



PUBLIC DISCLOSURE

April 19, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**MFC First National Bank
Charter Number 390
P.O. Box 10
Marquette, Michigan 49855**

**Office of the Comptroller of the Currency
Iron Mountain Field Office
P.O. Box 666
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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.

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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 CRA performance of **MFC First National Bank** (MFC) prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **April 19, 1999**. The agency evaluates performance in assessment area(s), as they are delineated by the institution, rather than individual branches. This assessment area evaluation may include visits to some, but not necessarily all of the institution's branches. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25. That section of the regulation became effective on January 1, 1996.

Definitions and Common Abbreviations

The following terms and abbreviations are used throughout this Public Disclosure. The definitions are intended to provide the reader with a general understanding of the terms, not a strict legal definition.

Assessment Area (AA) - The geographic area which an institution selects as the community within which its regulator will assess the institution's record of CRA performance.

Block Numbering Area (BNA) or Census Tract (CT) - Small, locally defined statistical areas. These areas are determined by the United States Census Bureau in an attempt to group homogenous populations. A CT has defined boundaries and contain between 2,500 and 8,000 inhabitants. A CT or BNA is also called a "geography."

Community Development Purpose - A community development purpose is defined per 12 CFR 25.12(h) as affordable housing (including multi-family rental housing) for low- and moderate-income (LMI) individuals; community services targeted to LMI individuals; activities that promote economic development by financing businesses or farms that meet the size eligibility standards of 13 CFR 121.802(a)(2) or have gross annual revenues of \$1 million or less; or activities that revitalize or stabilize LMI geographies.

Community Reinvestment Act (CRA) - A statute that requires federal regulators to evaluate a financial institution's record of meeting community credit needs in the institution's AA. *(This is a generic description of the bank's requirements and not a legal explanation of the requirements contained in 12 U.S.C. 2901, as amended, and 12 CFR 25, as amended).*

Income Levels - These relate to individuals, families, CT's or BNA's.

Low = An income level that is less than 50 percent of the median income.

Moderate = An income level that is at least 50 percent and less than 80 percent of the median income.

LMI = An income level that is less than 80 percent of the median income.

Middle = An income level that is at least 80 percent and less than 120 percent of the median income.

Upper = An income level that is 120 percent or more of the median income.

Median Family Income (MFI) - The median family income for a specific area as determined by the United States Census Bureau. The Department of Housing and Urban Development (HUD) updates this figure annually using an estimated inflation factor.

MFC First National Bank (MFC) - MFC First National Bank, Marquette, Michigan.

Small Business - A business that has \$1 million or less in gross annual revenues.

Small Loan, at origination, to a Business - A loan of \$1 million or less to a business of any size.

Institution’s CRA Rating: This institution is rated: “**Outstanding record of meeting community credit needs.**”

The primary reasons for this rating are:

- C MFC is a leader in the area in both the volume of small loans to businesses and residential-related loans. This indicates excellent responsiveness to the credit needs of the community.
- C The bank has an excellent geographic distribution and penetration of small loans to businesses. Furthermore, MFC has a good geographic distribution and a satisfactory penetration of residential-related loans to borrowers of different income levels.
- C A substantial majority of loans originated by MFC are made within the bank’s AA.
- C The bank has originated a high level of community development loans considering the opportunities available in the AA.
- C The institution’s level of qualified community development investments and grants is commensurate with the opportunities that exist in the AA.
- C MFC provides a high level of community development services. Bank personnel take a leadership role in many economic development, home-counseling, or community service efforts.

The following table indicates the performance level of MFC with respect to the lending, investment, and service tests.

Performance Levels	MFC First National Bank Performance Tests		
	Lending Test*	Investment Test	Service Test
Outstanding	X		X
High satisfactory			
Low satisfactory		X	
Needs to improve			
Substantial noncompliance			

* Note: The lending test is weighted more heavily than the investment and service tests when arriving at an overall rating.

The last Performance Evaluation was dated February 20, 1997 when MFC was rated as having a “Satisfactory record of helping to meet community credit needs.”

Description of Institution

MFC, an intrastate bank located in downtown Marquette, Michigan, is the largest bank in Marquette County with total assets of \$366 million as of March 31, 1999. MFC is 100% owned by Michigan Financial Corporation, also headquartered in Marquette. Michigan Financial Corporation is an \$843 million multi-bank holding company with banking locations throughout the western half of the Upper Peninsula (UP) of Michigan. In addition to banking subsidiaries, Michigan Financial Corporation also owns an insurance subsidiary which underwrites insurance products related to loans of the Corporation's subsidiary banks. Michigan Financial Corporation is the largest bank holding company headquartered in the UP and is the eighth largest bank holding company in the State of Michigan.

The bank has 13 full service banking offices, 11 in Marquette County and the remaining 2 located in western Alger County. MFC's deposit market share of 51.0% ranks first of seven banks with offices in Marquette County. In Alger county, MFC ranks fourth of four banks operating in the county with a market share of 12.9%.¹ Deposit market share data does not include deposits with credit unions. All offices, except for the main office in downtown Marquette and the Upper Peninsula Medical Center Office location in Marquette, have a drive-up facility. MFC also owns and operates seventeen automatic teller machines (ATMs) in these counties. The locations of the offices and ATMs are detailed in Table 7 - Distribution of Branch and ATM Delivery System in the Appendix.

