



Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

October 16, 1997

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First National Bank of Negaunee
Charter #3717
Box 668
Negaunee, Michigan 49866

Office of the Comptroller of the Currency
Iron Mountain Duty Station
P.O. Box 666
Iron Mountain, Michigan 49801

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 Community Reinvestment Act (CRA) performance of the First National Bank of Negaunee prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **October 16, 1997**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.*

INSTITUTION'S CRA RATING: This institution is rated **Satisfactory** record of meeting community credit needs.

The First National Bank of Negaunee has a good record of originating loans to individuals of different income levels and to businesses of all sizes. The loan-to-deposit ratio is reasonable and a substantial majority of loans are to borrowers located in the assessment area. The geographic distribution of loans is reasonable.

DESCRIPTION OF INSTITUTION

The First National Bank of Negaunee is a \$68 million bank with its main office located in downtown Negaunee, Michigan, a middle-income block numbering area (BNA). The bank has five full service branches, with three located in middle-income BNAs and two located in upper-income BNAs. The bank has received approval from our office to move the Republic branch. They will also be requesting approval to move the Irontown branch across the street into a new grocery store which is being built. The new branches will both remain in their current BNAs. The bank also maintains an ATM at the Super One grocery store in Marquette. This ATM is accessible during the store's business hours. There are plans to install an additional ATM at each of the new branches. The bank is an independently owned community bank.

The bank offers traditional community bank services with a loan portfolio representing 51% of total assets. The loan portfolio is broken down as follows: 37% in commercial loans, 7% in consumer loans, and 56% in residential mortgages. There are no financial, legal, or other impediments which would hinder the bank's ability to help meet credit needs within its assessment area.

DESCRIPTION OF MARQUETTE COUNTY

The assessment area includes all of Marquette county. The assessment area is comprised of ten upper-, twelve middle-, and three moderate-income BNAs. The assessment area meets the regulatory criteria and does not arbitrarily exclude low- and moderate-income geographies.

The population of the assessment area, according to the 1990 census, is 70,887. Income levels of these 18,093 families are as follows: low-income - 16%; moderate-income - 19%; middle-income - 22%; and upper-income - 43%. The HUD estimated median family income for non-metropolitan areas in Michigan is \$35,500 in 1997.

The local economy is stable but stagnant. Unemployment numbers have increased slightly between June 1996 and June 1997. Income levels have been rising at a relatively slow pace. The economy is supported primarily by the mining and medical industries and the state university in Marquette.

Competition is strong in the local market with several other community banks and credit unions and numerous branches from several larger banks and bank holding companies. Competition from non-bank providers continues to grow.

A community contact was conducted with a local Realtor. His comments on this bank's performance were favorable.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

The bank has a reasonable loan-to-deposit ratio. The loan-to-deposit ratio averaged 62% over the past twelve quarters. The average loan-to-deposit ratios of two other banks located in the assessment area were 81% and 85% over the same period.

Lending in the Assessment Area:

A substantial majority of loans are in the assessment area as shown by the following table:

Percent of Outstanding Loans in the Assessment Area	Dollar Amount of Loans	Number of Loans
Commercial Loans	84%	91%
Residential Real Estate Loans	95%	90%
Consumer Loans	89%	93%
Total Loans	91%	91%

A comparison of zip code and BNA boundaries indicated they are roughly comparable. Due to this, the locations of the above customers were determined using their zip code as a proxy for the BNA address. The above analysis of loans represents the entire loan portfolio and provides an accurate representation of the bank's lending practices within the assessment area.

Lending to Borrowers of Different Incomes and to Businesses of Different Sizes:

The bank does a good job of lending to borrowers of different incomes and to businesses of different sizes. Commercial borrowers have a wide diversity of gross revenue levels ranging from a few thousand to several million dollars. A random sample of 27 commercial customer files indicates the following breakdown of annual revenues:

Annual Revenue	<\$100M	\$101M - \$500M	\$501M - \$1MM	>\$1MM
# of Loans	5	10	5	7
Percent	19%	37%	18%	26%

As indicated above, a majority of the bank's commercial loans are made to small businesses having less than \$1 million in annual revenue.

The following table is based on an analysis of 56 loan files containing income information for the borrower. The files were from those reviewed during our examination of the bank's compliance with consumer laws and regulations. The sample included secured consumer loans and residential real estate mortgage products. These customers were randomly selected from all consumer loans originated in 1997.

Family Income Level of Borrower	Low-Income	Moderate-Income	Middle-Income	Upper-Income
# of Loans	15	13	15	13
Percent of Loans	27%	23%	27%	23%
Percent of Families in Assessment Area	16%	19%	22%	43%

As indicated by the above table, the percentage of loans made to low- and moderate-income borrowers is higher than the actual percent of these families located in the assessment area.

Geographic Distribution of Loans:

Our analysis of a sample of the loan portfolio also indicates there is a reasonable geographic distribution of customers throughout the assessment area. The locations of the loan customers were determined using their home address and plat maps for Marquette county.

The following table is based on an analysis of the 63 loan files reviewed during our examination of the bank's compliance with consumer laws and regulations. The sample included secured consumer loans and residential real estate mortgage products. These customers were randomly selected from all consumer loans originated in 1997.

Income Level of BNA	Percent Located in Moderate-Income BNA's	Percent Located in Middle-Income BNA's	Percent Located in Upper-Income BNA's
Loan Customers	3%	64%	33%
Number of Families in the Assessment Area	13%	45%	42%

Our sample showed a lower percentage of loans made in the moderate-income BNAs than the percentage of families located in those BNAs. This lower level is considered reasonable based on the fact that one of the moderate-income BNAs is located at the former K.I. Sawyer Air Force Base, which has been closed since 1995. There are very few families now residing in this BNA. Additionally, the other two moderate-income BNAs are located around Northern Michigan University and the area north of the university. This area consists primarily of student housing.

A larger percentage of loans are made to customers located in middle-income BNAs compared to the percentage of families in the BNAs.

Other:

No violations were found during our review of the bank's compliance with antidiscrimination laws and regulations.