected in Tables 1 and 3. A significant portion of MNB's commercial loans are for small business purposes. During 1995, 94% of the number of commercial loans made within the bank's delineated community and 43% of the loan dollars were for small business purposes. During the first nine months of 1996 small business loans represented 93% of the number of commercial loans and 33% of loan dollars. The average size of a MNB commercial loan was \$379,500 during the period of January 1995 through September 1996. Through its branch network, MNB offers business loans for as small as \$5,000. MNB has been active in small business lending within each of its CRA areas.

Table 3 also reflects the bank's active small business lending posture. The Business Financial Services segment is comprised almost exclusively of small business loans. The Commercial Loan portfolio is primarily comprised of commercial relationships exceeding \$1 million, but most of the individual loans are for amounts under \$1 million. While the number and dollar volumes of overall commercial lending experienced a slight declining trend in the number of loans since 1993, the Business Financial Services portfolio experienced 6% growth in dollars outstanding between January 1995 and July 1996.



MNB's small business loan portfolio segment is proportionally comparable to that of other banks, based on a review of June 30, 1996 Call Report data from MNB and other banks of similar size from throughout the country. MNB's small business loans represented 15.6% of total loan dollars outstanding compared to a 12.4% average for banks of similar size. Our analysis also determined that MNB had approximately 1.1 small business loans outstanding for every \$1 million in total loans outstanding, compared to 1.7 loans on average for similar size banks.

MNB is a leader in the origination of SBA loans. Refer to Assessment Factor J for additional information regarding the bank's SBA loan activity.

### **Housing Related Lending**

MNB actively offers home purchase, home refinance, and home improvement loans throughout its communities. The sale of the mortgage company subsidiary in late 1994 significantly impacted the bank's mortgage lending capabilities, however. As a result, 1995 home purchase and refinance loan volumes were significantly lower. MNB has been re-establishing its residential mortgage process since selling the mortgage company. 1996 loan activity within the bank's community has been higher than in 1995, but remains well below 1994 levels. In each of the bank's market areas, MNB's mortgage lending during 1995 and 1996 has been low in relation to its general presence in those markets. Regardless, lending levels demonstrate a general responsiveness to the needs of the community. MNB made approximately 1,000 home purchase and home refinance loans within its delineated community during the first nine months of 1996. Responsiveness is also demonstrated through participation in government lending programs (refer to Assessment Factor J), and through offering affordable housing loans. In March 1995, MNB began offering the Fannie Mae 97 mortgage product which features flexible underwriting criteria to borrowers whose income does not exceed 100% of median area income. MNB lending under this program has been limited as only 5 loans totaling \$320,000 have been made to date.

MNB has made a substantial number of home improvement loans in each of its CRA areas. According to HMDA data, MNB made over 2,200 home improvement loans within its delineated community in 1995, and nearly 2,250 during the first seven months of 1996. Analyses of market aggregate HMDA data reflected that MNB's market share of home improvement loans in 1994 and 1995 was generally commensurate with the bank's presence in each of the bank's CRA areas. The volume of home improvement lending has been particularly strong in the Ann Arbor / Brighton Area and somewhat low in the Kalamazoo / Battle Creek Area.

### **CRA Target Cities**

Enhanced monitoring of MNB lending activities is done in some areas containing concentrations of low- and moderate-income neighborhoods. These are also areas where

management has determined that the most pressing credit needs exist. Lending in six cities (Benton Harbor, Detroit, Flint, Grand Rapids, Lansing, and Saginaw) is monitored. Lending goals and / or action plans have been established for the cities of Detroit, Flint, and Saginaw stemming from discussions with local coalition groups. Furthermore, the bank has made lending commitments to Detroit's Empowerment Zone. MNB has met or exceeded its broad lending goals in each of these areas.

Lending levels in target cities has been reasonable overall, although lending in Benton Harbor has been limited. A higher percentage of loan dollars was extended to the target cities during the first nine months of 1996. In aggregate, 17.1% of MNB loan dollars made within the counties in the bank's delineation were made to customers in target cities, as compared to 13.6% in 1994 and 13.4% in 1995. This increase is primarily due to two large loans made in Detroit. Except for Grand Rapids, the lending levels in each of the target cities has been higher in 1996 as compared to 1995. Other than Detroit, however, 1996 lending has been lower than 1994 levels. Table 4 summarizes the bank's lending performance in target cities during the past three years.

<b>Table 4 Lending Volumes in CRA Target Cities</b>						
Location	1994		1995		Thru 9/1996	
	Count	(\$000's)	Count	(\$000's)	Count	(\$000's)
Benton Harbor	16		16	115	16	
Detroit	4,109		3,619		199	
Flint	2,273		135,672	419	2,934	
Grand Rapids	160,846		12,582		237,211	
Lansing	402		974	55,712	296	
Saginaw	21,287		530	25,348	14,507	
	943		275	2,781	744	
	99,161				25,090	
	601				383	
	96,231				24,186	
	283				215	
	6,289				3,413	
<b>Total</b>	<b>4,518</b>		<b>5,833</b>	<b>232,210</b>	<b>4,588</b>	
	<b>387,923</b>				<b>304,606</b>	

*Source: MNB Management Reports*

Assessment Factor J - The institution's participation in government insured, guaranteed or subsidized loan programs.

- **MNB regularly participates in a variety of government-insured, guaranteed and subsidized loan programs. MNB has taken a leadership role in granting Small Business Administration (SBA) loans.**

MNB is a leader in generating SBA guaranteed loans, which corresponds with its focus on small business lending. The bank significantly increased its volume of SBA lending during 1996. According to the SBA, MNB was the number two SBA lender in Michigan (based on the number of loan approvals) during the SBA fiscal year ending September 30, 1996. The SBA designated MNB as “Lender of the Year” in Michigan for 1996.