The bank's business strategy is to operate in a community bank manner while offering a larger bank range of products. MFC has historically had a retail banking orientation, but is strongly committed to meeting the credit demand of commercial customers also, particularly smaller businesses. The primary component of the bank's retail loan portfolio is residential real estate. Not only is there a significant percentage of residential real estate loans on the bank's books, but MFC is also active in selling residential real estate loans in the secondary market. On the commercial side, loans with original amounts of less than \$100,000 represent a key portion of the bank's business lending strategy. MFC has been very active in the financing of small businesses. The bank is also an active consumer loan originator. Based on 1997 data, total farms comprise only 1.7% of all businesses in MFC's AA. Loans secured by agricultural real estate make up a very small percentage of the bank's loans. As a result, the bank's performance in agricultural lending is not being considered as part of this evaluation.

There are no impediments which would hamper the bank's ability to help meet the needs of its communities. MFC's ability to meet credit needs is based on its financial condition and size; product offerings; prior performance; legal impediments; and other factors. As of December 31, 1998, the bank had total assets of \$366 million and a return on average assets of 1.66%. Net loans represented 67.8% of total assets with earning assets accounting for 86.6% of total assets. MFC's loan portfolio as of December 31, 1998 is broken down as follows: \$105.9 million in residential real estate loans (42.1% of total loans); \$80.3 million in commercial and industrial loans (31.9%); 60.5 million in consumer loans (24.0%); and \$5.0 million (2.0%) in other loans.

¹ Based on June 30, 1998 data compiled by The Federal Deposit Insurance Corporation.

Description of Assessment Area

MFC's AA includes all of Marquette and Alger Counties. The bank's AA consists of 30 geographies, 27 CT's in Marquette County and 3 BNA's in Alger County. A description of the demographics of the AA is presented below.

Demographics

The AA is comprised of 3 moderate-income geographies (10.0% of all geographies in the AA), 15 middle-income CT's (50.0%), 10 upper-income CT's (33.3%), and 2 CT's (6.7%) without an assigned income level. There are no low-income geographies in the bank's AA. Based on 1990 census data, the MFI level of the AA is \$27,894. Housing and Urban Development (HUD), however, estimates the MFI level on an annual basis. The HUD estimated MFI levels for the AA in 1997 and 1998 were \$35,500 and \$37,100, respectively. By family-income level, 3,484 of all families in the AA are low-income families (16.9% of all families), 3,951 are moderate-income families (19.2%), 4,518 are middle-income families (21.9%), and 8,639 are upper-income families (42.0%). Of the 3,484 low-income families, 2,035, or 58% have incomes below the poverty level. These families may have difficulties qualifying for housing-related products.

The United States Census Bureau estimates that Marquette County has lost approximately 13.2% of its population since the 1990 census. A significant portion of that decline was due to the closing of the K.I. Sawyer Air Force base in 1995. Demographic details on the AA, presented in Table A below is based on the most recent census data and does not include the effect of the base closing on population or family distribution by income level:

Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	Not Assigned % of #
Geographies	30	0.0	10.0	50.0	33.3	6.7
Population by Geography	79,859	0.0	14.3	49.3	35.3	1.1
Owner-Occupied Housing by Geography	19,003	0.0	2.8	57.7	39.5	0.0
Businesses by Geography	2,446	0.0	2.8	56.0	41.2	0.0
Family Distribution by Income Level	20,592	16.9	19.2	21.9	42.0	0.0
Median Family Income		Median Housing Value				= \$44,099
HUD Adjusted Median Family Income for 1997	= \$27,894	Unemployment Rate (Marquette County)*				= 6.2%
HUD Adjusted Median Family Income for 1998	= \$35,500	Unemployment rate (Alger County)*				= 6.9%
	= \$37,100	Families Below the Poverty Level				= 9.9%

Source: 1990 U.S. Census and 1998 HUD updated MFI.

* Source: Michigan Jobs Commission/Employment Service Agency. Not seasonally adjusted.

Economy, Major Industries and Employers

The economy of MFC's AA is generally healthy, despite the closing of the K. I. Sawyer Air Force Base. As of February 1999, unemployment rates in both Marquette and Alger Counties were 6.2% and 6.9% respectively. These averages exceed the Michigan state-wide average of 4.5%. However, these numbers are not seasonally adjusted. Unemployment rates are generally 3.5% to 5.0% during the summer tourism months. Service industries comprise the bulk of the employment base in both Marquette and Alger counties. Retail trade, health care services, and the tourism industry make up the bulk of service-related employment. The mining industry also plays an important role in the local economy. Major employers in the area include Marquette General Hospital, Cleveland Cliffs Iron Company, and Northern Michigan University.

Financial Competition

Financial competition in MFC's AA is strong. Eight other banks have offices in the AA, including branches of multi-billion dollar National City Bank. Several credit unions also have offices in the AA. In addition to banking competition, MFC faces strong competition from mortgage companies and loan brokers.

Community Contacts and Credit Needs

In an effort to assess credit needs of the area, we conducted one community contact in conjunction with this examination. In addition to our contact, we reviewed one community contact conducted by another regulatory agency during 1997. Our contact was with a local housing-related entity. The most frequently cited credit need was home and rental unit rehabilitation loans, small business development loans, and home purchase counseling. The closing of the former Air Force base has, as stated above, resulted in a decrease in the population putting little pressure on the existing housing stock to meet home purchase needs. However, as many of the existing homes are 50 years old or greater, the need for home rehabilitation loans becomes more prominent, particularly for low- to moderate-income borrowers.

