



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

May 13, 2002

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The First National Bank Of Three Rivers
Charter Number 600**

**88 North Main Street
Three Rivers, Michigan 49093**

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

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

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INSTITUTION'S CRA RATING

This institution is rated “Satisfactory”.

- First National Bank of Three Rivers (FNB of Three Rivers) has demonstrated a reasonable record of lending to borrowers of all income levels, and to businesses of different sizes.
- The bank has a strong level of loan activity within its assessment area (AA) in the past two years. A sample of all types of loans made by FNB of Three Rivers disclosed that a substantial majority of these loans were made in the bank’s AA.
- The evaluation found FNB of Three Rivers’ geographic distribution of loans reflects a reasonable dispersion throughout the AA.
- The bank is reasonably addressing the credit needs of the community it serves. The bank’s loan-to-deposit ratio was similar with the loan-to-deposit ratio reported by peer banks in the local area.

DESCRIPTION OF INSTITUTION

The FNB of Three Rivers is a \$141 million intrastate financial institution. The FNB of Three Rivers is a subsidiary of FNB Financial Corporation, a one-bank holding company located in Three Rivers, Michigan. The bank is also headquartered in the city of Three Rivers, which is located in the southwestern part of Michigan. The FNB of Three Rivers has five branch offices in addition to the main office. The locations of these offices include: three in Three Rivers, one in Constantine, one in Mendon, and one in Centreville. The Centreville branch office was open in May 1998. No branches were closed since the previous Community Reinvestment Act (CRA) examination. There are ATM machines at each office. In addition, the bank has an ATM machine at a local grocery store in Three Rivers.

As of March 31, 2002, the bank reported approximately \$87.6 million in outstanding loans, and had a net loans and leases to asset ratio of 61.3 percent. Tier one capital was \$10.8 million or 7.6 percent of adjusted average assets. The bank offers a variety of loan products to help meet the community needs. This includes residential, consumer, and commercial loans. The loan portfolio consists of the following (see Table 1):

Table 1	Loan Portfolio Breakdown
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Loan Category	Dollar Amount (000)	Percentage
1-4 Family Residential Mortgage Loans	\$39,445	45.0%
Consumer Loans (including home equity loans)	\$20,751	23.7%
Commercial Loans (including farm loans)	\$27,408	31.3%
Total	\$87,604	100.0%

There are no legal impediments, which would adversely affect the bank’s ability to serve the community. The previous CRA examination was performed in the second quarter of 1997 and resulted in a CRA rating of “satisfactory”.

DESCRIPTION OF ASSESSMENT AREA

The FNB of Three Rivers’ AA consists of St. Joseph County, and three adjacent block numbering areas (BNAs) on the eastern edge of Cass County including: Volinia, Marcellus, Newberg, and Porter Townships. The bank’s AA is not included in a Metropolitan Statistical Area (MSA). The AA, based upon 1990 Census data, consists of 19 BNAs with a total population of 68,000. There are no low-income BNAs, and two moderate-income BNAs which represent 10.5 percent of all the BNAs in the AA. The AA also contains ten middle-income BNAs or 52.6 percent, and seven upper-income BNAs or 36.9 percent. The AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income geographies.

The FNB of Three Rivers is one of 18 financial institutions with offices in the AA. There are five regional banks, six community banks, two savings and loans, and five credit unions. The relatively large number of financial institutions in the AA helps to provide a competitive banking environment. An FDIC report dated June 30, 2001 disclosed that FNB of Three Rivers is ranked number three with a 13.4 percent market share based on deposits in the counties of St. Joseph and Cass.

Local economic conditions are considered stable despite the recent increase in unemployment. Although the unemployment rate increased to approximately 7 percent for the St. Joseph County in February 2002, this trend is also reflective in the State of Michigan unemployment rate. Michigan unemployment rate in April 2002 was approximately 6 percent. Major employers in the area include: American Axle and Manufacturing, Three Rivers Area Hospital, Three Rivers Community Schools, Eaton Corporation, and Armstrong International.