MNB also participates in several government loan programs for affordable housing, home improvement and agriculture purposes. Lending activity in these programs has been reasonable and reflects a general responsiveness toward addressing the needs of the community. The most notable level of activity is with respect to the use of Federal Housing Authority mortgage products. Table 5 summarizes MNB’s lending activity in government loan programs. Brief descriptions of the national and state programs follow the table.

<b>Table 5 Government Loan Program Activity</b>				
Government Program	1995		8/1996	
	Count	\$ (000's)	Count	\$ (000's)
Small Business Administration (SBA)*	59	9,848	90	20,430
Federal Housing Administration (FHA)	125	7,117	100	5,823
Veterans Administration (VA)	37	2,683	26	2,074
Michigan State Housing Development Authority (MSHDA) Mortgage Program	11	428	6	325
MSHDA Home Improvement Program (HIP/CHIP)	11	82	11	91
HUD Title I Home Improvement	11	144	2	37
FHA 203 (K)	3	161	1	39
Farmers Home Administration (FmHA)	2	328	4	837
<b>Total Government Lending</b>	<b>259</b>	<b>20,791</b>	<b>240</b>	<b>29,656</b>

*Source: MNB Management Reports*  
*\* Note: SBA Data based on 9/30 fiscal year*

**U.S. Small Business Administration (SBA)**

The SBA provides a federally funded program through which up to 90% of a loan may

be guaranteed by the government. MNB is a Preferred Lender which allows it to approve loans and expedite the SBA process. Products available include the Low-Doc loan. This program for loans under \$100,000 has a simple one page application for qualified small business customers.

### **Federal Housing Authority (FHA) / Veterans Administration (VA)**

These agencies guaranty mortgages that offer higher debt-to-income ratios, lower down payments and lower out-of-pocket costs. Generally, this financing is available to individuals meeting certain income parameters. MNB actively uses these programs.

### **Michigan State Housing Development Authority (MSHDA)**

Through MSHDA, the bank offers the MSHDA Mortgage Program. It provides guaranteed, affordable mortgages to individuals meeting certain income requirements. Also available is the mortgage credit certificate (MCC) and a down payment assistance program. Under the MCC program an income tax credit equivalent to 20% of the interest payment can be obtained. The down payment assistance program provides an interest free second mortgage.

The MSHDA Home Improvement Program (HIP) and the Community Home Improvement Program (CHIP) are designed to improve and preserve older housing stock. Individuals may apply for a HIP loan by contacting the bank. CHIP applications are generated through participating municipalities. Loan interest rates on these two programs range from 1% to 9%, depending on homeowner income. A portion of the loan request may also be received in the form of a grant.

### **U.S. Department of Housing and Urban Development (HUD) Title I**

This program provides home improvement financing to borrowers who typically require slightly higher debt-to-income ratios. Collateral requirements for these loans are more liberal than requirements for traditional secured home improvement products.

### **Federal Housing Authority (FHA) 203(k)**

This home purchase program is designed for home rehabilitation lending based on the post-rehabilitation value of the house.

### **Farmers Home Administration (FmHA)**

The program provides working capital and long term financing for agricultural purposes.

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

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

- **MNB's geographic distribution of credit extensions, applications, and denials demonstrates good penetration into all segments of its local communities. Lending in low-and moderate-income areas and to low- and moderate-individuals has been reasonable.**

MNB has served all segments of its local communities, including low- and moderate-income areas. This conclusion is based on the following primary observations:

- Excellent overall lending penetration is evident. The bank made loans in 98% of the populated census tracts and block numbering areas (BNAs) within its delineated communities in 1995.
- The proportion of lending activity within low- and moderate-income neighborhoods has been reasonable. MNB made a higher percentage of its HMDA loans in low- and moderate-income areas compared to the market as a whole in most CRA areas in 1994 and 1995.
- The proportion of HMDA lending to low- and moderate-income individuals has been reasonable, and particularly strong in some CRA areas.

MNB received applications from and granted credit to individuals and businesses from all segments of each community the bank serves. The few census tracts and BNAs where no activity occurred in 1995 are primarily unpopulated or have other characteristics which provide limited opportunities to lend.

MNB has affirmatively addressed the housing-related credit needs of its communities. A review of 1995 HMDA data reflected that MNB received applications from over 80% of the populated census tracts and BNAs within its delineation. HMDA-reported loans were extended in over two-thirds of the tracts and BNAs. No conspicuous lending gaps or irregular lending patterns were detected.

The bank has performed regular geographic distribution analyses of its lending activities. All loans are coded by census tract or block numbering area. Monthly reports reflect aggregate lending by region and specifically highlight lending in low- and moderate-income areas. Reviews of the bank's reports and HMDA data reflect that the bank has had reasonable lending activity throughout the community.

### **Lending to Low- and Moderate-Income Areas**

Lending in low- and moderate-income areas is considered reasonable. This conclusion is based on MNB's lending record in each CRA area during 1994, 1995, and to date in 1996. Consideration was given to market demographics and lending done by the aggregate market to the extent possible.

A greater portion of MNB's lending activity occurred in low- and moderate-income neighborhoods in 1995 than in 1994. According to bank internal reports which were found to be reliable, 18.6% of the number of loans and 19.7% of loan dollars were made in low- and moderate-income areas in 1995 compared to 16.4% (number of loans) and 14.6% (loan dollars) in 1994. Through the first nine months of 1996, 16.5% of the number of MNB loans and 17.5% of loan dollars were made in low- and moderate-income neighborhoods.