The median housing sales price in Marquette County has made affordable housing more difficult for low- to moderate-income borrowers. Although the median housing value for the AA is \$44,099 based on 1990 demographic data, the median sale price of houses sold in the Marquette area in 1998 was \$80,000. On a national level, an \$80,000 median housing price is not high, but it ranks as one of the highest priced areas in the Upper Peninsula.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

LENDING TEST

MFC's performance under the Lending Test was evaluated in terms of the volume of lending, the geographic distribution of loans originated and purchased, the borrower dispersion of loans originated and purchased, the responsiveness to community needs, the level of innovation and flexible products offered as well as community development lending activities.

Conclusions:

- C A substantial majority of loans are made in MFC's assessment area.
- C Small loans to businesses reflect excellent penetration throughout the AA. The geographic distribution of small loans to businesses is also excellent.
- C The distribution of residential-related loans reflects satisfactory penetration among borrowers of different income levels. MFC has a good geographic distribution of residential-related loans.
- C MFC has exhibited excellent responsiveness to the needs of the community. This is evident in not only the volume of small business and residential-related loans, but also in the distribution of loans within the community.
- C MFC uses flexible lending products to help serve the AA credit needs.
- C MFC has a high level of community development loans, especially considering the opportunities available in the AA.

Supporting Information

Lending Activity

Lending levels reflect excellent responsiveness to MFC's community credit needs. In 1997 and 1998, the bank originated over 900 small loans to businesses totaling over \$87 million. Of all institutions required to collect data on small business loan originations in the AA, MFC was by far the leader in this lending category. The bank's performance in small loans to businesses was weighed quite heavily in assessing the bank's performance under the Lending Test. Business lending was identified as a primary need, especially since the closing of the K.I. Sawyer base. Furthermore, the closing of the base has put little pressure on the existing supply of housing stock to meet housing needs.

In 1997 and 1998, the bank originated over 6800 residential-related loans totaling over \$347 million. However, the bank has sold a significant number of home mortgage loans in the secondary market.

Loans sold in the secondary market are not included on the bank's balance sheet. In 1997 and 1998, the bank sold approximately \$261 million of residential-related loans on the secondary market. Mortgage recording information also indicates that MFC is a leader in residential-related lending in its community. In Marquette County, the bank recorded nearly half of the number of mortgages and slightly over half of the dollar amount of mortgages in 1997 and 1998. In Alger county, the bank recorded approximately 30% of all mortgages during that same time period. This is considered very good as the bank has only a 12% deposit market share in Alger County.

These two categories of loans, residential-related and small loans to businesses, represent a significant portion of MFC's loan portfolio and were used to analyze the bank's performance under the lending test (see Table 1 - Lending Volume in the Appendix). However, as stated above, more weight was put on the bank's performance in lending to small businesses.

Assessment Area Concentration

A substantial majority of loans originated during this evaluation period were made in MFC's AA. As MFC is not required to collect Home Mortgage Disclosure Act (HMDA)² data, a sample of 60 residential related loans originated in 1997 and 1998 was reviewed to analyze the percentage of loans made within the assessment area, as well as the geographic and borrower distribution of residential loans discussed later in this evaluation. Based on the sample of residential-related loans, 96.6% of the number of loans and 97.7% of the dollar volume was made within the AA. MFC's volume of lending within the AA is similar for small loans to businesses. Based on the bank's 1997 and 1998 Small Business Data Collection Register, 97.0% of the number of small loans to businesses and 93.6% of the dollar volume was originated within the bank's AA. Loans Reviewed on page 25 in the Appendix has further information on the scope of loans reviewed for this performance evaluation.

Geographic Distribution

Residential-Related Lending

A review of Table 2 - Geographic Distribution of Residential-Related Loans in the Appendix indicates that MFC's geographic distribution of loans reflects good penetration throughout its AA with no conspicuous gaps. This conclusion is based on an analysis of the percentage of MFC's residential-related loan originations to the owner-occupied housing characteristics of the AA. Per 1990

² A statute that requires certain mortgage lenders that do business or have banking offices in Metropolitan Statistical Areas to file annual summary reports of their lending activity. The reports include such data as the race, gender, and the income of the applicant(s), the amount of loan requested and its disposition (e.g. made, turned down, withdrawn). The types of loan applications reported include governmentally-guaranteed home purchase and home improvement loans, conventional home purchase loans, home improvement loans, refinancing of home purchase and home improvement loans and loans for the purchase of multi-family (5 or more units) dwellings. (This is a generic description of the bank's requirements and not a legal explanation of the requirements contained in 12 U.S.C. 2801, as amended, and 12 CFR 203 as amended.) MFC is not required to collect data under HMDA as it does not have an office located in a Metropolitan Statistical Area.

census data, only 2.8% of all owner-occupied units were in moderate-income tracts. This percentage is equal to only 538 owner-occupied units being in moderate-income tracts. The number of owner-occupied housing in these tracts is very low for a number of reasons. One of the moderate-income CT's holds a prison, one is primarily student housing, and the other moderate-income CT is the former K.I. Sawyer Air Force base. Furthermore, the 3 moderate-income tracts rank among the 4 geographies with the least affordable housing in the AA. This conclusion is based on an analysis of 1990 census data and is calculated by dividing the median housing value of the CT by the median family income in the CT. The higher the ratio, the more difficult it is for families in the geography to afford housing. Given these facts, the bank's percentage of residential-related loans in moderate-income geographies, 1.7%, is considered good. The bank's percentage of lending in moderate-income tracts is also considered good as a higher percentage of the population in moderate-income geographies are low-income families with incomes below the poverty level than in other geographies in the AA.

