



Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

May 2, 1997

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The First National Bank of Three Rivers
Charter #600
88 N. Main Street
Three Rivers, Michigan**

**Office of the Comptroller of the Currency
Kalamazoo Duty Station
4341 South Westnedge, Suite 2108
Kalamazoo, Michigan 49008**

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 Three Rivers, Three Rivers, Michigan** prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **May 2, 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**”.

This institution is rated satisfactory because it has a reasonable loan to deposit ratio, extends credit throughout its assessment area and grants loans to borrowers of different income levels.

DESCRIPTION OF INSTITUTION

The First National Bank of Three Rivers (FNB) is a \$110 million independent, southwestern Michigan, community bank located in Three Rivers, Michigan. In addition to the main office and a drive-in bank, FNB has two branches in Three Rivers, a branch in Constantine, Michigan and a branch in Mendon, Michigan. Each office has an automatic teller machine (ATM). FNB is affiliated with FNB Financial Corporation, a one-bank holding company.

FNB makes all types of consumer, real estate and small business loans. As of December 30, 1996, FNB had \$68 million in loans outstanding. This represents 59% of total assets. The composition of the bank's loan portfolio is as follows: 40% - residential mortgages, 29% - commercial loans, 21% - loans to individuals and 10% - agricultural. There are no financial, legal or other impediments limiting the bank's ability to help meet community credit needs.

FNB was rated satisfactory at its last CRA examination as of December 31, 1993.

DESCRIPTION OF THE BANK'S ASSESSMENT AREA

FNB's assessment area consists of St. Joseph County and three adjacent block numbering areas (BNAs) on the eastern edge of Cass County. It includes the cities of Three Rivers, Constantine, Mendon and Sturgis. The area is not included in a Metropolitan Statistical Area (MSA). The area complies with CRA requirements and does not arbitrarily exclude any low- or moderate-income areas.

The assessment area, based upon 1990 Census data obtained from CRA Wiz, consists of 19 BNAs with a total population of 68,000. There are two moderate-income BNAs located within the City of Three Rivers, representing 11% of the BNAs within the assessment area. The area also contains 10 middle-income, and seven upper-income BNAs, representing 37% and 52%, respectively, of the BNAs within the assessment area. The 1990 Census family median income for the area is \$27,894 and the 1996 Michigan average median income for families within non-MSAs is \$33,800. There are 18,884 families in the assessment area. The following table summarizes the location of families, based upon census tract designation.

Location of Families, Based upon BNA Income Designation - 1990 Census Date			
Low Income	Moderate Income	Middle Income	Upper Income
Not Applicable	6.05%	48.17%	45.78%

Local economic conditions are good. The area has experienced strong economic growth because local manufacturers have been expanding their operations. The unemployment rate for St. Joseph County is 4% compared to the state unemployment rate of 5.1%. Significant local employers include American Axle and Manufacturing, IKU/USA, Inc., Armstrong

Machine Works and local government. Additionally, a significant portion of the local workforce is employed in farming.

Many financial institutions create a competitive environment for FNB within its assessment area. Competitors include local community banks, branches of regional banks, thrift institutions, credit unions and finance companies.

We met with two community representatives to obtain additional information about the community and the bank's efforts to help address local credit needs. Both representatives said primary community credit needs are small business lending and loans for purchasing and rehabilitating one-to-four family houses. They said local financial institutions, including FNB, help meet community credit needs. Both representatives described FNB as an active participant in community development programs and efforts to help address local credit needs. They said FNB supports community development programs through financial contributions, loans and the active involvement in the programs by bank personnel. Neither representative was aware of any unmet credit needs.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

LOAN TO DEPOSIT RATIO

FNB's loan to deposit ratio is reasonable. The following table illustrates the trend in the bank's loan to deposit ratio since the last CRA examination and how it compares to its national peer group average. This peer group represents banks of a similar asset size and branch structure.

Loan to Deposit Ratio Trend				
	12/31/96	12/31/95	12/31/94	12/31/93
Bank	72.88%	65.08%	60.44%	60.74%
National Peer	71.49%	69.36%	66.59%	62.43%

FNB's average loan to deposit ratio, on a quarterly basis, since December 31, 1993 is 64.55% compared to the average ratio of 68.23% for the peer group banks. Although the table above shows FNB's ratio has historically been below its peers, it also reflects management's successful efforts to increase the bank's loan volume during the past three years. As the table reflects, FNB's ratio exceeds its peers as of December 31, 1996. The average loan to deposit ratio for the bank's Michigan peers is 79.51% as of December 31, 1996 and significantly exceeds the bank's.

LENDING IN ASSESSMENT AREA

The bank's origination of loans within the assessment area is good. A substantial majority of the bank's lending occurs within its assessment area. We reviewed a sample of 63 loans (33 business, 15 agricultural and 15 consumer loans) originated in 1996 to evaluate the bank's lending pattern. Each of the loans we reviewed were originated in the bank's assessment area.

LENDING TO BORROWERS OF DIFFERENT INCOMES AND TO BUSINESSES OF DIFFERENT SIZES

The bank effectively lends to borrowers of all income levels. We reviewed a sample of 15 consumer loans originated in 1996 to analyze the distribution of loans, based upon the borrowers' income and compared with the 1996 median family income in non-MSAs. The following table shows the distribution of those loans. It also compares the distribution of the loans to the population distribution in the area, based upon percentage of families of each income level, using 1990 Census data.

Consumer Lending Distribution by Borrower Income - Consumer Loan Sample								
	Low		Moderate		Middle		Upper	
	% - #	% - \$	% - #	% - \$	% - #	% - \$	% - #	% - \$
Sample -1996 Loans	13.33%	10.73%	40.00%	31.73%	13.33%	9.07%	33.33%	48.45%
% of Families	14.29%		16.33%		21.79%		47.59%	

FNB's lending during 1996 reflects a reasonable loan distribution to all income levels. As a percentage of the sample of consumer loans we reviewed, the number of loans made to low- and moderate-income borrowers approximates the percentage of low-income families within the area and exceeds the percentage of moderate-income families in the area.

We also reviewed a sample of agricultural and commercial loans made during 1996 to assess the bank's volume of lending to small businesses and small farms. The bank effectively lends to businesses and farms of all income levels. Within our sample of loans, 40% of the commercial borrowers with revenue information available have gross annual revenues under \$1 million. The majority of the bank's commercial loans are for \$1 million or less. 75% of the agricultural borrowers with revenue information available have gross annual revenues of less than \$1 million and 50% have revenues of less than \$250 thousand. The majority of FNB's agricultural loans are for \$500 thousand or less.

GEOGRAPHIC DISTRIBUTION OF LOANS

The geographic distribution of loans within the bank's assessment area is reasonable. Analysis of the sample of loans originated by the bank in 1996 reveals that FNB originated loans in 14 of the 19 BNAs within its assessment area. As the following table indicates, the bank's lending is concentrated in the middle- and upper-income areas which represent the largest percentage of the population within the assessment area. The volume of lending within moderate-income areas is reasonable and reflects the bank's efforts to serve all segments of its population and its community.

Loan Distribution by BNA Income within Assessment Area								
	Low		Moderate		Middle		Upper	
	% - #	% - \$	% - #	% - \$	% - #	% - \$	% - #	% - \$
1996 Originations	NA	NA	11.11%	8.98%	55.56%	42.39%	33.33%	48.62%
Population Within Tracts	NA		6.17%		49.64%		44.19%	

RESPONSES TO COMPLAINTS

There have been no CRA-related complaints since the prior CRA examination.

We did not identify any violations of the substantive provisions of antidiscrimination laws and regulations.