CRA Area	The % of the Number of Loans made in L/M Areas		Demographics of Low- and Moderate-income Tracts and BNAs as a Percentage of CRA Area Demographics			
	1995	9/1996	Number of Tracts %	Population %	Households %	Own/Occup H. Units %
Ann Arbor / Brighton	19	18	28	26	26	13
Flint	24	22	36	31	32	25
Grand Rapids/ Holland	22	17	20	14	14	9
Kalamazoo / B. Creek	24	18	28	26	25	16
Lansing	17	14	27	22	22	13
Port Huron	24	21	30	29	29	23
Saginaw / Bay City	34	29	33	25	26	19
Southeast Michigan	17	15	35	32	31	23
Southwest Michigan	15	12	21	15	14	9
<b>All CRA Areas</b>	<b>19</b>	<b>16</b>	<b>32</b>	<b>28</b>	<b>28</b>	<b>20</b>

*Sources: MNB Management Reports; U.S. Census data according to PCI Services,*

*Inc.*

- Notes: 1. L/M Areas - refers to Low- and Moderate-Income census tracts and block numbering areas  
 2. Own/Occup. H. Units - refers to Owner Occupied Housing Units  
 3. Jackson information is not included in the Ann Arbor loan data or demographic data due to MNB's recent entry into that segment of the market.

OCC analyses for each CRA area assessed the portion of lending that stemmed from low- and

moderate-income areas for each major loan category (residential mortgages, commercial, and consumer loans) and for lending as a whole. Consideration was given to the demographic and market characteristics of each CRA area based on 1990 U.S. census data. Characteristics included the number of low- and moderate-income tracts in each region as well as the population, households, and owner-occupied housing units represented by those tracts. We determined that the percentage of MNB lending done in the low- and moderate-income sectors of each CRA area was within an acceptable range in relation to the portion of the demographic base represented by those low- and moderate-income areas. See Table 6.

The proportion of the number of commercial loans MNB has extended in low- and moderate-income areas is considered reasonable and reflects a slightly increasing trend. As discussed under Assessment Factor I, over 90% of MNB's commercial loans are considered small business loans. During 1996, 22.5% of the number of commercial loans made were to borrowers located in low- and moderate-income areas compared to 19.9% in 1994 and 20.0% in 1995. While a detailed analysis of lending opportunities within and outside low- and moderate-income areas was not done, this level of lending is considered reasonable given that a majority of the low- and moderate-income areas within the bank's assessment areas are primarily residential.

MNB made a higher percentage of its housing-related loans in low- and moderate-income areas than the aggregate market. This was the case in nearly all of the bank's CRA areas and for the bank as a whole. For both 1994 and 1995, MNB's lending in low- and moderate-income neighborhoods in the Flint, Grand Rapids, and Saginaw / Bay City / Midland CRA areas were particularly high, as reflected in Table 7. Each CRA area reflected a decreased proportion of lending in the low- and moderate-income sectors in 1996, but this is just based on seven months of preliminary data. This analysis used 1994, 1995 and preliminary HMDA data through July 1996.

**Table 7**

**HMDA Lending in Low/Mod Income Tracts**

CRA Area	The % of the Number of Loans which were made in L/M Areas by the Aggregate Market and MNB					The % of households and owner occupied housing units from L/M areas	
	1994 Market %	MNB %	1995 Market %	MNB %	7/1996 MNB %	Household %	O.O. House Units %
Ann Arbor / Brighton	12	7	12	7	6	26	13
Flint	15	22	16	21	14	32	25
Grand Rapids / Holland	9	16	9	15	11	14	9
Kalamazoo / B. Creek	13	16	15	17	14	25	16
Lansing	11	14	12	15	10	22	13
Port Huron	26	37	27	29	22	29	23
Saginaw / Bay City	17	28	18	26	17	26	19
Southeast Michigan	13	16	15	17	12	31	23
Southwest Michigan	10	6	12	15	6	14	9
<b>All CRA Areas</b>	<b>13</b>	<b>18</b>	<b>15</b>	<b>17</b>	<b>12</b>	<b>28</b>	<b>20</b>

*Sources: U.S. Census and HMDA data according to PCI Services, Inc.; MNB*

*data*

- Notes: 1. L/M Areas - refers to Low- and Moderate-Income census tracts within MSAs  
2. O.O. House Units - refers to Owner Occupied Housing Units  
3. Jackson information is not included in the Ann Arbor loan data or demographic data due to MNB's recent entry into that segment of the market.

Market share analyses were performed to assess MNB's lending in the low- and moderate-income neighborhoods located within the MSAs in each of the bank's nine CRA areas. The analyses compared MNB's level of lending within low- and moderate-income neighborhoods to MNB's lending in the area as a whole for Home Purchase, Home Refinance, and Home Improvement loans. 1994 and 1995 market aggregate HMDA data was utilized. The analysis reflected that overall, MNB's lending activity within the low- and moderate-income segments of each CRA area was relatively consistent with its lending activity in those communities as a whole in both 1994 and 1995. Regarding Home Purchase and Home Improvement loans specifically, the majority of MNB's CRA areas captured market shares in the low- and moderate-income segments that were equal to or higher than the overall shares captured for those products in those markets. Table 8 reflects where MNB's lending record in low- and moderate-income areas has been particularly high and low. Individually or collectively, the areas and products highlighted in Table 8 do not significantly impact our conclusion that MNB's overall lending in low- and moderate-income segments has been reasonable.