Small Business Lending

Small loans to businesses reveal an overall pattern of activity that is excellent in comparison to the opportunities in the AA. This is detailed in Table 3 - Geographic Distribution of Small Business Loan Originations in the Appendix. Only 2.8% of the AA's non-farm businesses are located in moderate-income tracts, yet MFC originated 4.7% of its small loans to businesses in these geographies. There are no conspicuous gaps in the bank's geographic distribution of small loans to businesses. Market share data for 1997, the latest available, show MFC ranked 1st of 16 reporting financial institutions with an overall market share of 54.2%. The bank's market share of small loans to businesses in moderate-income census tracts is higher than its overall market share. Of the 32 small loans to businesses made in moderate-income CT's in 1997, MFC made 23, or 71.9%, of these loans. The lender with the second highest market share in moderate-income CT's made a total of 3 loans in these tracts. These lending numbers indicate that MFC is committed to meeting the small business needs of its community, including those in moderate-income tracts.

Borrower Distribution

Residential-Related Lending

The bank has exhibited a good distribution of loans to retail customers of different income levels. A review of Table 4 - Borrower Distribution of Residential-Related Loan Originations in the Appendix discloses that MFC makes loans to retail customers of different income levels. Of the residential-related loans sampled during this review, 8.6% were originated to low-income borrowers. Based on 1990 census data, 16.9% of the families within MFC's AA are low-income families. However, 58.4% of low-income families in the AA have incomes below the poverty level. These families may have difficulty qualifying for a housing-related loan product. Furthermore, the closing of the Air Force base in 1995 has resulted in a decline in the number of low- to moderate-income families in the AA. Considering the information presented above, and taking into account the increased competition from loan brokers and national mortgage companies, MFC's origination volume to low-income borrowers is considered good. Furthermore, many housing-related loans originated to low- or moderate-income

borrowers would have been originated under Michigan State Housing Development Authority (MSHDA) or Rural Housing Community Development (RHCD) programs (see Flexible Lending Practices below for details on MSHDA and RHCD loan programs). Many of these loans have been sold in the secondary market and would not be on the bank's books. Loans sold would not have been included in our sample of loans reviewed. MFC's origination level to moderate-income borrowers is comparable to the demographics of the AA.

Small Business Lending

The penetration to business customers of different sizes is detailed in Table 5 - Borrower Distribution of Small Business Loan Originations in the Appendix. The table discloses that MFC makes 85.0% of its business loans to businesses with revenues of less than \$1 million. This compares very favorably to the overall market's percentage of loans to businesses with revenues of \$1 million or less. The table also reveals that 76.8% of MFC's small loans to businesses were made in original amounts of \$100,000 or less. These facts indicate that MFC is doing an excellent job of meeting small business loan needs. MFC's level of small loans to businesses ranks 1st of all reporting institutions in the AA with a market share of 54.2%. When looking at loans made to businesses with revenues of less than \$1 million, the penetration is greater with MFC again ranked 1st with a market share of 68.9%.

Community Development Lending

MFC has a high level of community development loans based on the opportunities in the AA. Community Development lending opportunities are limited in the AA. Only 3 geographies in the AA are considered moderate-income geographies. The only moderate-income geography with significant opportunities for community development is the former K. I. Sawyer Air Force Base. MFC has originated loans in this tract which help revitalize the area; however, these loans have been given positive consideration under other lending tests above. The other two moderate-income tracts have limited opportunities for revitalization efforts. For example, one of the moderate-income tracts consists primarily of a prison while the other holds mostly student housing. There have been few opportunities to finance multifamily housing for LMI individuals. Still, the bank has been active in community development initiatives and more opportunities should be present as the K.I. Sawyer base is redeveloped. MFC's community development activities have primarily consisted of loans to businesses with a community development or service purpose and lending in partnership with several economic development agencies in the area. Many of the community development projects the bank has been involved with are reported as small loans to businesses and have been positively considered under the other lending tests discussed above. Details on examples of community development lending activities are discussed below:

MFC refinanced a line of credit totaling \$40,000 in 1998 to a local women's center. The women's center is a private, non-profit organization providing community services targeted to LMI women. The center runs domestic violence and sexual assault programs, provides education and job training, and offers 24-hour assistance to families in which children are at risk of abuse or neglect. It serves the Marquette and Alger County communities.

MFC financed a \$1.1 million line of credit in 1998 to a non-profit multi-county mental health agency serving a large area of the Upper Peninsula, including Marquette and Alger Counties. Primary beneficiaries of the agency are LMI individuals who cannot afford traditional health services.

In 1997 the bank provided a \$150,000 line of credit to a non-profit organization specializing in assisting both small and larger firms in the Upper Peninsula, including Marquette and Alger Counties. This organization provides technical and marketing support, workforce training and assistance in screening and hiring primarily to small businesses.

The bank originated a \$20,000 line of credit in 1998 to a non-profit organization providing services targeted toward LMI individuals with behavioral and/or emotional problems. Services include residential treatment and foster care for children. In addition to the line of credit, MFC refinanced a mortgage loan in the amount of \$49,000 in 1997. Proceeds of the mortgage loan were used to purchase single-family homes to be used by the organization. The organization's service area includes the bank's AA.

In 1997 and 1998, MFC originated two loans totaling \$100,000 to a cooperatively sponsored non-profit school offering adult high school completion and community education programs. This is also an alternative school for school-age parents. Primary beneficiaries of the program are LMI individuals. Loan proceeds were used to purchase computer lab equipment and fund operating costs pending the receipt of state aid.