The 2001 HUD adjusted non-MSA statewide median family income is \$42,700. A review of demographic information for the AA disclosed only 5 percent of the total owner occupied housing units and 6.1 percent of families are located in the two moderate-income BNAs. We concluded based on this demographic information that the moderate income BNAs represents a small portion of the AA. Table 2 below provides further demographic information for the bank’s AA.

Table 2	Demographic Information for FNB of Three Rivers’ Assessment Area
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Block Numbers Area (BNAs) Characteristics	Count	Percentage
Low-Income	0	0%
Moderate-Income	2	10.5%
Middle-Income	10	52.6%
Upper-Income	7	36.9%
Totals	19	100.0%
Population Data (# of Families)	Count	Percentage
Low-Income	2,699	14.3%
Moderate-Income	3,085	16.3%
Middle-Income	4,112	21.8%
Upper-Income	8,988	47.6%
Totals	18,884	100.0%
Housing Information	Count	Percentage
Owner Occupied Units	18,874	65.7%
Rental Units	6,029	21.0%
Vacant Housing Units	3,814	13.3%
Totals	28,717	100.0%

Data Source: 1990 U.S. Census Data

We conducted two community contact interviews during our evaluation. We contacted a real estate broker and a local housing organization. These contacts indicated the major credit needs for the community are affordable housing and home improvement loans. In addition, these discussions disclosed a limited need for new home construction in the area. The interviews disclosed that government type loan programs are frequently used in the community to provide home financing. These interviews also disclosed FNB of Three Rivers is doing a good job in providing home improvement loans.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

The FNB of Three Rivers has exhibited a reasonable record of addressing the credit needs of the AA in light of its size, resources, and capabilities. This is supported by a reasonable performance in lending to low- and moderate-income borrowers, a strong record of lending in its AA, and a reasonable geographic distribution of loans throughout the AA. In addition, the bank has a reasonable loan-to-deposit ratio.

Loan-to-Deposit Ratio

The bank's average loan-to-deposit ratio is reasonable given the bank's size, financial condition, and AA credit needs. The FNB of Three Rivers' quarterly average loan-to-deposit ratio for the period from March 31, 1997 to March 31, 2002 was 86.7 percent. The quarterly average loan-to-deposit ratio for other similarly size financial institutions within the AA range from 72.3 percent to 122.3 percent. This was comprised of four financial institutions with total assets of \$50 million to \$300 million. The bank is active in selling residential mortgages in the secondary market, which is not reflective in the loan-to-deposit ratio. During calendar year 2001, FNB of Three Rivers sold 103 residential mortgages or \$7.8 million to the secondary market. For the first quarter of 2002 the bank sold 34 or \$2.9 million loans to the secondary market.

Lending in Assessment Area

The FNB of Three Rivers' record of lending within its AA is considered strong. A substantial majority of the bank's loans are made within its AA. A sample of 70 loans disclosed 91 percent of the number of loans and 71 percent of the dollar amount of loans were made in the bank's AA. In our sample one large commercial loan made outside of the AA substantially impacted the dollar lending percentage. Table 3 below further details the bank's lending within the AA based on a loan sample.

Loan Product	Loans in Sample		Loans In AA		Loans Outside AA	
	#	\$	# \$	% %	# \$	% %
1-4 Residential Mortgage Loans	25	\$1,824,000	24 \$1,622,000	96.0% 88.9%	1 \$202,000	4.0% 11.1%
Commercial Loans (including farm loans)	20	\$4,333,543	19 \$2,733,543	95.0% 63.1%	1 \$1,600,000	5.0% 36.9%
Consumer Loans	25	\$196,968	21 \$171,649	84.0% 87.2%	4 \$25,319	16.0% 12.8%
Grand Total	70	\$6,354,511	64 \$4,527,192	91.4% 71.2%	6 \$1,827,319	8.6% 28.8%

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

The FNB of Three Rivers has shown a reasonable level of extending credit to borrowers of different income levels and to businesses of different sizes. The management team is committed to serving its communities by offering a variety of loan products and participating in affordable housing programs. These loan products include: 1-4 family residential mortgages, consumer, and commercial loans.