<b>Table 8 Low- and Moderate-Income Area Market Share Analysis</b>					
<b>CRA Area</b>	<b>Loan Product</b>	<b>1994</b>		<b>1995</b>	
		<b>L/M Overall Share</b>	<b>Share</b>	<b>L/M Overall Share</b>	<b>Share</b>
<i>Where MNB Lending in Low- and Moderate-Income Areas Has Been Proportionately High</i>					
Flint	Home Purchase	5.41%	2.19%	2.95%	1.36%
Grand Rapids / Holland	Home Refinance	4.27%	2.72%	1.46%	0.56%
Grand Rapids / Holland	Home Improvement	7.43%	6.06%	5.80%	4.90%
Lansing	Home Purchase	2.54%	1.23%	1.27%	0.85%
Port Huron	Home Purchase	13.98%	7.23%	2.44%	1.32%
Saginaw / Bay /Midland	Home Improvement	4.93%	2.51%	4.44%	3.29%
<i>Where MNB Lending in Low- and Moderate-Income Areas Has Been Proportionately Low</i>					
Ann Arbor	Home Improvement	3.83%	8.78%	2.63%	6.73%
Southeast Michigan	Home Improvement	6.91%	8.85%	4.14%	6.78%
Southwest Michigan	Home Refinance	0.00%	0.83%	0.00%	0.30%

*Source: HMDA Aggregate Data according to PCI Services, Inc.*

*Note: L/M refers to Low- and Moderate-Income Area*

### **Lending to Low- and Moderate-Income Individuals**

Analyses of 1994, 1995, and preliminary July 1996 HMDA reflected that the bank has actively served the low- and moderate-income individuals within its market areas. An applicant's income level is considered to be low or moderate if income is less than 80% of the annual adjusted median family income for the area.

MNB's HMDA application and loan activity which stemmed from low- and moderate-income applicants in 1994 and 1995 was proportionally higher than the market average. 42% of the number of MNB's HMDA-related loan applications came from this segment of the community in both 1994 and 1995. This was higher than the 34% and 35% experienced by the market as a whole in 1994 and 1995 respectively. Similarly, 34% of MNB loans in 1994 and 33% in 1995 were made to low- and moderate-income applicants whereas the aggregate market made 32% (1994) and 30% (1995). While the percentage of MNB's HMDA lending extended to low- and moderate-income applicants was lower during the first seven months of

1996, the number of loans made to this segment of the population increased from 1995 levels in each CRA area.

MNB's lending to low- and moderate-income applicants has been reasonable in all CRA areas, but has been especially strong in the Port Huron, Saginaw / Bay City / Midland, and Southwest Michigan areas. This is based on comparing MNB's lending activity to that of the aggregate market and to the demographic characteristics of those markets. Refer to Table 9.

<b>Table 9 HMDA Lending to Low- and Moderate-Income Individuals</b>					
CRA Area	% of Families which are L/M Income	% of Loans Made to L/M Income Applicants			
		Aggregate 1995	1994	MNB 1995	7/96
Ann Arbor / Brighton	34	28	29	26	23
Flint	40	31	37	30	34
Grand Rapids / Holland	32	31	34	37	25
Kalamazoo / B. Creek	36	30	25	38	31
Lansing	37	31	39	34	26
Port Huron	44	37	45	50	42
Saginaw / Bay City	38	31	48	48	31
Southeast Michigan	39	30	31	30	27
Southwest Michigan	36	29	33	38	42
<b>All CRA Areas</b>	<b>38</b>	<b>30</b>	<b>34</b>	<b>33</b>	<b>28</b>

*Sources: HMDA and U.S. Census data per PCI Services, Inc.; MNB data  
Note: L/M refers to Low and Moderate*

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

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

MNB operates 199 full service offices located throughout its delineated area. Banking offices are generally distributed among MNB's CRA areas proportional to the population and number of census tracts representing the individual areas. See Graph 1 and Table 10. A majority

(55%) of all the offices are located in Southeast Michigan Area.

Banking offices are reasonably accessible to all segments of the community, including low- and moderate-income neighborhoods where thirty-seven offices (19%) are located. This is considered reasonable given that approximately 28% of the population within MNB’s delineated community is located in low- and moderate-income areas. However, the number of offices in the low- and moderate-income sectors of the Southeast Michigan Area is not extensive. Only 10% of MNB’s offices are located in those neighborhoods which represent 31% of the population. Nevertheless, MNB has actively served the entire Southeast Michigan Area as discussed under Assessment Factors I and E. Table 10 shows the distribution of the banking offices in relation to the geographic characteristics of each CRA area.

<b>Table 10 Banking Office Distribution &amp; Area Characteristics</b>						
Geographic Area	Number of Offices	Number of Offices in L/M Areas	% of Total Offices	% of Total Tracts & BNAs	% of Offices in L/M Areas	% of Tracts & BNAs that are L/M
Ann Arbor / Brighton / Jackson	6	2	3	7	33	30
Flint	9	3	4	6	33	36
Grand Rapids / Holland	20	6	10	7	30	20
Kalamazoo / Battle Creek	7	2	4	5	29	28
Lansing	19	5	9	6	26	27
Port Huron	11	4	6	2	36	30
Saginaw / Bay City / Midland	10	2	5	5	20	33
Southeast Michigan	109	11	55	58	10	35
Southwest Michigan	8	2	4	4	25	21
<b>Total</b>	<b>199</b>	<b>37</b>	<b>100%</b>	<b>100%</b>	<b>19%</b>	<b>33%</b>

*Sources: MNB Management Reports; Census data per PCI Services, Inc.;*

*Note: L/M refers to Low- and Moderate-income*

Business hours are set by local and regional management, and are tailored to the needs of each local market to some degree. A majority of the offices have Saturday lobby and/or drive-up hours. Eighteen offices are located within supermarkets which offer evening, Saturday, and Sunday hours. The MNB branch network is augmented by an extensive 24 hour automated teller machine (ATM) network which includes 91 stand-alone ATM sites, many which are located in supermarkets. Bank products and services are available through each office and a telephone banking service. The 24-hour telephone banking program

enables consumers to apply for installment loans during business hours and conduct other business and obtain information at any time by telephone.