In 1998, MFC refinanced two loans totaling \$148,988, and originated an additional loan at \$100,000 to a non-profit corporation providing comprehensive health care services. The corporation provides care to patients, who meet certain criteria, under a sliding fee schedule. The sliding fee scale is based upon Federal Poverty Income Guidelines. This organization serves a wide area including Alger County.

MFC is the lead bank in a \$35,000 loan to an organization whose mission is to provide affordable housing for low- to moderate-income families or individuals. The funds were used to complete the construction of a house in Marquette County. Several other banks participate in this loan that originated in 1998.

In 1998, MFC originated a loan for \$140,000 to a non-profit social services agency which provides personal and confidential child welfare and family services in the Upper Peninsula, including Marquette and Alger Counties. Foster care, juvenile diversion, and before and after school programs are provided by the agency. The proceeds were used to purchase a building for a new location in 1998. Primary beneficiaries of the agency's programs are LMI families.

MFC refinanced a \$12,000 line of credit in 1998 to a non-profit organization providing services to children from broken homes, or children without parents at home.

MFC has also worked in partnership to assist in financing the growth of small business in the AA with various other agencies. For example, the bank has been actively partnered with the Downtown

Marquette Association, the Downtown Development Authority, the North Coast Business and Industrial Development Corporation, and the Marquette County Economic Development Corporation in assisting the needs of smaller businesses. All of these Agencies have community development and job creation as a goal. Most loans originated in partnership with these agencies have been reported as small loans to businesses and received positive consideration under the “Geographic Distribution” and “Borrower Distribution” portion of the lending test above.

MFC has also utilized the Michigan Strategic Fund Capital Access Program (MSF) extensively. The MSF is designed to assist banks in lending to small businesses that are considered too risky for conventional financing by guarantying a portion of loans. The MSF program promotes the growth of small business and employment. Although the majority of these loans have received positive consideration under the lending test in the “Geographic Distribution” and “Borrower Distribution” analyses above, the bank did originate 95 loans under this program in 1997 and 1998, including the \$1.1 million loan to the non-profit multi-county mental health agency discussed previously.

Flexible Lending Practices

MFC utilizes flexible lending products to help serve the AA credit needs. For example, MFC originates home loans through Michigan State Housing Development Authority (MSHDA) programs. MSHDA programs are designed assist low- to moderate-income borrowers. MFC has participated in the Mortgage Guaranty Insurance Corporation/MSHDA 97% loan-to-value (LTV) program and the MSHDA/Rural Housing Community Development 100% LTV programs. These programs allow borrowers to purchase a home with little or no down payment. The bank has also participated in the Mortgage Certificate Credit program through MSHDA. This program provides a dollar for dollar federal tax credit to qualified borrowers for up to 20% of the mortgage interest they will pay on a new home purchase. The bank originated 16 loans totaling \$744,835 and 27 loans totaling \$1.1 million under various MSHDA programs in 1998 and 1997 respectively.

MFC also participates in the Rural Housing Community Development (RHCD) program. This program allows low- and moderate-income first-time home buyers to finance 100% of the purchase price. In 1998, MFC originated 30 loans under this program for a total of \$1.4 million. The bank originated 8 loans for \$294,000 under this program in 1997.

Veteran’s Administration (VA) Guaranteed Home Loans are available to eligible veterans. This program often has no down payment requirement. In 1998, the bank originated 22 VA loans for a total of \$1.4 million. A total of 28 VA loans totaling \$481,000 were originated in 1997.

INVESTMENT TEST

MFC’s performance under the Investment Test was evaluated in terms of the volume of qualified investments and grants; the level of innovation and complexity associated with the investments; the

degree to which the investments and grants responded to the credit and community development needs of the bank's assessment areas; and, the degree to which these investments and activities are not routinely provided by private investors.

Conclusions:

- C MFC has made a satisfactory amount of qualified community development investments and grants considering the opportunities available in the AA. Investments and grants over the assessment period total approximately \$545,500.
- C MFC's qualified investments and grants have been responsive to the needs of the area, particularly housing-related needs. One of the bank's investments is complex.

Supporting Information

MFC has a level of qualified investments and grants that is commensurate with the opportunities that exist in the AA. Investment opportunities are not as prevalent as in larger metropolitan areas, but management has sought out opportunities that may exist. Examples of investment opportunities that exist in the AA include investing in agencies or partnerships that have a community development purpose or granting funds to agencies that have a community development or service purpose.

Table 7 - Qualified Investments, located in the Appendix, details the number and dollar amount of investments organized by Affordable Housing projects, Community Service projects, Economic Development/Small Business projects, and Revitalizing or Stabilizing projects. MFC's qualified investments and grants are detailed below:

- C In 1998, MFC made a \$500,000 commitment to the Michigan Capital Fund for Housing Limited Partnership III (MCFH-LP III). Through March 15, 1999, the bank has paid in a total of \$47,903. The MCFH-LP III invests in low-income housing projects throughout the State of Michigan, including the Marquette and Alger County regions. The project is complex as it involves equity investments and the use of tax credits to make it feasible. The bank's investment in the MCFH-LP III represents a 2.5% ownership in this partnership. This type of investment is not routinely provided by private investors.
- C MFC contributed to the Lake Superior Community Partnership (LSCP) in the amount of \$10,500 in 1998. The LSCP is a non-profit, private-public partnership created to focus on economic development and redevelopment opportunities in the region. The partnership was formed in 1998 and consists of the LSCP, Marquette County Economic Development Corporation (MCEDC) and the Economic Development Corporation (EDC). Two local area Chambers of Commerce have also merged into the LSCP. The partnership has primarily been involved in the redevelopment of the K.I. Sawyer base, which will revitalize a moderate-income geography. The LSCP's primary mission, however, is to create development opportunities not only in Marquette and Alger Counties, but also in several neighboring counties. The monies

paid by MFC go to the organization's general operating fund.

