



Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

October 10, 1996

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

MFC First National Bank
Charter #3761
1205 Ludington Street
Escanaba, Michigan 49829

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 **MFC First National Bank** prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **October 10, 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 **Outstanding** record of meeting community credit needs.

MFC First National Bank 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 strong and a large majority of loans are to borrower's located in the assessment area.

The following table indicates the performance level of MFC First National Bank with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	MFC FIRST NATIONAL BANK 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

MFC First National Bank is a \$113.8 million bank with the main office located in downtown Escanaba, Michigan, a moderate-income Block Numbering Area (BNA). The bank has branches in Escanaba and Wells Township. Both of these are middle-income BNAs. There also are ATMs at both branches along with one in Elmer's Country Market in Escanaba and at the Chip-In Casino on the Hannahville Indian Tribe reservation. No offices have opened or closed since our last examination which was August 29, 1994. The bank is owned by Michigan Financial Corporation located in Marquette, Michigan. This \$780 million bank holding company owns seven banks located throughout the western half of the Upper Peninsula (U.P.) of Michigan.

The bank offers traditional community bank services with the loan portfolio representing 70% of total assets. The loan portfolio is 61% commercial, 21% consumer and 18% residential mortgages. There are no financial, legal, or other impediments which would hinder the bank's ability to help meet credit needs of its assessment area.

DESCRIPTION OF DELTA AND EASTERN MENOMINEE COUNTIES

The assessment area includes all of Delta county which is comprised of 1 upper-, 8 middle- and 2 moderate-income BNAs. One of the moderate-income BNAs is in the Garden Peninsula, at the eastern end of Delta County. This BNA is closer to several other financial institutions than it is to any MFC office. The area also includes 2 middle-income BNAs in Menominee county, adjacent to western Delta County. The assessment area meets the regulatory criteria and does not arbitrarily exclude low- or moderate-income geographies.

The population according to the 1990 census is 44,844. Income levels of these 12,122 families are as follows: low- income - 21%; moderate-income - 19%; middle-income - 22%; and upper-income - 38%. The median family income in a non-metropolitan area in Michigan was \$25,265, per 1990 census data.

The local economy is good with improving trends in both employment and income levels. Unemployment levels remain above state and national averages but are among the lowest in the U.P. The primary industry in the area is wood products including the manufacture of paper products, furniture and construction materials. The major employer is Mead Corporation.

Competition is strong in the local market. Three state banks are headquartered here along with a savings bank. There also are several credit unions, a branch of a large savings and loan, and a mortgage company which all vie for business.

A community contact was conducted with an employee of the Hannahville Indian tribe. She had only favorable comments concerning the bank's performance.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA :

Loan to Deposit Ratio:

The loan-to-deposit ratio averaged a strong 79% over the eight quarters since our last examination. The average loan-to-deposit ratios of the three other banks and the savings and loan based in the assessment area range from 53% to 92% over the same eight quarters, with one bank having a higher average ratio than MFC.

Lending in the Assessment Area:

A large 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%	87%
Residential Real Estate Loans	92%	92%
Consumer Loans	78%	82%

Our analysis of outstanding balances is considered a reasonable proxy of loan originations as the market area and marketing strategy have not changed since our last evaluation.

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.

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 loan borrowers have a wide diversity of gross revenue levels ranging from a few thousand to several million dollars. A random review of 48 customer files, for commercial loans originated since our previous evaluation, indicates the following breakdown of annual revenues:

Annual Revenue	<\$100M	\$100M - \$500M	\$501M - \$1MM	>\$1MM
# of Loans	12	22	6	8
Percent	25%	46%	13%	16%

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

The following table is per an analysis of the 93 loan files reviewed during our examination of the bank's compliance with consumer laws and regulations. These files were for unsecured and secured consumer loans and also residential real estate mortgage loans. These customers were randomly selected from all consumer loans originated since July 1, 1996.

Family Income Level of Borrower	Low-Income	Moderate-Income	Middle-Income	Upper-Income
# of Loans	25	24	16	28
Percent of loans	27%	26%	17%	30%
Percent of Families in Assessment Area	21%	19%	22%	38%

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

A guarantee agreement has been established between the bank and the Hannahville Indian Community. This program enables the bank to make loans available to individuals whose credit history does not meet normal bank standards. If a member of Hannahville is denied commercial or consumer credit, the tribal council is given the opportunity to review the application. If they decide to guarantee the loan, MFC will originate it. This program also assists both the bank and Hannahville in educating members of the community about bank financing. The bank currently has 89 such loans outstanding.

Geographic Distribution of Loans:

Our analysis of the loan portfolio indicates there is a good geographic distribution of customers throughout the assessment area. As previously mentioned, one of the two moderate- income BNAs is quite a distance from any MFC office, and is more easily serviced by other financial institutions. Excluding this BNA from the analysis of the location of loan customers within the assessment area results in the following table, based on number of loans:

Income Level of BNA	Percent Located in the Moderate-Income BNA	Percent Located in Middle-or Upper- BNAs
Residential Real Estate Mortgage Customers	12%	88%
File Sample Customers *	7%	93%
Number of Families in the Assessment Area	7%	93%

* This is the same sample previously discussed, with residential real estate mortgage customers excluded as they are counted above.

A larger percentage of loans are made to residential real estate mortgage borrowers located in the moderate-income BNA than the percentage of families that live there. The number of sample consumer loans reviewed that are located in the moderate-income area approximates the percentage of families that live there.

Other:

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