MNB has closed six offices and relocated six offices since April of 1994. The closings have not adversely impacted the bank's ability to service its community. The offices were closed for economic reasons and in each case the area remained serviced by another MNB office or a competing financial institution. None of the closed offices were located in low- or moderate-income areas. One office in a moderate-income census tract in Detroit was relocated 1.5 miles to a new supermarket office located in a middle-income census tract in Harper Woods. MNB adheres to an office closing policy which requires that consideration be given to the impact that the closing will have on the community which that office serves.

MNB has opened sixteen offices since April of 1994. All of these offices are in supermarkets which offer expanded operating hours. Two of these "Bankmarts" (one in Detroit and one in Lansing) are in low- or moderate-income areas.

#### IV. DISCRIMINATION AND OTHER ILLEGAL CREDIT PRACTICES

Assessment Factor D - Any practices intended to discourage applications for types of credit set forth in the institution's CRA Statement(s).

- **MNB solicits credit applications from all segments of its local community. No practices to discourage credit applications have been identified.**

MNB actively solicits credit applications from the entire community, including from low- and moderate-income areas and individuals. This is in part supported by geographic distribution of application and loan analyses discussed under Assessment Factor E. No policy or underwriting standards which would tend to discourage credit applicants were identified.

MNB has implemented an effective fair lending program. Policies, procedures and an employee training program are in place to help ensure that credit is being granted using nondiscriminatory practices. To ensure that credit decisions are being made equitably regardless of race or gender, MNB has established a second review process of all of its denied residential mortgage and home improvement loan applicants. Denied applications are reviewed by a more senior underwriter to determine if an alternative to denial exists. The bank's quality control process verifies that the second review process is actively utilized. Additional quality control processes are in place to provide management further assurance that credit is being granted equitably.

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

- **MNB is in compliance with the substantive provisions of anti-discrimination laws. No illegal credit practices were identified.**

As part of our supervisory activities conducted at the bank, we tested MNB's compliance with the Equal Credit Opportunity Act, the Fair Housing Act, and the Home Mortgage Disclosure Act (HMDA) to determine if all applicants have had an equal opportunity to obtain credit. To assess compliance with the fair lending laws and regulations, we reviewed a sample of home improvement, mobile home, and residential mortgage loan applications received in 1996. Credit applications from Asian, Black, and Hispanic applicants who had been denied credit were compared to White applicants who were granted credit. 447 files were reviewed in total. We found that all groups were treated similarly.

Our examination detected errors in HMDA data regarding the dollar amounts of home improvement loans MNB has reported to have extended. In some cases the portion of loans reported for home improvement purposes was overstated. MNB management has taken appropriate steps to correct this process. While the dollar amounts involved have not been determined, this was taken into consideration during our analysis of the bank's lending performance.

## V. COMMUNITY DEVELOPMENT

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

- **MNB demonstrates a reasonable volume of investment and lending in community development and redevelopment programs within its delineated communities. Bank officers also provide extensive technical assistance relating to community development initiatives.**

MNB regularly supports and participates in community development projects within the community. Many of these represent long-term, on-going commitments by MNB. Efforts are in various forms, including loans and investments to low- and moderate-income housing groups, economic and business development organizations, and micro lending programs. MNB further supports community development with technical assistance and monetary and equipment donations.

The level of investments in community development initiatives vary by CRA area. The

Kalamazoo/Battle Creek and Lansing areas have a strong level of community development loans and investments. Volume elsewhere is more moderate, but reasonable. We considered activity in the Southeast Michigan Area as somewhat limited given that this area is MNB's primary market area. MNB's sizeable support of Business and Industrial Development Corporations (BIDCO's) is reflective of the bank's emphasis on small business development.

Throughout MNB's market area, bank officers and employees have a good working relationship with representatives of both the government and private sectors. Bank officers often play key leadership roles or provide significant technical support to organizations focused on small business lending, community development and affordable housing. This is discussed further under Assessment Factor L.

Table 11-a through 11-i provide examples, by market area, of community development projects that the bank is involved in or supporting. Table 12 summarizes MNB's BIDCO loans and investments.

<b>Table 11-a Ann Arbor / Brighton / Jackson Area</b>	
Examples of Community Development Activities	Type of Commitment
Washtenaw County Community Credit Initiative - Multi-family Housing Group. \$1.5 million loan pool established in 1994 for non-profit corporations to provide affordable housing for very low-income. Line of Credit usage has not been extensive.	\$250,000 Line of Credit
Washtenaw County Community Credit Initiative - Commercial Micro-Loan Pool (\$350,000) - 1994 Loan from MNB used by the CDC to finance existing minority- and women-owned small businesses through the loan pool.	\$15,000 Loan
Washtenaw Affordable Housing Corporation. Acquires and manages low- and moderate-income family housing. 1996 MNB loan is guaranteed by LISC and provides funds to cover pre-development costs and deposits.	\$50,000 Loan

