



Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

September 6, 1996

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Commercial National Bank of L'Anse
Charter #15508
1 East Broad Street
L'Anse, Michigan 49946

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 Commercial National Bank of L'Anse (CNB) prepared by the Office of the Comptroller of the Currency, the institution's supervisory agency, as of September 6, 1996. 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.

CNB adequately meets the credit needs of its assessment area based on the following factors:

- ▶ CNB had an average loan-to-deposit ratio of 49% since the last evaluation,
- ▶ 89% of CNB's total loans are to borrowers located within the assessment area, and
- ▶ CNB's geographic distribution of loans to borrowers of different income levels and businesses of different sizes is reasonable.

The following table indicates the performance level of the Commercial National Bank of L'Anse with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	COMMERCIAL NATIONAL BANK OF L'ANSE PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does not meet Standards for Satisfactory Performance
Loan to Deposit Ratio		X	
Lending in Assessment Area	X		
Lending to Borrowers of Different Incomes and to businesses of Different sizes		X	
Geographic Distribution of Loans		X	
Response to Complaints	No complaints were received since the prior evaluation.		

DESCRIPTION OF INSTITUTION

CNB is a \$48 million bank with one office located in downtown L'Anse, Michigan, which is in the north central portion of Michigan's Upper Peninsula. The bank is owned by Keweenaw Financial Corporation (KFC), a \$172 million two bank holding company located in Hancock, Michigan. CNB does not have any branch offices or automated teller machines. The last CRA examination at this institution was conducted as of February 15, 1994, and the bank was rated Satisfactory. There are no legal, financial or other factors that would impede the bank's ability to help meet the credit needs of its assessment area.

Traditional community bank loan products and services are offered by CNB. The loan portfolio represents 49% of total assets and is comprised as follows: 48% commercial, 36% residential real estate, and 16% consumer loans.

DESCRIPTION OF ASSESSMENT AREA

The assessment area consists of all of Baraga county and the southern half of Houghton county. This area includes 2 middle and 1 moderate-income Block Numbering Areas (BNA). CNB's banking office is located in the moderate-income BNA. The assessment area meets the regulatory criteria and does not arbitrarily exclude low- or moderate-income geographies. The population of the 3 BNA's, according to the 1990 census, is 10,940. There are 2,942 families in the area, with income levels disbursed as follows: 25% low-income, 22% moderate-income, 24% middle-income, and 29% upper-income. The area median housing value is \$33,600, and the U.S. Census 1990 median family income for the assessment area is \$24,063. The HUD median family income in a non-metropolitan area in Michigan was \$32,600 in 1995, and \$33,800 in 1996.

The local economy is considered stable. However, union workers at Celotex Corporation, a major employer in the area, have been on strike for several months now. The continuation of this strike is likely to have a negative impact on the local economy. Income levels have been on the rise over the last several years, but unemployment continues to be high compared to other areas in the Upper Peninsula. The economy is supported primarily by tourism, with a strong gaming industry as well as other year-round outdoor activities attracting many visitors to the area. Secondary activities in the local area include the forest industry, manufacturing and the state prison. Major employers include the Keweenaw Bay Indian Community, Baraga Maximum Security Prison, and Celotex Corporation.

Competition is strong in the local market. An affiliate national bank has a branch in the local market, along with a savings and loan and two credit union offices.

Discussions were held with two members of the local community. Both had favorable comments concerning the bank's record of meeting credit needs in the assessment area.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan to Deposit Ratio:

The loan-to-deposit ratio has increased from 41% at March 31, 1994 to 58% at June 30, 1996, averaging 49% over these ten quarters. There are four banks based in Houghton county used as comparisons because of proximity as well as being in similar markets. These banks had an average loan-to-deposit ratio of 58%, ranging from 31% to 79% over the same ten quarters.

Lending in the Assessment Area:

A large majority of loans are in the assessment area. Our analysis of outstanding balances and total numbers of loans by zip code is considered a reasonable proxy for the location of loan originations since our last evaluation because you can readily determine the location in the BNA by the zip code.

The following table summarizes the percentage of outstanding loans, by dollar amount and number, that CNB has made within its assessment area.

	Commercial	Residential Real Estate	Consumer Installment	Total
Dollar Amount	87%	90%	88%	89%
Number	89%	90%	89%	90%

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

CNB has an acceptable record of lending to borrowers of different incomes and to businesses of different sizes.

A random review of 25 residential real estate files, which represents 7% of the number of real estate accounts, indicates that CNB is lending to borrowers of different income levels. This distribution reasonably approximates the income characteristics of the assessment area.

Income Levels	Low	Moderate	Middle	Upper
% of loans	16%	16%	44%	24%

In our analysis, origination amounts of commercial loans was used as a proxy for gross revenue levels of these businesses as this information was not readily available. The analysis was based on the assumption that the size of a business loan would approximate the overall size of the business.

The dollar amount of commercial loans by origination size as of June 30, 1996 represents a reasonable penetration to businesses of different sizes.

Loan Amount (000's)	\$0 - \$100	\$101 - \$250	\$251 - \$1,000	> \$1,000
% commercial loans	40%	21%	18%	21%

Geographic Distribution of Loans:

Our analysis of the loan portfolio, sorted by zip code, indicates there is a reasonable geographic distribution of customers throughout the assessment area. Outstanding balances were considered an acceptable proxy to use instead of origination amounts since that information was not readily available.

The following table illustrates that CNB has adequate penetration in all three BNA's, including the moderate-income BNA.

BNA	Income Levels	Commercial	Residential Real Estate	Consumer Installment	Total
9910	Middle	0%	12%	11%	8%
9501	Middle	38%	30%	31%	33%
9502	Moderate	49%	49%	46%	48%
Other		13%	9%	12%	11%

Our review did not identify any substantive violations of antidiscrimination laws and regulations.