The FNB of Three Rivers originates residential mortgage loans to borrowers of all income levels (see table 4 below). Based on a loan sample the bank made 12 percent of its 1-4 family residential mortgage loans to low- income borrowers, and 20 percent to moderate-income borrowers. This reflects a good performance, as the percentages are similar to the percentage of AA families that are in those income categories. The bank's record of lending to different income borrowers is also comparable with banks that were HMDA reporters in 2000 for the AA. These HMDA banks reported 29.8 percent of 1-4 family residential mortgage loans were made to low- and moderate-income borrowers.

Table 4 1-4 Residential Mortgage Loans Made in the Assessment Area (AA)								
# and \$ of 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	
	#	%	#	%	#	%	#	%
	\$	%	\$	%	\$	%	\$	%
25 \$1,736,500	3	12.0%	5	20.0%	4	16.0%	13	52.0%
	\$174,000	10.0%	\$203,300	11.7%	\$341,150	19.7%	\$1,018,050	58.6%
Demographic Data of the AA –Families by Income Category								
	2,699	14.3%	3,085	16.3%	4,112	21.8%	8,988	47.6%

Data Source for Origination Data: Bank loan files.

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

To assist in providing affordable housing, FNB of Three Rivers participates in the St. Joseph County Homeowner Assistance Program. This program is designed to help qualified low- and moderate-income homeowners finance home repairs. Under this program the bank has made eight loans in 2000 and 12 loans in 2001. Management also committed \$4.5 million in low interest residential loans to the communities it serves. This mortgage program provided three-year residential mortgages at a below market interest rate of 5.25 percent. This program was offered from November 14, 2001 through January 1, 2002. This program was fully funded and provided 44 borrowers with below market rate loans. Management also plans to start offering FHA loans in the second half of calendar year 2002.

A sample of consumer loans disclosed the bank has an excellent record of making consumer loans to borrowers of different income levels (see table 5 below). For both low-income and moderate-income borrowers, the percentage of loans made by the bank exceeds the percentage of AA borrowers in those income categories.

Table 5 Consumer Loans Made in the Assessment Area (AA)								
# and \$ of 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	
	#	%	#	%	#	%	#	%
	\$	%	\$	%	\$	%	\$	%
21 \$171,649	6	28.6%	6	28.6%	5	23.8%	4	19.0%
	\$45,829	26.7%	\$42,438	24.7%	\$27,649	16.1%	\$55,733	32.5%
Demographic Data of the AA –Families by Income Category								
	2,699	14.3%	3,085	16.3%	4,112	21.8%	8,988	47.6%

Data Source for Origination Data: Bank loan files.

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

The FNB of Three Rivers has an adequate record of lending to businesses and farms of different size. A sample of commercial loans, including farm loans, was taken from calendar years 2000, 2001, and the first quarter of 2002. This sample found the majority (11 of 20 loans) or 55 percent were made to businesses with gross annual revenues of \$1 million or less. Demographic information from the 1990 census disclosed 87.6 percent of businesses in the AA had gross annual revenues of \$1 million or less.

Geographic Distribution of Loans

The FNB of Three Rivers' geographic distribution of loans reflects reasonable dispersion throughout the AA. The bank's AA contains no low-income areas and two moderate-income BNAs. The FNB of Three Rivers is lending in essentially all parts of its AA. The bank has a good record of lending in its two moderate-income tract areas, which are located in the city of Three Rivers. This was based on a map the bank maintains that shows all loans granted and denied in the AA. The general observation of the loan sample also indicated the bank is lending throughout the AA. An in-depth review of the bank's geographic distribution of loans was not performed due to the small representation of low- and moderate-income areas in the AA, as described under the description of AA section of this evaluation.

Responses to Complaints

The FNB of Three Rivers has not received any complaints about its performance in helping to meet the credit needs within the AA during this evaluation period.

Fair Lending Review

An analysis of recent public comments and consumer complaint information was performed in accordance with the OCC's risk based fair lending approach. Based on the analysis of this information, the OCC decided that a comprehensive fair lending examination would not need to be conducted in connection with the CRA evaluation this year. The latest comprehensive fair lending exam was performed in 1994.