<b>Table 11-b Flint Area</b>	
Examples of Community Development Activities	Type of Commitment
Flint Strategic Neighborhood Assistance Program (SNAP) - an affordable housing loan pool program administered by Flint Neighborhood Improvement and Preservation Project, Inc.( FNIPP). After rehabbing, FNIPP sells the property on a land contract with banks providing an underlying mortgage. Activity has been limited with 12 homes acquired from 1993 to date.	\$250,000 Mortgage Pool Commitment

<b>Table 11-c Grand Rapids / Holland Area</b>	
Examples of Community Development Activities	Type of Commitment
Grand Rapids Inner City Christian Federation Corporation (ICCF) - rehabilitates deteriorated housing and provides unique financing for low-income families. The line of credit line was increased by \$50,000 in 1996.	\$150,000 Line of Credit
Grand Rapids Right Place Program - A small business development and recruiting center.	Annual Grant
Local Initiative Support Corp. (LISC) - Provides investments and assistance with various community development projects.	Annual Grant

<b>Table 11-d Kalamazoo / Battle Creek Area</b>	
Examples of Community Development Activities	Type of Commitment
Neighborhoods Inc. of Battle Creek (NIBC). \$500,000 loan pool for acquisition, rehabbing, & financing of homes to families who cannot obtain conventional financing. MNB current financing began in 1995.	\$100,000 Line of Credit Annual Grant
Battle Creek Investment Growth Corp (BCIGC). BCIGC operates a revolving loan fund to supplement bank financing. In 1995 MNB funded \$410,000 worth of loans to four companies in conjunction with BCIGC financing.	Individual Business Financing in Conjunction with BCIGC.
Battle Creek Cereal City Development Corp (CCDC) works to stabilize/develop the downtown and West End of the City.	Individual Business Financing in Conjunction with CCDC
Kalamazoo Neighborhood Housing Services - Home Ownership Program (HOP) provides funding for mortgages and home improvement loans to low- and moderate-income individuals. MNB has participated in all four phases, funding \$190,000 during the 1994-96 period.	\$463,624 Loan Pool Outstanding
Kalamazoo Valley Habitat For Humanity - Non-profit housing developer. Term line was established in 1994 to move and rehab eight houses scheduled for demolition. The line of credit was increased by \$25,000 in 1995.	\$75,000 Line of Credit, \$250,000 Term Loan, Annual Grants
Kalamazoo Northside Non-profit Housing Corporation - Non-profit housing rehabilitation and construction. Operating line has been renewed to fund construction activity. MNB will also provide end-purchaser financing, accepting grant funds for customer down-payment.	\$100,000 Line of Credit

<b>Table 11-e Lansing Area</b>	
Examples of Community Development Activities	Type of Commitment
Advent House Ministries provides food, shelter, self-efficiency and job training for economically disadvantaged. Line of credit was established in 1995. MNB also provides technical assistance.	\$5,000 Line of Credit Sizeable Grant
Lansing Habitat for Humanity - Non-profit housing developer. Line of credit was established in 1993.	\$15,000 Line of Credit
Lansing Neighborhood Housing Corporation (LNHC) - A consortium that provides low-cost loans for redevelopment of single family homes in targeted areas of the city. Loan recipients include the Greater Lansing Housing Coalition and Michigan Non-profit Real Estate Development Corp. LNHC also sponsored the Lansing Housing Fair. Loan originated in 1993.	\$100,000 Interest Free Loan
City of Lansing - Participant in loan pool for construction of minor league baseball stadium - centerpiece for economic revitalization of a low-income area. The stadium opened in 1996.	\$1,000,000 Loan

<b>Table 11-f Port Huron Area</b>	
Examples of Community Development Activities	Type of Commitment
Port Huron Mainstreet - A loan program begun in 1994 with four other banks for downtown building restoration. The fund was increased from \$1 million to \$3 million in 1996 with special rates and terms are available. No loans have been funded by MNB.	As Needed, Up To Aggregate of \$3 million
Port Huron Neighborhood Housing Corp. (PHNHC) - a \$300,000 loan pool established in 1990 for purchase, rehab and sale of homes to L/M families.	\$100,000 Investment

<b>Table 11-g Saginaw / Bay City / Midland Area</b>	
Examples of Community Development Activities	Type of Commitment
Midland CHOICE - An affordable housing program run by the city. Participating lenders rotate providing first mortgages. Since 1992, MNB has agreed to fund up to two mortgages per year @ \$60,000.	1 Mortgage Granted During 1994-96
Saginaw Neighborhood Renewal Services (NRS) - Loan pool to provide mortgages to first time, low-income home buyers. MNB funded \$165,583 of Phase I's \$1 million pool. 50 mortgages have been funded under Phase II's \$1.4 million pool which began in 1994 .	Phase II \$200,000 Commitment \$172,407 Funded



<b>Table 11-h Southeast Michigan Area</b>	
Examples of Community Development Activities	Type of Commitment
City of Inkster Southwest Block Club Assoc. (SWBCA) is a community based organization that acquires and rehabilitate affordable residential property. Line of Credit was established in 1995. MNB also has option to provide end financing on rehabilitated property.	\$50,000 Line of Credit
Detroit Neighborhood Housing Services, Inc. (DNHS) - targets three neighborhoods to provide affordable housing opportunities. Line of Credit was established in 1991.	\$30,000 Line of Credit, \$25,000 Loan Annual Grant
Detroit Neighborhood Investment Corp. (DNIC) - A loan participation pool started in 1989 for the purpose of fostering reinvestment in Detroit neighborhoods through housing rehabilitation and purchase of vacant housing. Since inception 336 loans have been funded with 241 currently outstanding.	\$106,714 Current Participation Balance (11.7%)
Grandmont Rosedale Development Corp. - targets acquisition, rehab and resale of vacant and deteriorated homes in four northwest Detroit neighborhoods. Line of Credit was established in 1996.	\$20,000 Line of Credit, Annual Grant
Local Initiative Support Corp. (LISC) - Provides investments and assistance with various community development projects.	Annual Grant