- C During 1997 and 1998, the bank invested approximately \$10,000 sponsoring a "How To Do Your Banking" financial skills course at seven local high schools. MFC buys the materials necessary to teach students financial responsibility and basic money management. MFC personnel also speak on financial topics during the course of the sessions. These classes reach students from families of all income levels, including low- and-moderate.
- C MFC has committed \$15,000 to the Young Mens Christian Association (YMCA) "Yes We Can" program, payable in increments of \$5,000 per year starting in 1997. Funds from this program are directed to the construction of a new YMCA building in Marquette. The YMCA is a non-profit organization which offers various programs and services, many targeted low- and moderate-income individuals.
- C MFC has also donated over \$10,000 to a local United Way (UW) chapter. UW provides many services targeted to LMI individuals.

SERVICE TEST

MFC's performance under the Service Test was evaluated in terms of Retail Banking Services (the accessibility of delivery systems, changes in branch locations and the reasonableness of business hours and services to help meet the assessment area's needs) and the level of community development services provided in the AA.

Conclusions:

- C MFC has provided a high level of community development services. Also, a significant number of employees are involved in community development services; many taking a leadership role in economic development initiatives, home-counseling services or community service efforts.
- C MFC's delivery systems are accessible to geographies and individuals of different income levels in its AA.
- C To the extent changes have been made, there has been no adverse impact on the accessibility of MFC's delivery systems.
- C Services, including business hours, are convenient and meet the needs of the AA.

Supporting Information

Retail Banking Services

Branch Network

The bank has 13 full service branches located in the assessment area. All but two of the branches have a drive-up facility. One of the bank's branches, located at K. I. Sawyer, is located in a moderate-income CT. This location was kept open even after the closing of the Air Force base. See Table 7 - Distribution of Branch and ATM Delivery System, located in the Appendix, for details.

All branches offer loan products and deposit services. Mortgage and consumer loan originators are located at all 13 branches while commercial loan customers are generally referred to the Main or Ishpeming office locations. However, commercial lenders are available to meet with customers at any office location or at the customer's place of business.

MFC's record of opening and closing offices since the last examination has not adversely affected the accessibility of its delivery systems. Since the last CRA examination, the bank closed an office at the Westwood Mall on U.S. Highway 41 in Marquette. This office was located in a middle-income CT. MFC made the decision to close this location because the bank could not physically expand services there. Furthermore, there are other MFC branches in very close proximity to the one that was closed.

Overall branch hours are convenient and meet the AA needs. Office locations are typically open from 9 a.m. to 5 p.m. on weekdays. Drive-through facilities are generally open before the branch opens and closes when the branch does. Typical Saturday hours are from 9 a.m. to noon.

Alternative Delivery Systems

MFC's alternative delivery systems make services more accessible. The bank operates 17 proprietary Automated Teller Machines (ATMs) within its AA. ATM's are located at all but two branch locations plus at six other locations. The two bank locations without ATM's are both situated in middle-income tracts. Of the stand alone ATM's, two of the six are located in moderate-income geographies.

We did not place significant weight on alternative delivery systems other than ATM's in assessing the bank's performance under the Service Test. Data was not available to indicate the effectiveness of the following alternative delivery systems:

- C **MFC On-Call** - 24 hour telephone banking service where customers can access information regarding deposit and loan information. Specifically, the customer is able to transfer funds between accounts, check balances and inquire on the status of checks on deposit. The customer is also able to inquire on the status of payments, payoffs, interest, and loan balances. The service is free and available to retail and commercial customers.
- C **55 Plus Account** - Packages an interest earning checking account with free or discounted services for customers who are 55 years of age or older.

Community Development Service

MFC provides a high number of community development services which address AA needs. Many bank employees and officers provide community development services to organizations that have as their primary purpose economic development and revitalization, affordable housing, and social services targeted to low- and moderate-income persons. In many cases, MFC personnel serve in a leadership capacity with regard to community development initiatives by serving on Boards or committees of community development agencies. Programs and organizations that MFC has provided services for are detailed below:

In a competitive bidding process, the bank was selected to provide loan and marketing services for the Marquette County K.I. Sawyer Development Department (MCSDD) Intermediary Relending Program (IRP). The IRP is a revolving \$1.5 million fund available for financing business facility loans on the former K.I. Sawyer base. The funds for this loan program are provided by the U.S. Department of Agriculture's Rural Development Program. Businesses locating at K.I. Sawyer would revitalize and create jobs in a moderate-income geography. Services provided by the bank include, but are not limited to, project and loan risk assessment; financial statement analysis, credit committee review, business calls to loan prospects and loan officer involvement in community job creation. By being selected to provide this service, MFC demonstrated creativity and leadership in creating new community development services. The agreement between MFC and the MCSDD began in 1998 and

runs for two years.

Bank employees are trained and available to offer pre-home purchase counseling to first-time home buyers, including those with low- or moderate-incomes. MFC employees have provided this service on numerous occasions at either large seminars or on a one-on-one basis. Employees present information on the home purchase process and responsibility of buying and owning a home. Once the counseling is completed, a certificate is issued allowing the home buyer to qualify for a low down payment loan product. This primarily benefits LMI individuals and/or families. MFC has taken a leadership role in this effort by being one of the few bank's in the area to offer this counseling. One example of this took place in May of 1998. The bank participated in a home buyers seminar presenting information on RHCD, MSHDA, and VA loans. Several first-time home buyers were not only provided with home purchase counseling, but also were pre-approved for various financing programs. Additionally, bank employees regularly participate in first-time home buyers seminars with the Michigan State University Extension Service.