<b>Table 11-i Southwest Michigan Area</b>	
Examples of Community Development Activities	Type of Commitment
Benton Harbor Housing Connection - MNB employee is chair of the Home Ownership Program (HOP) which is working to create a housing loan pool. MNB has also donated to Neighborhood Information & Sharing Exchange (NISE) equipment for use in the One Stop Shop Program.	In planning stage

*Business and Industrial Development Corporations (BIDCOs)*

BIDCOs are a class of private financial institutions, licensed and regulated by the State of Michigan. They can provide products and services such as loans, equity investments, debt with equity, leasing, and management and financing assistance. A MNB employee is the chairman of the board of Capital BIDCO.

Table 12 Business and Industrial Development Corporations	
Examples of Community Development Activities	Type of Commitment
Capital BIDCO - serves all of MNB's market. Capital BIDCO is an authorized non-bank SBA lender. MNB's invested into this BIDCO in 1989 and extended the loan commitment in 1993. MNB also has right of first refusal on loan requests for businesses without bank financing working with Capital BIDCO. Capital BIDCO has \$5.4 million portfolio outstanding to 15 customers.	\$500,000 investment \$1,500,000 line of credit
Great Lakes BIDCO - serves the metro Detroit market. Great Lakes BIDCO has been acquired by Liberty BIDCO. It seeks businesses with sales of \$1,000,000 or more and provides financing beginning at \$250,000.	\$300,000 investment
Jackson BIDCO - serves the lower half of Michigan's lower peninsula. It seeks small to medium size businesses with substantial growth potential. Established in 1988 it funds loans from \$100,000 to \$500,000.	\$3,500,000 loan

Along with the examples provided above, MNB has committed to directing a minimum of \$24 million in capital and credit into the Detroit Empowerment Zone. This Zone was established by the federal government to assist in the revitalization of this community. Significant tax advantages are provided to businesses located in these areas that hire employees residing within the Zone's 48 low- and moderate-income census tracts. MNB's commitment includes funds for residential, home improvement, small business, commercial mortgages and consumer loans to be lent out over ten years beginning in fall 1995. MNB has met its first year goal based on the strength of its small business and consumer lending volume.

Assessment Factor K - The institution's ability to meet various community credit needs based on its financial condition and size, legal impediments, local economic conditions and other factors.

- **MNB has the ability to assist in addressing the credit needs of the community. No legal impediments exist. Through its lending and community development activities, MNB has provided support consistent with its size and financial capacity.**

MNB has sufficient resources to help address the credit needs of its community. There are no legal impediments or other factors which limit the bank's efforts. MNB's capacity to extend residential mortgage loans was negatively impacted when the mortgage company subsidiary was sold in September 1994. While not dominant in any particular market, MNB supports its local communities consistent with its presence in those markets.

MNB operates in communities which range from urban and industrial to rural in nature. Local economic conditions have been good in most areas. Refer to the “Bank and Community Profile” section beginning on page 3.

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

- **MNB is actively involved in additional activities that address credit needs or contribute to community development.**

Through community involvement, MNB has a good record of additional activities that help to meet the credit needs of the community. Bank officers and employees are involved in many organizations that focus on community development and credit needs. Bank officers have often played key roles in forming these organizations or in providing technical and leadership assistance. MNB also supports community development and area credit needs through charitable grants. Many of the organizations that MNB has been a key leader for are discussed under Assessment Factor H.

MNB employees frequently serve on the loan committees of the affordable housing and small business micro-loan programs. In several markets, MNB employees chair these organizations or were instrumental in helping to create them. Bank employees actively serve the community by providing credit counseling, participating in credit workshops and loan fairs, and assisting non-profits with technical advice. Technical assistance/education for business owners is provided through area Small Business Development Centers and similar organizations. MNB has also sponsored several “school banks” designed to educate students and provide them hands-on experience in dealing with financial matters.

Charitable grants as well as donation of goods and services have been made to organizations throughout the various communities. Examples include: Advent House Ministries in Lansing, Washington Heights Community Ministries in Battle Creek, Detroit Neighborhood Housing Services, New Detroit, Inc., Blue Water Habitat for Humanity in Port Huron, and the Saginaw Reinvestment Coalition.

Other activities that support local credit needs include a low cost checking account product, an active minority purchasing program and student loan lending. Student loan volume through the first nine months of 1996 total 3,141 loans for \$7.5 million. Student loan volume in 1995 was 7,742 loans for \$13.5 million.

The following is a representative sample, by area, of some of the other efforts by MNB in meeting community credit needs:

*ANN ARBOR - BRIGHTON - JACKSON AREA*

- ▶ MNB serves on the steering committee of the Ann Arbor/Washtenaw County Community Credit Initiative. This initiative was designed to create a community loan pool to address needs for small commercial loans, residential mortgages, and multi-family developments.
- ▶ MNB has taken a leadership role in the Washtenaw County CRA Association. The group has worked to enhance credit information sessions and pre-home ownership counseling.
- ▶ MNB has provided active support to the SOS Community Crisis Center in Ypsilanti including technical expertise, goods and services and short term bridge loans for affordable shelter and housing.

#### *FLINT AREA*

- ▶ MNB conducted several loan fairs in conjunction with the Salem Housing Task Force.
- ▶ A MNB employee serves on the Flint Enterprise Zone Board.

#### *GRAND RAPIDS - HOLLAND AREA*

- ▶ MNB serves on the advisory board for South East Economic Development Corp. (SEED) which performs economic development work in southeast Grand Rapids.
- ▶ A MNB employee served as chair of Partners in Home Ownership Fair, a successful housing fair in Grand Rapids sponsored by the Michigan Department of Civil Rights and area lenders.
- ▶ MNB was active in the creation of a micro-loan program that operates through the Grand Rapids Urban League. A MNB officer currently serves as chair of the program.
- ▶ MNB provides financial support and committee assistance to the Local Initiatives Support Corporation in Grand Rapids.

#### *KALAMAZOO - BATTLE CREEK AREA*

- ▶ MNB has worked with the Battle Creek Washington Heights Community Ministries providing funds to establish a day care and co-sponsoring a credit repair workshop.
- ▶ A bank employee worked on the Battle Creek Unlimited's Incubator Service Center Project, an initiative to develop and test a model to analyze small businesses and identify areas for attention.
- ▶ MNB offers technical expertise to the Small Business Development Center in Kalamazoo which includes a Small Business Banking Group that assists in the

development and critique of business plans.

#### *LANSING AREA*

- ▶ A MNB bank officer serves as President of the Lansing Neighborhood Housing Corporation and was instrumental in the establishment of the program.
- ▶ MNB has served as an advisor to the St. Stephens Community Non-Profit Housing Corporation, a new organization formed in 1996.
- ▶ MNB was a leader in developing the Lansing Community Micro-Enterprise Fund, designed to provide loans, technical training and support to entrepreneurs in targeted areas. MNB has made a contribution, and a MNB employee chairs the loan committee.

#### *PORT HURON AREA*

- ▶ MNB organized a housing conference, H.O.M.E. - Housing Opportunities Made Easy.
- ▶ A MNB officer serves as a Director and officer of the Michigan Certified Development Corp., an SBA approved lender for industry and commercial enterprises.

#### *SAGINAW - BAY CITY - MIDLAND AREA*

- ▶ The bank provides technical expertise to the Home Ownership Program (HOP) in Saginaw including serving on its loan committee.

#### *SOUTHEAST MICHIGAN AREA*

- ▶ A MNB employee serves on the revolving loan fund and provides technical expertise to HP DEVCO, a partnership between the City of Highland Park and Chrysler Corporation to assist in attracting and maintaining area business.
- ▶ MNB has assisted in the original development and subsequent implementation efforts of the Detroit "Empowerment Zone." Bank employees serve on implementing committees.
- ▶ MNB created and organized seven major loan workshops as part of the Detroit Action Plan. The workshops covered applying for mortgage and consumer loans, business loans, government guaranty loans, etc.
- ▶ MNB officers work with Oakland County agencies to provide them information on

available products for low- and moderate-income individuals.

*SOUTHWEST MICHIGAN AREA*

- ▶ MNB is active with the Benton Harbor Housing Connection. This organization covers several initiatives including One Stop Shop and Credit Counseling.

## ADDITIONAL INFORMATION

Consideration was given to the bank's record of performance since May 31, 1994, which is the date of the last CRA examination. The examination assessed performance in each CRA area, as well as performance for the bank as a whole. Performance in the Jackson MSA was not taken into consideration due to MNB having entered that market with a single branch in September 1996. In assigning the bank's CRA rating, regional performance was weighed primarily relative to population and households; number of owner-occupied housing units; and low- and moderate- income characteristics. MNB deposit and loan balances were secondary factors.

The communities served by MNB are located in the Metropolitan Statistical Areas (MSAs) listed below. A Central Depository is located within each MSA. Home Mortgage Disclosure Act (HMDA) statements for each institution subject to HMDA within an MSA can be obtained at the applicable depository.

**0440 Ann Arbor**

Community Development Department  
City of Ann Arbor, City Hall  
220 E. Huron - Basement Level  
P.O. Box 8647  
Ann Arbor, MI 48107  
(313) 994-2912

**0870 Benton Harbor**

Library and Learning Resources  
Lake Michigan College Library  
2755 East Napier Avenue  
Benton Harbor, MI 49022  
(616) 927-3571 x223

**2160 Detroit**

Business and Finance Department  
Detroit Public Library  
5201 Woodward Avenue  
Detroit, MI 48202  
(313) 833-1425

**2640 Flint**

Planning and Housing Manager  
Dept. of Community & Economic Devp.  
1101 South Saginaw Street  
Flint, MI 48502  
(810) 766-7436

**3000 Grand Rapids - Muskegon - Holland**

Community Development Division  
City of Grand Rapids Planning Dept.  
3000 Monroe, NW  
Grand Rapids, MI 49503  
(616) 456-3396

**3520 Jackson**

Jackson District Library  
244 W. Michigan Avenue  
Jackson, MI 49201  
(517) 788-4316

**3720 Kalamazoo - Battle Creek**

Planning and Zoning Supervisor  
Dept. of Planning and Community Devp.  
P.O. Box 1717 (Room 311, City Hall)  
Battle Creek, MI 49016  
(616) 966-3320

**4040 Lansing - East Lansing**

Tri-County Planning Commission  
913 W. Holmes Road, Suite 201  
Lansing, MI 48910  
(517) 393-0342

**6960 Saginaw - Bay City - Midland**

City Clerk - City Hall  
1315 S. Washington Avenue  
Saginaw, MI 48601  
(517) 759-1553