A member of senior management serves on the Executive Board of the LSCP. Another Director of the bank is a member of the LSCP. Other bank employees serve on the LSCP Commerce Committee. A description of the LSCP is provided under "Investment Test" above.

The bank is active in referring small business customers to Agencies that can assist in meeting their credit and business planning needs. Agencies the bank has worked with are the Marquette County Economic Development Corporation (MCEDC), the North Coast Business and Industrial Development Corporation (BIDCO), and First Step (FS). The MCEDC works to foster business development in Marquette County and BIDCO provides flexible financing and management assistance to new and expanding businesses. FS is an arm of the Central Upper Peninsula Planning and Development District (CUPPAD) and assists businesses in developing a business plan.

Bank personnel regularly work with Operation Action Upper Peninsula (OAUP), an organization which assists new and expanding businesses in the area. Employees participate in the organization's "Business to Business Marketplace" workshop which provides an opportunity to inform small business owners of financing options and services. Furthermore, a senior executive serves as a Director of OAUP.

A bank employee serves as chair person for the Gwinn Chamber Business Development Committee. This Committee works to foster the development of business, particularly small business, in the Town of Gwinn.

Bank management have developed a file which summarizes the products and services available from the various economic development agencies in the area. The file, available to the general public, is geared toward assisting small businesses.

Members of bank management serve in various capacities on the Downtown Development Authority (DDA) of Marquette, including as Board members and Treasurer. The Authority's purpose is to promote new economic development and renovate existing downtown Marquette businesses. The

Downtown Marquette Association (DMA), a private organization funded through the DDA and membership dues, offers assistance in the formation of new business in the downtown Marquette district. A bank employee is a member of the DMA Board. In addition to the DDA of Marquette, a member of the bank management also sits on the Board of the DDA of Ishpeming.

Several bank employees are also members on the bank group of the local Habitat for Humanity (HFH). HFH strives to provide affordable housing primarily for LMI individuals. In addition to this, MFC provides loan servicing work for nine homes sold by HFH.

An employee at the Chatham, Michigan office serves on the Board of the Upper Peninsula Non-Profit Housing Corporation.

A senior management member serves as the President of Child and Family Services of the Upper Peninsula, Inc. The agency provides child welfare services targeted to LMI individuals in a broad area including Marquette and Alger Counties.

The bank held a mortgage conference in April of 1998 for all area Realtors discussing affordable housing programs available through the bank. This conference was held to raise Realtors awareness of the availability of affordable housing programs targeted toward LMI individuals.

Bank employees are active in several other organizations that assist developmentally disabled persons, promote economic revitalization, and provide social services throughout the bank's assessment area. For example, several employees are active in local Chambers of Commerce, the YMCA, and the Salvation Army.

FAIR LENDING REVIEW

The OCC conducted a fair lending examination of MFC concurrently with its CRA examination. A comparative analysis between prohibited basis denials and a non-prohibited basis control group was not performed as there was an insufficient number of prohibited basis denials by product type to complete a meaningful analysis. Instead, we focused on reviewing the bank's loan policies and procedures during the credit origination process. Specifically, we selected a sample of 10 diverse applications to ascertain if substantive violations of the Equal Credit Opportunity Act were present in the loan origination process. The results of our review indicated no evidence of disparate treatment with respect to the credit origination process used by the bank.

APPENDIX

Table 1. Lending Volume

LENDING VOLUME		State: Michigan		Evaluation Period: January 1, 1997 to December 31, 1998					
Assessment Area: Marquette and Alger Counties	Residential-Related*		Small Business**		Community Development		Total Reported Loans		
	#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	
1997	2,476	78,335	504	47,783	3	249	2,983	126,367	
1998	4,339	269,046	443	39,860	10	1,646	4,792	310,552	
TOTAL	6,815	347,381	947	87,643	13	1,895	7,775	436,919	

* Source: Internally prepared reports. The numbers include loans sold on the secondary market but originated by MFC. MFC sold approximately \$261 million of the residential-related loans reported above in 1997 and 1998.

** Source: 1997 and 1998 Small Business Data Collection Register.

Table 2. Geographic Distribution of Residential-Related Loan Originations

Geographic Distribution: Residential-Related Loans									State: Michigan		Evaluation Period: January 1, 1997 to December 31, 1998					
Assessment Area: Marquette and Alger Counties	Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies									
	% Owner Occ Units	% BANK Loans	% Owner Occ Units	% BANK Loans	% Owner Occ Units	% BANK Loans	% Owner Occ Units	% BANK Loans								
1997 and 1998 *	N/A	N/A	2.8%	1.7%	57.7%	65.5%	39.5%	31.1%								

Source: Based on a sample of 60 residential-related loans originated by MFC in 1997 and 1998.

* The bank's percentage of loans by geography does not add up to 100% due to 1.7% of the sample being originated in geographies with no assigned income level.

Table 3. Geographic Distribution of Small Business Loan Originations

Geographic Distribution: SMALL BUSINESS											State: Michigan		Evaluation Period: January 1, 1997 to December 31, 1998					
Assessment Area: Marquette and Alger Counties	Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Overall Market Rank*	Market Share by Geography*					Total Loans #			
	% of Businesses	% BANK Loans	% of Businesses	% BANK Loans	% of Businesses	% BANK Loans	% of Businesses	% BANK Loans		Overall	Low	Mod	Mid	Upp				
1997**	N/A	N/A	2.8%	4.6%	56.0%	49.2%	41.2%	45.8%	1	54.2%	N/A	71.9%	51.8%	56.6%	504			
1998**	N/A	N/A	2.8%	4.7%	56.0%	48.5%	41.2%	46.1%	N/A	N/A	N/A	N/A	N/A	N/A	443			
TOTAL/AVERAGE	N/A	N/A	2.8%	4.7%	56.0%	48.9%	41.2%	45.9%	N/A	N/A	N/A	N/A	N/A	N/A	947			

* Based on 1997 Aggregate Small Business Data only.

** Percentage of bank loans does not add up to 100% due to a small number of loans being originated in a geography with no assigned income level.

Table 4. Borrower Distribution of Residential-Related Loan Originations

Borrower Distribution: Residential-Related Loans		State: Michigan		Evaluation Period: January 1, 1997 to December 31, 1998				
Assessment Area: Marquette and Alger Counties	Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers	
	% of Families	% BANK Loans	% of Families	% BANK Loans	% of Families	% BANK Loans	% of Families	% BANK Loans
1997 and 1998	16.9%	8.6%	19.2%	15.6%	21.9%	24.1%	42.0%	51.7%

Source: Based on a sample of 60 residential-related loans originated by MFC in 1997 and 1998.

Table 5. Borrower Distribution of Small Business Loan Originations

Borrower Distribution: SMALL BUSINESS			State: Michigan			Evaluation Period: January 1, 1997 to December 31, 1998				
Assessment Area: Marquette and Alger Counties	Businesses with Revenues of \$1 million or less			Loans by Original Amount Regardless of Business Size			Market Share****		Total Small Business Loans	
	% of Businesses*	% BANK Loans**	% Market Loans***	\$100,000 or Less	> \$100,000 to \$250,000	> \$250,000 to \$1,000,000	All	Rev \$1 million or less	#	Avg Loan Size (000's)
1997	93.0%	82.3%	64.7%	397	54	53	54.2%	68.9%	504	95
1998	93.0%	88.0%	N/A	330	75	38	N/A	N/A	443	90
TOTAL/AVERAGE	93.0%	85.0%	N/A	727	129	91	N/A	N/A	947	93

* As a percentage of businesses with known revenues.

** As a percentage of loans with revenue information available.

*** The market consists of all other Small Business reporters in MFC's assessment area and is based on 1997 Aggregate Small Business Data only.

**** Based on 1997 Aggregate Small Business Data only.

Table 6. Qualified Investments

QUALIFIED INVESTMENTS											State: Michigan		Evaluation Period: January 1, 1997 to December 31, 1998	
Assessment Areas: Marquette and Alger Counties	Affordable Housing		Community Service		Economic Development/ Small Business		Revitalize or Stabilize		Total Investments					
	#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	#	\$ (000's)				
1997 and 1998	1	500	3	35	1	10.5	0	0	5	545.5				

Table 7. Distribution of Branch and ATM Delivery System

DISTRIBUTION OF BRANCH AND ATM DELIVERY SYSTEM														State: Michigan		Evaluation Period: January 1, 1997 to December 31, 1998	
Assessment Area: Marquette and Alger Counties	Deposits	Branches						ATMs				Population					
	% of Total BANK Deposits*	# of BANK Branches	% of Total BANK Branches	Location of Branches by Income of Geographies				# of BANK ATMs	% of Total BANK ATMs	Location of ATMs by Income of Geographies				% of the Population within Each Geography			
				Low	Mod	Mid	Upp			Low	Mod	Mid	Upp	Low	Mod	Mid	Upp
Marquette County	95.8%	11	84.6%	N/A	1	5	5	16	94%	N/A	3	8	5	N/A	16%	44%	40%
Alger County	4.2%	2	15.4%	N/A	N/A	2	N/A	1	6%	N/A	N/A	1	N/A	N/A	N/A	100%	N/A
TOTAL	100%	13	100%	N/A	1	7	5	17	100%	N/A	3	9	5	N/A	14%	50%	36%

* Source: June 30, 1998 Federal Deposit Insurance Corporation data.

Scope of Examination

Time Period Reviewed: January 1, 1997 through December 31, 1998 for Residential-Related Loans, Small Loans to Businesses, and Community Development Loans.			
Financial Institution MFC First National Bank			Products Reviewed Home Mortgage Loans Small Business Loans Community Development Loans
Affiliate(s)	Affiliate Relationship		Products Reviewed
None Reviewed	N/A		N/A
List of Assessment Areas and Type of Examination			
Assessment Area	Type of Exam	Branches Visited	Other Information
Michigan: Marquette and Alger Counties	on-site	1	None

Loans Reviewed

Residential-Related Loans: A sample of 60 residential-related loans originated during 1997 and 1998 were chosen to assess the bank's performance under the Lending Test. A sample of residential loans was selected as MFC is not required to collect and report loan data under the Home Mortgage Disclosure Act. Types of loans included in the sample were home purchase loans, home refinance loans, home improvement loans and loans to purchase land on which a home was built. All loans were selected from the bank's real estate trial balance.

Business Loans: MFC's 1997 and 1998 Small Business Data Collection Register were used in assessing the bank's performance under the Lending Test.

Community Development Loans: Qualifying Community Development Loans originated in 1997 and 1998.